

THE ECONOMIC LIFE
OF SOVIET RUSSIA

CALVIN B. HOOVER

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THE ECONOMIC LIFE OF SOVIET RUSSIA

BY

CALVIN B. HOOVER, PH.D.

PROFESSOR OF ECONOMICS, DUKE UNIVERSITY

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TO THE MEMORY OF MY FATHER

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PREFACE

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THIS book is the result of an investigation carried out while I was a Fellow of the Social Science Research Council in the Soviet Union in 1929-30. The statistics used are, needless to say, from Soviet sources. Almost without exception they are taken from sources which the Soviet Government and its economic organs use in the planning and direction of the economy. In some cases I feel that they are subject to discount, on account of the fact that Soviet statisticians are subjected to considerable pressure, and are, therefore, not free to interpret their own data. This pressure is due to a kind of self-deception which renders Party members unwilling to face unpleasant facts, and which causes them to see other data through rose-coloured spectacles. Statistics are often more complete, however, than similar data in capitalistic countries, on account of the fact that almost all economic activity is carried on by governmental organs. It is probable that the index numbers of prices are too low, that the estimates of increase in production and of increase in real wages are both too high, and that other general averages and summaries should also be discounted somewhat. Data taken from different sources frequently do not exactly check. This is liable to be true, however, of statistical data in any country. Finally it should be noted that wherever data are given according to the "Control Figures," such data are not realized but only planned data.

My thanks are due to the Society for Cultural Relations with Foreign Countries, which arranged numerous interviews for me and performed other services. I have refrained from mentioning the names of scores of govern-

ment officials, Party members, directors of Combinations, Trusts, factories, marketing organizations, state and co-operative farms, economists, statisticians, engineers, workers, and peasants, with whom I had interviews or associations. My gratitude is none the less sincere for the tremendous amount of time and effort which many of these people devoted to furnishing me with statistical material and other information.

To the corps of foreign journalists and to other members of the small colony of foreigners resident in Moscow, I am obliged for frequent interchanges of opinion which were of great help in developing my conclusions in regard to the Soviet system.

I am grateful to Professor J. M. Keynes for reading some chapters of the manuscript and for advice in connection with publication. Mr. Carl Snyder has been kind enough to make several suggestions, among them the title of this book.

I am under obligation to the editors of the *Economic Journal* for permission to use parts of articles previously published there.

The assistance of my wife has been indispensable in arranging and correcting the manuscript and in preparing it for publication.

CALVIN B. HOOVER.

Durham, North Carolina,
September, 1930.

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**THE ECONOMIC LIFE OF
SOVIET RUSSIA**

CHAPTER I

GENERAL CHARACTERISTICS OF THE SOVIET ECONOMY

THE Soviet economic system is not a mere modification of the capitalistic system, with special restrictive measures aimed at the capitalistic operators of the economy. It is a truly socialistic economy—the first of any size and importance that ever existed. In this respect it differs basically from the kind of economic order which would probably prevail if the Social Democratic Party in Germany or the British Labour Party in England were to gain a majority control in the Reichstag or in Parliament at the present time. While both the Social Democrats and the British Labour Party profess a belief in the desirability of eventually superseding Capitalism by Socialism, it is to be very seriously doubted whether in the event of their winning a parliamentary majority, either party would have the desire or the will to really destroy the capitalistic system and substitute a radically different one for it. Yet the Communist Party has done so in Russia.

Private property, except of the most personal kind, has ceased to exist as a social institution. Clothing, furniture, books, miscellaneous household utensils and furnishings, and bonds of the Soviet Government may still be the object of property rights. But property rights in even purely personal objects are far from absolute. The kulaki and the Nepmen discovered to their sorrow that such property could be taken from them even without legal action.¹ The Soviet economic system has succeeded in making it an im-

¹ See the chapter on Agriculture, p. 67.

possibility for anyone to amass even a small fortune in Soviet Russia. The laws of inheritance prevent the bequest of any large amount of property even if it were possible to acquire it.

In industry, in commerce, and now at last, in agriculture, private ownership and operation have either completely disappeared or are in the process of destruction. In the Soviet Union the private receipt of profits, of interest, and of rent has been reduced almost to the vanishing-point. Interest is paid on government bonds, and a few persons who were permitted to build houses after the inauguration of the New Economic Policy are allowed to rent out rooms, but as important economic categories, both rent and interest have disappeared. Now that Nep has been, in effect, liquidated, the private receipt of profits has ceased. The "exploiting classes," *i.e.* the landlord, the capitalist, and the speculator who received incomes from these sources, have been completely despoiled. The worker is now supposed to obtain the full fruits of his labour. "Surplus value" no longer exists, since the proletarian state has succeeded the capitalistic state, according to Communist doctrine.

But if private profits have disappeared, how is it possible to carry on industry? What can be the substitute for profits which will induce men to produce? It must be said in the first place that the motive for productive effort on the part of the ordinary labourer is not greatly different from that of the labourer in capitalistic countries. It is ridiculous, of course, to say that the labourers in capitalistic countries work more efficiently because they work for themselves instead of for the government. Such a statement is patently incorrect, for most men work simply as hired labourers in capitalistic lands as well as in the Soviet Union. But the case stands quite differently with the leaders of industry. How is it possible to obtain capable administrators, and what inducement do such men have to manage their industries as efficiently as pos-

sible? Has it been possible to substitute the motive of social service for that of self-interest?

A picture of the position of the administrative personnel in industry is interesting not only because of the key position of the administrator, but because it reflects also some salient characteristics of the whole economic and social order.

It is necessary to understand at the very outset that the whole point of view in Soviet industry is radically different from that in capitalistic industry. When industry was taken over and operated during the early days of War Communism there was the greatest of confusion as to the relation between monetary costs and production. It was the idea of some that production was not to be for the market, but was to be carried on solely to produce goods, and that the whole monetary and cost accounting point of view of capitalistic industry could be entirely disregarded. With the introduction of Nep all this was changed. The rôle of money was largely restored, industry again began to produce for the market, and the cost accounting point of view was gradually introduced. But neither after the policy of Nep had been inaugurated, nor at the present time when Nep is being liquidated, was profit-making the primary motive in Soviet industry. While Soviet industries are expected to be operated so that a profit is shown, this profit is not the primary purpose of production. The director of an industry in Soviet Russia knows quite well that if he increases the profits of his industry, due to more efficient methods and economies of various sorts, those profits may either be reduced by lowering the selling price of his products or by raising the wages of the workers. These two things would likely be true to some extent even in capitalistic countries. The result of economies and improved methods may be expected eventually to result in lowered prices and increased wages. In the Soviet Union, direct action is taken to bring this about; it does not merely depend upon the gradual working out of "nat-

ural laws." Furthermore, the manager knows very well that profits which he makes may be given by the government to some other factory in the Trust or be used in some entirely different industry. In any case he will not participate in them through stock ownership. The responsible manager is probably a Communist, and even if he is not, he knows that his success as a director will be measured in other ways than by the yard-stick of profits. He has a plan to carry out which includes many items other than profits. He is supposed to produce a given amount, of a given quality, in a given time. If he produces this amount or a greater amount in the given time or in a less time, or at the standard of quality or of better quality, these factors are given a greater weight than the amount of profits, in estimating the successfulness of the management. Besides this, there is the matter of the extent to which labour conditions have been improved, which is also taken as a measure of the success of management. One very important measure of successful management does approach the capitalistic method. It is considered highly desirable in Soviet Russia to reduce costs of production. Reducing cost of production is, of course, one way in which the capitalistic manager also increases profits. The Soviet executive cannot, however, use all the devices to lower cost which are available to the capitalistic executive. He cannot reduce wages, at least ostensibly. He cannot reduce time wages at all. Instead he must increase them, at least a little every year. Like his capitalistic brother he may cut piece wages as the productivity of labour increases, but the limitations on lowering costs by this method are somewhat sharper than in the capitalistic world. Speeding up of workers is, however, carried on as forcefully if not as effectively as under the capitalistic system.

In one great field where the profits of a capitalistic concern are largely determined, the directors of Soviet enterprises are little interested. This is in the field of price

and of buying and selling. The Soviet manager does not have to concern himself with the effort to buy cheap and to sell dear. Neither does he have any selling problems. There is always a greater demand for his product than he can meet.

The motives for efficiency in production upon the part of the Soviet director are very strong. The rewards for success are great and the penalty for failure is severe. Most responsible directors are now Party members. Success means advancement and advancement means power. The desire for power burns fiercely in the breast of the typical Communist. The energy in the capitalistic world which finds expression in the struggle for wealth, for social position, for the comforts of life, in Soviet Russia is canalized in the struggle for power.

The responsibility of the Soviet industrial manager is just as great as in the capitalistic world, and if he is a Communist his authority is also just as great. The chance for promotion is infinitely greater in the Soviet economic system than in the capitalistic world. The few old bourgeois managers who are left are rapidly being replaced. A tremendous program of capital construction and of industrial expansion is under way. The new collectivized agriculture demands the services of thousands of executives. The old classes which furnished the major and minor executives have been swept away. Landlords, bourgeoisie, kulaki, the old intelligentsia, have been exiled, crushed, or killed. The opportunity for the conquest of power by a man of any force or ability who is a Party member is limitless.

The career of a director of a Soviet enterprise does not entirely depend upon the success with which he carries out his production program. He can be pretty well assured that if he is an active Party member, and takes care always to be orthodox, he will be taken care of, regardless of what happens. If he is not successful at one kind of work he will be shifted to another. His activity and

orthodoxy will be accepted as proof of his good intentions, so that there will be little likelihood of his actual punishment in case he is not successful in production. He may be returned to trade-union work, if he came to his directorship through that channel, or he may be given some political post which does not require the same kind of executive ability as that of production manager. Furthermore, it must be said that an enormous proportion of the time of the average Communist director, as is the case with all prominent Party members, must be given to Party work.

In addition to this purely Party work he has to expend a great part of his energy in endless committee meetings, with the workers of his own plant, with representatives of all the workers of the Trust, with directors of the Trust and Syndicate, with representatives of the oblast executive committee, with members of the shock brigades in his factory and so on. During the present period of transition from direct worker control to the system now in use of single responsibility and authority, these endless committee meetings have not been lessened. For while the substance of direct control by the workers was being taken from them, it was essential that the workers should be soothed and comforted by at least the temporary retention of all the outward signs, symbols, and manifestations of control. The committee rooms which seem to be attached to every factory, office, department, and organization, with the red tablecloth-covered table, and the inevitable water bottle and glass sitting on it, are a depressing sight, as one recalls the appalling wastage of human time and energy that is taken up in the committee meetings held in them. It is possible that this will be ameliorated in the future. As the directorate and even the technical staff come to be more exclusively Party members, or at least trained under Party domination, there will undoubtedly be a lessening of this feeling that the worker must be propitiated by the maintenance of appearances, and a good deal of the useless committee

meetings may be done away with. At the present there is every reason to think that they constitute a serious element of inefficiency in the industrial system. The waste of working time to both executives and to labourers is a serious loss to production. The drain on the energy of the executive personnel and the tendency to consider talk a substitute for work, which is occasioned by these meetings, is a serious handicap on Soviet industry.

The reward of the successful executive is not alone the satisfaction of his lust for power. If a Soviet Trust shows a profit, the administrative personnel shares in the distribution of a fund made up of $\frac{1}{4}$ of 1 per cent of the profits of the Trust. On the other hand, if the director is a Communist his salary is limited to two hundred and twenty-five rubles per month (nominally about one hundred and sixteen dollars). But the perquisites of an executive position are even more important than the monetary rewards.

On the side of material and fleshly rewards for efficiency in production, must be placed the fact that the director of an enterprise of any importance will have a motor car at his disposal, and of course a chauffeur to drive it. He will have an excellent opportunity to get the best choice of living quarters. These will not be luxurious, and indeed no better than the minimum which is probably necessary for the director to keep up his personal efficiency. But in a country where living quarters are exceedingly restricted in quality and in quantity, this is important. He will have the opportunity to travel to conferences with his expenses paid. He will have every access to the limited opportunities to improvement within his field, such as technical magazines. He may even be sent abroad to study production methods in capitalistic countries. If so, all his expenses will be paid.

He will get better and prompter attention if he or his family is ill. He will get better accommodations at the resort at which he spends his vacations. If his job enables

him to live in one of the few large cities, he may even belong to one of the "business clubs," which are often located in the house of some former rich merchant, and whose membership is confined principally to Soviet directors and engineers.

The sum total of all these material advantages is absolutely very small, no doubt. They may appear negligible as compared with those of executives in the capitalistic world. Most of these men, however, are former proletarians who have known poverty for the greater part of their lives. These perquisites are, therefore, infinitely sweet.

It must not be forgotten that these material advantages are better than those which accrue to the mass of the population, and are the best which can be obtained under the circumstances. This is of the greatest importance, since it is probable that rewards are of more importance relatively than absolutely. Furthermore, the limitation of salary of the Communist director is not such a great handicap as might be thought. Where the process of rationing is carried to the extent which it is in the Soviet Union, money rapidly loses its importance. Membership in a trade union enables one to get theatre tickets at half rates; if one is listed as a worker his ration of bread and meat is doubled. The co-operative stores situated near factories, and to which the workers of the factory belong, are usually assured of a better supply of the available food-stuffs than are those catering to office workers and the general public. The successful executive has all these advantages which belong to the workers as a class. In short, in spite of his restricted wage or salary, he fares as well materially as it is possible to fare in the Soviet land.

It will be wondered whether the executive does not have an opportunity for graft which would be an important incentive to obtain the higher executive positions. The answer is in the negative. The opportunity for graft is much less than in a capitalistic system. The measures

to prevent graft, both of a preventative and of a punitive character, are very stringent. In every factory and Trust the control of the expenditure of funds and of financial accounting is placed in the hands of an official who is responsible not only to the director of the Trust and factory, but to the state, and whose first responsibilities are to the state. Furthermore, the records of the enterprise are accessible not only to a limited group as in a capitalistic enterprise, but are also accessible to the Party, to the trade unions, and to the economic and fiscal organs of the state.

The punitive measures which are taken to prevent graft in the Soviet Union are such as to constitute the greatest possible deterrent. Conviction of graft leads almost inevitably to a long prison sentence, and may even be punished by the highest measure of social defense; namely, shooting. The trial is sure to be shorter and the punishment much more certain than in a capitalistic country's court. There is little of red tape and of legal niceties about a Soviet court. Expensive counsel does not avail a man in the attempt to hide himself in the intricacies of the law; for the law is not the master of the court—indeed, one is tempted to say that the law is of minor importance in the matter. The court will consider the circumstances, punishment will be meted out, and the law can go to the devil. This, no doubt, illustrates the fact that human life is not hedged about with the legal protection which it has in capitalistic countries, but it results, at least, in justice being much more summary. Furthermore, the director of a plant or of a Trust must face a periodical chistka or "cleaning" either of the apparatus or of the Party, and anybody has the right to accuse him of anything without formality. So that, while the standard of honesty among Russians is generally quite low, for they are a primitive people and primitive people are not honest, yet the whole system is one which renders theft and graft from economic enterprises by the management very

hazardous indeed. Add to what has been said the unlimited opportunity to denounce anyone to the dreaded G. P. U., and one has the policy of business honesty very thoroughly protected. One does not hear of graft, except of the pettiest kind, and of a sort which does not consist in robbing the state. Russians steal quite freely from each other, as when the clerk in the co-operative steals the butter coupons out of the ration book, and when baggage is hooked out of the window from railway carriages. There is all the other petty thievery which one could well imagine. But grafting from the state involves too great a risk.

The elaborate machinery which is set up to prevent graft is, however, one cause of the immense amount of bureaucracy and red tape which weighs down the entire Soviet economy.

Although private profits as a reward for efficient administrative control of production have disappeared, the Soviet economic system does not depend upon any "social service" motive to supersede them. There is nothing soft or sentimental about the Communist Party. The Communist has no affinity for the idealist, the reformer, the liberal, or the "parlor socialist." For such he feels a contempt as profound as his hatred for the capitalist exploiting classes. Communism is characteristically ruthless and "hard-boiled." The present régime in Russia is not alone a dictatorship of the proletariat, not even merely a dictatorship of the Communist Party; it is also a dictatorship of the Stalin group within the Party. The régime is founded upon force and upon discipline, and this is as true of the economic organization as of the political. It is true that discipline in the economic organization has not developed to anything like the point of perfection which characterizes the political organization. But force is as much a factor in one as in the other.

It is necessary to understand that the Communist Party controls industry, not alone through its control of the Soviet Government and the labour unions, but directly

through the mechanism of the Party itself. The director of a Soviet factory who proves unsatisfactory can be dismissed from his post by summary action of the Party authorities.² But it is not only the directors of industry and other branches of the national economy who are Communists. The rank and file of the Party are organized into "Cells" which are found in every unit of the national economy. Thus the Party is a great unifying and driving force which completely dominates the economic as well as the political and social system. It is impossible to imagine Soviet Russia without the great source of power, force, and fanaticism which is the Communist Party.

It has always been said that a socialistic order must depend upon force rather than upon inducement. Not only has this proved true in the Soviet Union, but this force is almost entirely divorced from any form of democratic control. Socialists have always found it necessary to defend their order against the charge that it would constitute a tyranny of the majority over the minority. In Russia, however, we find a socialistic state founded upon the dictatorship of a fraction of the population. It is interesting to speculate whether or not a socialistic régime could maintain itself on any other basis.

The element of force which characterizes the present régime, which has destroyed freedom of speech and freedom of the press, and which has no respect for individual life or liberty, is repugnant to any observer who is accustomed to life in Western Europe or the United States. Is it possible, however, that such success as has been attained by the Soviet economic system, perhaps its very

² This is illustrated by the case of the director of the Nadezhdinski plant of the Urals Metal Trust, who was dismissed from his post for systematic unfulfilment of the plan of production. The Trust was directed by the oblast committee of the Party to nominate a new director as soon as it had discharged the old director. The close connection between purely Party matters and economic affairs is shown by the fact that the secretary of the Party committee in the rayon in which the plant was located was dismissed from his position at the same time.—*Pravda*, March 2, 1930.

existence, is dependent upon this element of force? The writer does not attempt to answer this query at this time, although the answer is of vital importance in determining whether or not some of the unquestionable achievements of the Soviet economic system can be duplicated by Capitalism. The description and analysis of the economic system of the Soviet Union in the chapters which follow offer some data upon which an opinion may be based.

CHAPTER II

ORGANIZATION OF INDUSTRY

INDUSTRIES in the Soviet Union are divided into three categories, as follows: Industries of Union significance, industries of Republican significance, and industries of local significance. Industries of local significance are again somewhat less formally divided into industries of oblast, okrug, rayon, and village significance. Industries of Union significance are under the jurisdiction of the Supreme Economic Council¹ of the U. S. S. R., those of Republican significance under the jurisdiction of the Supreme Economic Council of one or the other of the seven Union Republics, and those of local significance under an Economic Council for the local division.²

When the reorganization of the economic system of the Soviet Union took place in 1921 after the inauguration of the New Economic Policy, the existing factories were distributed among a number of Trusts which were organized under the direct authority of the Supreme Economic Council. Later many of these Trusts grouped themselves into Syndicates according to industry. Their main functions were at first commercial. As a result of gradual evolution the Trusts came to be controlled by the Supreme

¹ Always referred to as Vesenkha from its initials V. S. N. Kh.

² The Soviet Union is composed of seven so-called Union Republics, of which the most important is the Russian Republic, usually referred to as the R. S. F. S. R., which is made up of Great Russia, Siberia, and a number of autonomous republics. The Union Republics are divided administratively into districts known as oblasti; the oblasti are again divided into okrugs; the okrugs into rayons, while the village is the lowest politico-economic unit. This form of administrative division is not invariable, and the autonomous republic takes the place of the oblast in districts inhabited by national minorities. The abolition of the okrug has recently been decided upon.

Economic Council through the medium of the Syndicates, and later through the Combinations, although the Syndicates were technically joint-stock companies whose stock was owned mainly by the Trusts.

The Supreme Economic Council might more properly be called the Supreme Industrial Council. It has a certain similarity to the Department of Commerce of the United States Government, but its powers are much greater and its field of authority much wider. It is a People's Commissariat in both the Union and in its constituent Republics. At the present time, it nominates the directors of the Obedinienie or Combination, who in turn nominate the directors of the Trust. The board of directors of the Trust appoints the directors of the factories in its organization. In the appointment of the directors of the Trust and of the factory, the final authority resides with the Supreme Economic Council which can confirm or refuse to accept either the nomination of the directors of the Trust by the Combination, or the nomination of the directors of factories by the Trust.

The Supreme Economic Council also has the function of acting as a connecting link between the various industries. Periodical industrial congresses are held in which problems involving two or more industries are discussed. For example, the automotive industry may need a large number of armatures, and has considered it necessary to import part of them from abroad. But by means of conferences between the representatives of the automotive industry and the electrical manufacturing enterprises it may be possible to plan for their manufacture in the Soviet Union, with the result that precious foreign valuta is conserved.

The Supreme Economic Council also has general supervision over distribution of profits and losses of undertakings, Trusts, and Combinations; organization of new Trusts, and promulgation of the statutes establishing such Trusts; establishment of sales prices, particularly for

products of one industry or undertaking sold to another; confirmation of balances and reports of undertakings, Trusts, and Combinations; technical reconstruction of industry and affirming the control figures of the undertakings, Trusts, and Combinations for capital construction.

There has been constituted within the Supreme Economic Council a special body which is called the Department of Technical Economic Planning. This department is required to work out the general plans for industry, to draw up the control figures for the separate industries in the yearly and quarterly plan, to plan for the geographical localization of industry and its regional distribution, to correlate the activities of the several Combinations, to work out industrial policy, and to draw up plans for industrial legislation. In addition to this long list of activities, it is also required to direct the technical rationalization of industry, to work out the general lines of the technical direction of industry, carry on the general direction of scientific research in industry, supervise the transference of the best foreign engineering technique to the industries of the Soviet Union, and provide for standardization in industry.

The Supreme Economic Council also has the responsibility for the general direction of the preparation of the technical staff for industry, and for the distribution of the technical staff among industries. Finally, the Supreme Economic Council is the chief inspecting organ for industry and must examine the record of fulfilment by the economic organs of industry of the most important directives of the government and of the præsidium of the Supreme Economic Council. It is expected to utilize the staffs of the Republican and local Economic Councils in carrying out these inspections, and to encourage the trade unions and other social organizations to aid in this supervision and inspection. At the same time the Supreme Economic Council of the Union is required to furnish technical lead-

ership and aid to the Republican and local Supreme Economic Councils.³

While the Supreme Economic Council represents the control of the state over industry, a large degree of autonomy remains to the lower stages of the industrial hierarchy. To the Combination is left a great amount of freedom, as, for example, in making contracts for the sale of its products and for the purchase of raw materials. The Trusts may in turn make purchases of minor supplies and miscellaneous articles without consulting the Combination, while the factories may hire and discharge workers without consulting the Trust. The Supreme Economic Council does not have direct control over such industrial production as is carried on by the Commissariat of Communications, by the producers' co-operative associations and artels, by the factories operated by the consumers' co-operatives and agricultural co-operative organizations, and by the municipalities.

The State Planning Commission which is directly under the control of the Council of Labour and Defence transmits its plans for the development of industry to the various Combinations and Trusts through the medium of the Supreme Economic Council. Formerly the Supreme Economic Council was organized into a number of special departments each of which had to do with the supervision and control of a specific industry, such as, for example, the textile industry. This department of the Supreme Economic Council exercised general control over the various factories and Trusts of the textile industry and over the Textile Syndicate itself. Since most of the factories belonged to Trusts and the Trusts again belonged to the Textile Syndicate, the control of the Supreme Economic Council was exercised through the Syndicate over the Trust, and indirectly through the Trust over the indi-

³ See the order of the Central Committee of the Party, "*O reorganizatsii upravleniia promyshlennosti*," of Dec. 5, 1929, quoted in *Ekonomicheskaja Zhizn* of Dec. 14, 1929.

vidual factory. However, when a Trust did not belong to a Syndicate, or if a factory did not belong to a Trust, the control of the Supreme Economic Council was directly exercised.

The tendency during the last few years, however, has been for most of the factories to become organized into Trusts and the Trusts to become organized into Syndicates. In the first place, the difficulty of obtaining raw materials, credits, and markets operated to bring about consolidation. In addition, it has always been a part of the Communist theory that industry should be carried on by the largest possible units and organizations of units. Consequently pressure was constantly brought to bear to hasten the consolidation movement. The result has been that the textile industry had been almost one hundred per cent syndicated by 1929, and in other industries syndication had reached almost as great heights. In some industries, instead of a Syndicate a Convention was formed. The Convention was a much more informal and temporary organization than the Syndicate. It had no separate capital and no separate balance-sheet, and resembled in some ways the trade association in the United States. It was primarily a sort of standing committee composed of representatives of the different Trusts of the industry, which prevented or conciliated the conflicting commercial interests of the Trusts.

When an industry reached the goal of complete syndication it became evident that there was unnecessary duplication of functions by the special industry department of the Supreme Economic Council and the Syndicate for the industry. As a result, during 1929 and 1930 the reorganization of both the Syndicates and the Supreme Economic Council took place. The Syndicates themselves acquired a dual status, in that they now became departments of the Supreme Economic Council, and the departments of the Supreme Economic Council for special industries gradually began to be abolished, as it became feasible to

give over the control of an industry to its Syndicate. The terminology was changed also, and the Syndicate with the greatly enlarged functions was called an Obedinenie, or Combination, the term Syndicate being retained as the nomenclature of the commercial department of the Combination.

In this way the Syndicates underwent an almost complete evolution. Their *raison d'être* had been commercial. They had been established during the early period of Nep, when the problem of marketing the products of state industry was causing the Soviet Government the greatest concern. Syndicates in many instances handled both the retail and wholesale marketing of the commodities produced by their factories. The great development of consumers' co-operative associations which carried on not only retail but wholesale functions gradually narrowed the commercial field of usefulness of the Syndicate. It is true that at the present time the Combinations which have succeeded the Syndicates do sometimes carry on even the retail marketing of a part of their product. But it became obvious that the marketing functions of the Syndicate and the consumers' co-operatives constituted an element of duplication in the economic system. The final result was that the consumers' co-operatives came to be accepted as the official agencies for wholesale and retail marketing of commodities which were destined for the consuming masses. This did not happen without opposition from the Syndicates, who saw their very reason for existence disappear. Other functions were given over to the Syndicates, however, and it was the special industry departments of the Supreme Economic Council which disappeared, as their duties were taken over by the Syndicates. At the time of the decision to transform the Syndicates into Combinations there were nineteen Syndicates in existence.

When the reorganization of the Syndicates and of the Supreme Economic Council has been completed, the Syn-

dicates will have been transformed from organizations having primarily commercial functions into Combinations having mainly planning and directive functions. It is intended in general that the Combination in a given industry will form the connecting link between the factories and Trusts of the industry and the outside industrial, commercial, and banking world. The Combination will continue to have a commercial sphere of action, in that it will make contracts for the sale of the product of the industry with the wholesale representatives of the consumers' co-operatives, and with the representatives of other Combinations which may require the product of the one Combination as further raw material. But the actual marketing will no longer be in the hands of the Combination in the case of consumable commodities. The Combination will control the supply of raw material for its constituent Trusts and factories. This function is of great importance, in view of the necessity which often arises for rationing raw material. In this way the scramble for the limited supply is somewhat mitigated.

The Combination also controls the distribution of credit among its Trusts and factories. The financial resources available are derived from three sources: First, there are the internal resources composed of the assets of the factories and Trusts comprising the Combination; second, bank credit is an important source of working capital; finally, industries receive direct subsidies from the state budget. In all three cases the Combination controls the distribution of the financial resources.

The Combination also works out cost of production estimates for each Trust, and these estimates are written into an agreement which the Combination makes with each of its Trusts. In this agreement is also contained the quantities and kinds of goods which a particular Trust is expected to produce, and a time schedule is also worked out within the limits of which the goods are supposed to be produced. Although collective agreements about wages,

hours of labour, and working conditions are made between the Trusts and the trade unions, these agreements are made within the limits as to wages and hours laid down by the Combination. A further limitation on wage agreements between the Trusts and the unions consists in the cost-of-production schedules which the Combination has handed to the directorate of the Trust.

The Combination works out a plan for the use of the industry upon the basis of data which are furnished by its component Trusts and factories. This plan is submitted to the Supreme Economic Council which in turn submits it to the Council of Labour and Defence. This plan is then examined by the State Planning Commission,⁴ and after it has been changed so as to conform to the general plan for the whole economy of the Soviet Union, it is once more returned to the Supreme Economic Council, which gives it as a mandate to the Combination, which works out the plan for each of its Trusts, which in turn work out a specific plan for each factory. Thus the elements of the yearly plan come first from the factory, up through the Trust and the Combination, through the Supreme Economic Council to the State Planning Commission. As the plan proceeds through each of these stages it is modified in the interests of the more general point of view of the next higher organ. When the State Planning Commission has finally passed upon it, the process is reversed, and the plan is passed on back, finally arriving at the factory, after having been worked out in detail as it goes down to the lowest stage. Each lower stage may object to the provisions of the plan concerning itself, and may succeed in obtaining modifications of the plan as to detail. Each stage in the hierarchy of industry becomes responsible for the fulfilment of the plan it has finally accepted. The Combination is, however, primarily responsible for the planning of production for its industry.

Combinations are of two grades of significance—Union

⁴ Called the Gosplan.

and Republican. There are three types of Combination of the first grade. The first type embraces undertakings and Trusts of Union significance only. This is the most completely developed type of Combination, and it fulfils all the functions of the Combination as previously enumerated. The second type of Combination embraces both undertakings and Trusts of Union significance, and those of Republican and local significance as well. For the Trusts and undertakings of Union significance the Combination performs all its regular functions. For the Trusts and undertakings of Republican and local significance, only the original functions of the Syndicate are performed, *i.e.* provision of raw materials and sale of product, to which are added general planning functions and control over capital construction. The Combination also co-ordinates the work of the Trusts and undertakings of local and Republican significance, representing them in their relation to Trusts and undertakings which are not in the same Republic or oblast. The third type is made up only of Trusts of local and Republican significance but which are located in more than one Republic. In this case the Combination carries out only the functions which are described in the case of the second type of Combination in relation to Trusts and undertakings of like degree of significance. Combinations of Union significance are under the direct control of the Supreme Economic Council of the U. S. S. R.

The second grade of Combination is of Republican significance and is made up entirely of Trusts and undertakings of Republican and local significance which are located within the confines of one of the seven Union Republics. The Combination performs functions similar to those of the third type of Combination of Union significance.

In February 1930, there were twenty-six Combinations of Union importance. They were in the following industries: 1. Black Metals (old industrial plants); 2. Black Metals (new plants); 3. Coal; 4. Oil; 5. Industrial

Machinery; 6. Agricultural Machinery; 7. Automotive; 8. Electro-technical; 9. Energo-Centre (for construction of electrical stations and their administration); 10. Textiles; 11. Leather; 12. Nonferrous Metals; 13. Building Construction; 14. Chemicals; 15. Ship-building; 16. Peat; 17. Sugar; 18. Rubber; 19. Non-metallic Minerals; 20. Matches; 21. Silicates (glass, porcelain, etc.); 22. Paper; 23. Timber; 24. Tobacco; 25. Oil and Fats; 26. Salt. The number is being constantly increased. For example, on March 4, 1930, the formation of two more Combinations of Union importance, one for Aviation and one for War Industries, was announced.

All the Trusts of Union importance in one industry are usually grouped into one Combination. But what constitutes an industry? Thus we find that the Textile Combination comprises both woolen and cotton textile Trusts. Not only this, but the Combination and even the Trust may be partially vertical in character. For example, the First Cotton Trust owns a small factory which manufactures weaving machinery. The Combination and the Trusts together hold the stock of various joint-stock companies some of which manufacture machinery, others of which build or rebuild textile factories. Using the First Cotton Trust as an illustration again, we find that it comprises weaving, spinning, and finishing plants besides the small machinery construction plant mentioned above. One might expect that all the manufacture of machinery would be under the machine construction Syndicate, but one finds that, in practice, plants manufacturing the same sort of product may be under very different organizations. To cite another example: a factory producing building material might be subsidiary to the Combination of the metallurgical industry; it might be part of a special building material Combination; it might even be under the direct control of some municipality which used the entire output of the factory for municipal purposes. One may say that this is one commendable feature of Soviet industry, that

there is not an insistence on rigidity of organizational form.

The Trusts originally had marketing as one of their important functions. Trusts sometimes organized not only the wholesale merchandising of the product of their factories, but they even organized chains of retail stores to dispose of them. In those industries which do not have Combinations, or in cases where Trusts do not belong to a Combination, even if one exists in their industry, and in the case of Trusts which are not of Union significance, they may still carry out both retail and wholesale marketing of their products. In Moscow, for example, the factories which produce confectionery, tobacco, beer, fancy baked goods, and things of this sort are organized into a Trust of local significance which is called Mosselprom. Mosselprom has scores of retail stores, which sell only its own products, in addition to hundreds of small kiosks. When syndication had spread in the case of industries of Union significance to the point where most Trusts belonged to a Syndicate, the marketing functions of the Trusts were passed on to the Syndicate. As has been seen, this function did not remain permanently with the Syndicates, but was in the main turned over to the consumers' co-operatives. In like fashion, the Trusts eventually turned over practically all the functions which had to do with the relationship of the industry to the outside world. Credit, finance, raw-material supply, and planning became primarily the function of the Combination. What, then, was left for the Trusts?

In the first place, the Trust serves as a subordinate post of command from which the orders of the Combination are passed on to the factory. In most industries it would be impossible for the Combination to deal efficiently with the factories without an intermediary of some sort. In other words, the Trust is simply a more or less convenient device for combining a number of smaller units so that they can be dealt with conveniently by the Com-

bination. Besides this, however, the Trust is a very important operative unit. In its rôle as a subordinate post of command under the Combination, the Trust collects from its constituent factories data which the Combination uses in drawing up its industrial and financial plan. When this plan has finally been elaborated and officially approved by the Combination, the Supreme Economic Council, and the State Planning Commission, as described above, the Trust has the mission of supervising its execution by its factories. After the Trust has agreed with a given factory upon the details of the part of the plan for which the factory is responsible, an agreement is drawn up and entered in the notarial records. This agreement specifies the raw material with which the factory is to be furnished, including the kind, grades, and prices. It includes also the wage scales to be paid, and agrees as to the financial assistance and credit to be extended to the factory by the Trust. The factory, for its part, then agrees to produce a definite amount of product, of grades and kinds specified in the contract, at fixed prices.

The Trust carries on research and experimental work which would be too expensive for one factory to carry on by itself. For example, the First Cotton Trust has an experimental and testing laboratory at Serpukov. In this laboratory, fibre, thread, skein, and cloth are tested for tensile strength, while a chemical section carries out tests of the dyes used in the finishing plants of the Trust. In the same laboratory, new types of weaving and spinning machines are tested out, and new methods of weaving and spinning as well. The Trust likewise maintains a staff of textile engineers whose services are available in working out any of the technical problems which may confront any of the spinning, weaving, or finishing plants.⁵

The Trust organizes what is known as social competi-

⁵ It will be noticed that there is considerable duplication of function in the case of the Supreme Economic Council, the Combination, and the Trust. This is partially due to the fact that the new system of organization of industry has not yet been completely put into operation.

tion between its component factories, and holds production conferences in which the management, the technical staff, and the workers discuss problems of production, and compare the productive records of the different factories.

According to the law of June 1927, 10 per cent of the profits of all state Trusts goes to the state treasury as an income tax. The 90 per cent of profits remaining is distributed as follows: 10 per cent to a fund for improving conditions of the workers of the Trust; 10 per cent to reserve capital of the Trust; 10 per cent for a special state capital fund to be deposited in the Bank of Long-Term Credit for Industry and Electrification; ⁶ 25 per cent for expansion of the capital of the undertaking, of which one-half must be placed as a long-term deposit in the same Bank; $\frac{1}{4}$ of 1 per cent into an incentive fund to be distributed among the executives of the Trust, while the remainder, or 44.75 per cent, goes to the state treasury or is used for special capital purposes.⁷

This law was changed in December 1929, as follows:

1. The payment of a proportion of the profits into reserve capital is discontinued;
2. Payments to the state treasury are fixed definitely at $47\frac{1}{2}$ per cent of the profits of the Trust, after any deficit incurred in previous years has been liquidated. This amount is paid into the Union, Republican, or local Commissariat of Finance depending upon the degree of significance to which the Trust is considered to belong;
3. $3\frac{1}{2}$ per cent of the profits are set aside for the purposes of vocational and technical education;
4. $11\frac{1}{4}$ per cent of the profits are to be paid into the fund for improving conditions of life among the workers of the Trust;
5. 25 per cent of profits are set aside for special capital of the Prombank;
6. $12\frac{1}{2}$ per cent of the profits are retained for capital expansion by the Trust. The profits of the Trust are figured only after an allowance is made

⁶ Usually referred to by its abbreviated title as the Prombank.

⁷ In the sugar industry, on one occasion, these funds were used for the expansion of sugar-beet raising.

⁸ This fund is called the Fubr.

for depreciation upon the capital in an amount averaging about $6\frac{1}{2}$ per cent. There are laws regulating this in the different categories, fixing limits chargeable on depreciation of stone buildings, wooden buildings, machinery, etc. The net result of the change in the law was to increase slightly the percentage of profits paid to the state, and to increase the amount payable to the Prombank, which was practically equivalent to increasing the amount payable to the state. The incentive fund was left unchanged at $\frac{1}{4}$ of 1 per cent.

The taxation of profits as described above is merely a device for the transferal of resources from one industry to another, since the Soviet Government habitually grants subsidies to industry out of other taxable sources, instead of burdening industry for the sake of purely governmental needs. It is the policy of the Soviet Government to keep the prices of consumption goods at a high level in order to insure large profits in the industries which produce such goods. The funds obtained from the taxation of these profits are then either loaned or granted as a subsidy to the industries producing capital equipment. The prices of capital equipment are kept as low as possible in order to increase the tempo of mechanization of industry. The profits of the heavy industries are therefore relatively small and of little importance as a source of state revenue.

Although only $12\frac{1}{2}$ per cent of the profits of a Trust are really left at its own disposal, a Trust may, and frequently does, receive in the shape of a grant from the budget more than it pays to the state as a tax on its profits. Likewise, there are still other respects in which the amounts which are left to a Trust are controlled by the state. Since the state regulates prices it can see to it that the $12\frac{1}{2}$ per cent which is left to the Trust does not constitute a larger amount than is considered necessary for the expansion of the Trust by the state planning organs. If the amount of surplus which the Trust is obtaining from this source grows too great, the price of the products of

the Trust can be lowered. An industry may also be required to produce goods for export and dispose of them to the appropriate section of the state trading monopoly at prices which cover only the cost of production, whereas if given freedom of action the goods could have been sold at a much higher price on the internal market. The Soviet state also does not hesitate to produce goods and sell them at less than the cost of production, if such goods are necessary to the national economy. The loss is made up by grants from the state budget. Special excise taxes are also levied on industries where it is considered desirable to keep prices high and yet prevent the accumulation of a large surplus. This is true of the confectionery industry.

It will thus be seen that profits do not have at all the same importance for a Soviet Trust which they have for a capitalistic enterprise. Nor is the efficiency of a Trust measured by the amount of its profits. A Trust has a *promfin*^o plan for the quarter and for the year. Its efficiency is measured by whether its cost of production is higher or lower per unit than is specified in the plan, by whether its production is greater or less than specified, and by the quality of its product. The profits which will result are determined by these prior considerations which have already been decided upon by higher authority.

The undertakings which make up the Trusts have no profit-and-loss account at all. If an undertaking succeeds in lowering costs of production by an amount greater than is provided for in the program given to it, the surplus is left at the disposal of the undertaking. It is the avowed intention of the Supreme Economic Council to place every Combination, Trust, undertaking, and even the sections in factories on an individual accounting basis; or, in other words, to introduce a thorough system of cost accounting into Soviet industry. It is expected that by so doing it will be possible to analyze and supervise more closely the fulfillment of the planned problem for each unit in Soviet indus-

^o Industrial-financial plan.

try. The director of a factory is expected to concentrate his attention upon increasing production above that provided for in his promfin plan, and upon lowering cost of production to a point below that set in the same plan. Whether his particular plant is the source of great profit or of a heavy loss to the state industry is no concern of his.

In the case of industries of Republican significance, control is exercised by the Supreme Economic Council of one of the seven Union Republics. This introduces an element of some complexity into the organization of industry, for in some cases, notably in the textile industry, the Trusts of Republican significance also belong to the Combination for that industry. This Combination, under the reorganization plan for industry which at present is being worked out, is also a department of the Supreme Economic Council of the Soviet Union. In the process of reorganization, therefore, it will be necessary to work out the relation of the Combination to the Trusts of Republican significance, since the Combination is now brought directly under the authority of the Supreme Economic Council of the Union, and indeed becomes an integral part of the Council. In the Textile Combination there are twenty-five Trusts of Union significance, and fifteen Trusts of Republican significance. These fifteen Trusts are now brought more directly under the authority of the Union Supreme Economic Council than heretofore, and a new step is taken in the direction of increasing the centralization of industrial control. The division of authority between the Supreme Economic Councils of the Republics and of the Union presents an interesting problem.

For industries of local significance, there is in each economic area, or oblast, an Economic Council of the oblast, whose function, in respect to industries of local significance, is very much the same as that of the Supreme Economic Council of the Union toward industries of Union significance, and of the Supreme Economic Councils of the seven Republics toward the industries of Re-

publican significance. In the Moscow economic area, the controlling body is known as the Moscow Economic Council. As a matter of fact, the importance of the industry under the control of the Moscow Economic Council is likely to be greater than that under the control of the Supreme Economic Council of any of the Republics—except the Ukraine or the R. S. F. S. R. Whether or not a given factory will be included in a Trust of Republican or Union or local significance does not depend merely upon the absolute size of the factory, or even upon the value of the product of the Trust in question. For example, Mosselprom, whose factories produce practically all the candy, tobacco, confectionery, and beer consumed in the Moscow district, in addition to a considerable surplus sold in other parts of the country and even abroad, is a Trust of local or oblast significance. In value of product, number of workers, invested capital, etc., it would no doubt be of much greater importance than many Trusts which are included in those of Union significance. But its product in the main is consumed in the Moscow district, its raw material is largely obtained within the Soviet Union, and the problems with which its organization must deal are neither Republican nor Union in scope.

Within the classification of local industries are included industries of less than oblast significance. Next in importance come those which are under the control of the okrug Executive Committee. Instead of the organ which directs trade in the higher politico-economic divisions there is a promtorg, so-called, which has general direction of industrial and commercial affairs of the okrug. Even the lower divisions, the rayon, and the village may have very small enterprises which the rayon or the village administers. These would usually be sovkhoz,¹⁰ or some small handicraft or semi-handicraft industry.

Finally we come to the municipality, as distinct from the other territorial divisions. The municipalities, as might be

¹⁰ State farm.

expected, run their own street railways, bus lines, gas, electric, and water works under a special department of the municipal Soviet. But in addition they carry on the constructive work of these enterprises. In Moscow, one department of the municipality carries on heavy construction work such as tram lines, electric light lines, and sewer construction. But the municipality carries on not only this type of work; another department builds theatres, laundries, and schools, as well as apartment houses for workers. Finally, the municipality sometimes manufactures a great portion of the materials used in its various constructive enterprises. Brick-kilns and shops for the finishing of lumber are examples.

Neither the Combination nor the Trust is organized as a joint-stock company, but this form of organization has a limited sphere of usefulness in Soviet economy, although it is quite different from the same type of organization in capitalistic countries. It is not the typical form of industrial or commercial organization in the Soviet Union. In general, joint-stock companies were formed for the purpose of providing a means whereby different interests might be represented through stock ownership, and in order to provide a convenient method for gathering together capital for a new undertaking. The ramifications of stock ownership are very wide; indeed, they would compare with the complicated system of interlocking stock ownership and directorships of the capitalistic world. Thus, before the reorganization of the Syndicates into Combinations, the Trusts in a given industry owned the majority of the stock in the Syndicate. But individual factories and banks also frequently owned stock. The Syndicate owned part of the stock companies which manufactured machinery used in the industry, while the Trusts and perhaps individual factories also held part of this stock. A second Syndicate might own stock in the same company. Banks, commissariats, and co-operative associations also own stock in some of the enterprises organized under the

joint-stock form. Even individuals may, and do, own stock in some cases along with the other organizations mentioned. Factories, Trusts, Syndicates, banks, co-operatives, and others may also be members of various organizations such as the Red Cross and the Air Service Promotion League, and may appropriate funds for the use of these organizations in which they hold memberships.

A joint-stock organization may or may not pay dividends, even if it is making sufficient profits to do so. The purpose of its organization is, of course, not primarily to make profits, and whether or not dividends are paid depends upon whether or not more capital is needed in the undertaking. Even if no more capital were needed, the price of the goods or services produced might be lowered, instead of paying a higher dividend. Since practically all the joint-stock companies are organized to serve other industries, the lowering of prices to the industries which are served is as desirable as increased dividends, and, as a matter of dogma, it is generally considered better to show lowered costs for these companies which serve industry, rather than for them to show high profits and dividends.

The joint-stock form, in so far as it has been used as a means of obtaining capital for new enterprises, met a situation where a new enterprise was found desirable, and where, if a joint-stock company had not been set up, it would have been necessary to have received a grant from the budget to provide the new capital, or it would have been necessary for some Trust to have started the new organization, and to have furnished all the capital itself. Thus the joint-capital form provides a means for obtaining contributions of capital from other interested organizations, without one undertaking or enterprise having to bear all the capital costs itself, or without having to wait for a governmental subsidy.

Control in the joint-stock companies is not determined simply by the vote of a majority of the shares owned. In practice, there is usually one organization whose interests

in the joint-stock company are paramount, and its stock ownership is usually greater than that of any other single organization. Even though the combined stock of the other owners could outvote that of the one concern most interested, this would not be permitted to happen. The appointment of the management of the joint-stock company, theoretically determined by the vote of the majority of the stock, in actual practice seems to be a matter of administrative exercise of power, from the Supreme Economic Council on down, and in essence a matter of Party policy and politics.

The joint-stock organizational form is becoming of less and less importance. It was directly copied from the capitalistic system and does not fit into the general scheme of Soviet economy. Although new joint-stock companies are formed from time to time, older ones are disappearing. It is intended, for example, to reorganize the Prombank so that it will no longer be joint stock in form. The Syndicates which had the form of joint-stock companies have been replaced by the Combinations which are directly administered by the Supreme Economic Council. It is probable that in the near future the joint-stock form of organization will entirely disappear.

The factory carries out its productive program along the lines laid down in the promfin plan which it has agreed upon with its Trust. The generally unsuccessful results of the committee system of management led at an early date to the almost universal adoption of the system of factory management where the responsibility and authority are centralized in one individual called the director. The factory thus differs from the Combination and the Trust, for in both of these there are frequently several directors, although there is usually also one chief director in the Trust and Combination. The director of the factory is appointed by the Trust, and the appointment is confirmed by the Supreme Economic Council. The trade union has the right to protest against any appointment,

and may carry such protest up through the Combination to the Supreme Economic Council. In practice, this rarely occurs. The trade-union officials are usually consulted before any appointment is made, and directors are frequently drawn from the ranks of trade-union officials, as such training is considered excellent apprenticeship for the directorate. Before the director of a factory is appointed, the Party Committee is consulted, and it is really the authority of the Party which is absolute. Trade-union officials and factory directors are members of the Party first, and Party discipline is of foremost importance. It is interesting to compare the system of drawing directors of factories and other undertakings in the Soviet Union from the ranks of successful trade-union and Party workers, with the practice of appointing managers of enterprises in capitalistic countries from legal and banking circles. In neither case is the management usually representative of the technical staff of the industry, but instead represents outside interests. The Soviet director represents the Communist Party. The director of the capitalistic factory represents the dominant stock-holding clique.

After the director has been appointed, he is charged with the responsibility for the appointment of the other administrative staff and of the technical staff. In appointing new technical personnel he is expected to consult with a council composed of the engineering staff of the plant. The director has full power to employ any of the ordinary employees, including foremen and other minor administrative employees, but he is required to employ them through the state labour exchange. If he needs additional employees he must obtain them from this source. He is not required to employ anyone whom the labour exchange sends at his request, but he is not supposed to obtain employees from other sources. This is intended to prevent any tendency of a director to hire his own personal friends rather than employees who would come to him through the labour exchange. This system is also intended to obvi-

ate the necessity of labourers going from plant to plant in the search for work.

The director or even one of the foremen of a plant can dismiss a worker, but he must be reprimanded three times before dismissal, and an official record of the reprimands be made. The factory committee must be notified of such dismissal, and the Party Cell as well, if the dismissed employee is a Party member. In case the factory committee does not agree to the dismissal, the case is appealed to a conflict commission on which both the management and the trade unions are represented.

Writers on Soviet economics sometimes refer to the triangle of control in the Soviet factory. This famous triangle consists of the management, the Party Cell, and the Fabkom.¹¹ The Party Cell is composed of all the members of the Communist Party in the factory. It holds meetings, and decisions are reached in these meetings as to the position which the Party members are to take on any question which has arisen or is likely to arise. Then in trade-union or other factory meetings the Party members vote unanimously for the previously agreed-upon decision. Its power therefore is very great. The Fabkom, since it is elected in a meeting in which the guidance has been given by the Party, is an organ which the Party Cell not only dominates, but which is actually an organ of the Cell. In other words, the Party Cell is greatly superior in importance to the Fabkom. The Party Cell is represented always by its secretary, and in practice it is he rather than the chairman of the Fabkom who is able to be a counter-weight to the factory management. If any conflict occurs, it is usually between the management of the factory and the secretary of the Party Cell, who is naturally supported by the Fabkom. Conflicts between the Party Cell and the management are not as likely to happen as might be thought, however, for the director of the factory is almost certain to be a Communist himself,

¹¹ Factory committee.

and to have been appointed with the consent or even direction of the higher Party authorities. The Party Cell, therefore, is by no means in a position to ride rough-shod over the decisions of the management. Furthermore, the point of view of the Party Cell is not likely to be as antagonistic to that of the management as would be true if the Fabkom were a counter-weight independent of the Party. All orthodox members of the Party must support, heart and soul, the movement for rationalization of industry, and for increasing the productivity of labour. The Party Cell cannot, therefore, openly oppose the management in any move which it makes toward improving the efficiency and productivity of the factory. In this way the position of the Party in the factory organization is an earnest that conflicts over attempts to increase productivity will be reduced to a minimum.

Indeed, the influence of the Party organization in the whole structure cannot be overestimated. It is a force which works directly among the personnel of industry to obtain support for official industrial policies, and welds the management and the Party labourers into an organization whose responsibilities and duties as Party members are of more importance to them than their position in industry, be it as officers of labour unions, managers of factories, directors of Trusts and Syndicates, or even members of the Supreme Economic Council itself. It is hardly exact, therefore, to speak of the triangle of control in the Soviet factory. The Party Cell and the management are the two important elements, with the Fabkom a subsidiary of the Party Cell. And since the management and the Party Cell are both of the Party, there cannot be any conflict of a fundamental character. Personal conflicts there are, and of course there is plenty of room for disagreement on issues which the Party Cell can claim are not in opposition to the "General Line of the Party." The tendency in recent times has been to strengthen the hands of the management in conflicts even with the Party

Cell. A general order was issued in the autumn of 1929 in regard to the single control of production. It is significant that this order did not come from some of the commissariats or other organs of the Soviet Government, but from the Party. Thus, obedience from the Party Cell could be counted on, due to the admirable discipline which is one of the proudest boasts of the Party. It is true that supplementary orders had to be issued explaining what the original order meant and elaborating on it. Special pamphlets explaining the need for single control and responsibility were got out from time to time.¹² Complaints about conflicts in factories and about lack of assumption of responsibility by directors appeared constantly in the press.¹³

The desire for responsible authoritative management is insistent. Neither the labour unions nor even the Party masses are to be permitted to hamper the efficiency of the productive mechanism. It should not be forgotten that the present factory directors are no longer ex-bourgeois whose loyalty is doubtful, and whose antecedents were wholly non-proletarian. Nor are they usually even ex-members of the old technical staff of the capitalistic era, but instead are themselves former labourers; often active Party workers. The Party feels that no great restraint upon such men is necessary. The director is as truly a proletarian, and just as good a Party member, as the union leader. Therefore interference with his acts so long as they are for the purpose of increasing production, is not

¹² For example, the pamphlets *Edinonachalie v Proizvodstve*, by C. Volodin, and *O Edinonachalii*, by A. Etchin.

¹³ See the order of the Central Committee of the Party published in *Za Industrializatsiuu* of March 28, 1930, in which complaint is made of poor working discipline in the Artemovski Coal Trust. The administration of the Trust is instructed to put into operation the order of the Party in regard to single control without delay, and to accept the responsibility which it has been systematically trying to avoid.

See also the statement of Kuibyshev on the fulfilment of the Five Year Plan in industry, which he made in preparation for the 16th Congress of the Party, published in *Izvestia*, May 21, 1930. He states that the principle of single control has not been adopted in all departments of industry.

to be tolerated. It is true that there is an elaborate labour-protection code, and even if the powers of the factory director have been so greatly enlarged, he is expected to conform to the regulations of the labour code. But the class war is no longer to be waged within the factory or the industrial order. There the Fabkom, the Party Cell, and the management are all proletarian and all Party. There can, and must be, no conflict between them; such is the attitude of the Communist Party.

Aside from industries carried on under the direction of the Economic Councils, there is a considerable amount of industry carried on under other forms of organization. Purely private enterprise is, of course, negligible in carrying out production on anything even approaching a large scale. The regulations against the private employment of labourers in industry are such as to make private manufacturing in the ordinary meaning of the term quite impossible. A very limited amount of manufacturing is carried on by foreign concessionaires, but the amount of their production in comparison with total production is insignificant. The foreign concessionaires were welcomed in the early days of Nep when it was thought that considerable amounts of foreign capital might be attracted by this means. Also the need for production was so great that it constituted still another reason for welcoming the foreign capitalist entrepreneur. Practically all concessionaires who were attracted were small fry, however. It seems certain that not only the relative but even the absolute importance of the foreign concessionaire will decrease in the future. Numbers of these concessions have been liquidated, and the general policy of the Soviet Government is not favourable to industrial production by foreign concessionaires.

On quite a different basis stand the technical-aid contracts which the Soviet Government has made with foreign firms. These contracts provide for furnishing trained engineering personnel, sometimes for the building of factories and the installation of machinery, sometimes for

improving the technical basis of some industry such as coal mining or the oil industry. These technical-aid contracts are frequently combined with the purchase of machinery in the United States, Germany, or some other Western country. A firm will, for example, sell a shipment of hosiery-knitting machines to the Soviet Government, undertaking to furnish engineers to direct the installation of the machinery in Soviet factories, and even to train Russian personnel in the use of the machines. A great many such contracts have been made. In some cases they also involved the granting of credits to the Soviet Government, as in the case of the General Electric Company contract which combined the sale of goods, the advancement of credit, and the furnishing of technical aid. These technical-aid contracts seem to have worked out fairly satisfactorily. If Soviet industry increases its capital investment and its output according to plan, it is obvious that such contracts must increase in number and in importance. The Soviet Government has in some instances been victimized in making contracts with firms of poor standing, and the technical aid furnished has been of an inferior sort. Complaint was made at one time that supposedly expert tractor mechanics had actually had only a few weeks of training before being sent to Russia. American firms in some cases have made contracts and then sent engineers there without adequately describing living conditions and the terms of the contracts to their men. As a result, men sometimes left before their contracts had properly expired, and under circumstances which were certainly unfair to the Soviet Government. In many cases, where the contracts were made with small firms, the engineers who were sent were not men who had been trained in the technical schools, but were only "practical" engineers who had acquired their training on the job. In other cases Russians who had lived for some time in the United States were sent because of their knowledge of the language. These men were not usually as satisfactory as the native Americans, since there was friction

between the workers and these returned Russians, who usually were not trained engineers. In many notable cases, however, such as the construction of the great tractor plant at Stalingrad, these technical-aid contracts have worked out very satisfactorily. The number of such contracts is constantly increasing.

Some industries are organized as so-called "mixed companies," in which foreign and state capital are joined. This is usually true, however, in concerns which are more commercial than industrial in character, and they are of even less importance than the wholly foreign concessions in Soviet industry. Private capital, even of Russian Nepmen, is sometimes associated in the ownership of share capital in joint-stock enterprises, but this is quite rare and of no importance.

Individual enterprise still has a place in the industrial economy of Soviet Russia in the person of the independent artisan, who carries on some sort of more or less primitive kind of production. During the last year a determined drive has been made to include all handicraft workers in the producers' co-operative organizations. Although not all small-scale producers belong to such co-operative organizations, almost 2 millions out of a total of about $4\frac{1}{2}$ millions did belong in 1930. It is expected that by the end of the Five Year Plan practically all small producers will belong to the producers' co-operatives. The total amount of industrial production carried on by these co-operatives is surprisingly large. According to plan, their total value of production in 1929-30 was to be about $2\frac{1}{2}$ billions of rubles out of a total production of all industry of about $26\frac{1}{2}$ billion rubles. Moreover, in the case of the light industries, about 30 per cent of the total production is produced by workers who are organized in the producers' co-operatives. Curiously enough, within the framework of these producers' co-operatives, quite large-scale industries, which employ several hundred workers, have sometimes been built up.

The plant which belongs to a given producers' co-operative, together with its workers, is known as an artel. The type of organization is quite different from that of state industry, although the form is not that of the typical producers' co-operative such as those which have usually failed in the United States and in Europe. Management, at least in theory, resides in a directorate elected by the members of the artel. On the other hand, the members of the artel receive a wage which is relatively fixed, and which does not depend upon any distribution of profits among the membership.

Co-operatives also exist in which the members do not work together in one shop. Peasant women who make lace and embroidered linens, and other peasant handicraft workers are encouraged to belong to co-operative organizations, to sell their products through the co-operative, and to obtain their raw materials through the same organization. In many cases the peasants are very loath to enter these artels and co-operatives, but the restrictive measures taken against the ones who do not join, together with the benefits of membership, have had the result of causing a constant expansion of these organizations.¹⁴ Peasants who insist on selling their goods on the private market are in danger of being considered kulaki.¹⁵ All these rather heterogeneous groups are united under the guidance of the All-Union Council of Producers' Co-operatives.

The future of the producers' co-operatives is rather uncertain. Whether they will be permitted to grow to the point where they would, to a limited extent at least, parallel the system of state industries, is highly doubtful. In the meantime, they are valuable in that in many cases small articles are produced which state industry is not

¹⁴ The number of members of the producers' co-operative associations increased 300 per cent from 1926-27 to 1928-29. Data from unpublished memoranda of the Director of Vsekopromsoyuz.

¹⁵ A kulak is a so-called rich peasant against whom extremely severe administrative measures are taken by the Soviet Government.

yet prepared to produce, and employment is furnished to thousands of people who would otherwise be without employment. As a matter of fact, artels of unemployed persons are often the beginning of one of these small industries.

Finally, we have the group of industries which are carried on by the consumers' co-operative associations. The consumers' co-operatives sometimes have their own bakeries, flour mills, and other plants which prepare food-stuffs for the market. No very complicated processes are ever undertaken by such plants, and it is a matter of policy that only the part of the process of food production which consists of the finishing or final preparation shall, in general, be carried on by their own factories. The workers in these plants are trade-union members, and the organization is not different in any important respects from that of state industry. This is in contrast to the producers' co-operative plants in which the workers are not members of trade unions, and where, in theory at least, they elect their own management.

Although the organizational form of Soviet industry has undergone almost continuous change since the establishment of the Trusts at the time of the inauguration of the New Economic Policy in 1921, the change has been in the nature of an evolution, since it is possible to recognize a definite trend of development. Starting out with forms which were borrowed from the capitalistic world, these forms have continuously been modified in the direction of a more centralized control by the higher organs of control, and in the direction of a more immediate contact between the Party and the various units of the industrial organization.

In spite of the inefficiency and bureaucracy which this centralization entails, one must recognize the fact that the Soviet industrial system has demonstrated its ability to adapt and to shape the organizational forms borrowed from capitalism to its own purposes. Comparison with the

organizational form of industry in a capitalistic country would not be unfavourable to Soviet industry in every respect. When one considers the ramifications of operating companies, holding companies, investment trusts, banks, underwriting syndicates, stock exchanges, brokerage houses, and so on, it must be admitted that the organizational form of capitalistic industry is neither simple, direct, nor inexpensive.

It was at one time hotly disputed between the Stalin and Trotsky groups whether the system of state Trusts and Syndicates represented true Socialism or only State Capitalism. The Left Opposition to Stalin maintained that the system of state Trusts would have to be discontinued and superseded by a system of direct state operation before the system could be considered truly socialistic. But time has proved that the system could be so modified that Socialism could be achieved without complete destruction of the existing system. No one could now deny that the system is truly socialistic in the sense of being entirely controlled by the state. Yet some measure of autonomy within industry has been preserved through the device of the independent balance-sheet and the introduction of the system of cost-accounting.

The present organizational form has distinct elements of permanency. It seems probable that the Soviet Union has evolved a system of industrial organization which will not undergo much basic change in the future. One cannot escape the conclusion that the present organizational form is adequate for carrying on the processes of large-scale mass production to the extent necessary for the provision of the basic items which make up the modern labourers' standard of living.

CHAPTER III

PRODUCTIVITY AND CAPITAL INVESTMENT

THE degree of productivity of large-scale state industry is frequently confused with general productivity. It is sometimes said that production increased in the Soviet Union over previous years as follows: 1926-27, 19.7 per cent; 1927-28, 26.3 per cent; 1928-29, 23.7 per cent, and that the planned rate of increase for 1929-30 is to be 32.1 per cent.¹ Occasionally the qualifying adjective "industrial" is used when speaking or writing about the yearly percentage increase of gross production. But this qualification is not enough. These rates of increase are for large-scale state industry alone. Since large-scale state industry produces only from 70 per cent to 75 per cent of the total industrial product, we find that the increase in *total* industrial production was, for 1926-27, 17.2 per cent; for 1927-28, 19 per cent; for 1928-29, 16.8 per cent; for 1929-30, by the Control Figures, 26.2 per cent.²

If the dynamics of agricultural production are also considered in arriving at a figure for the general rate of increase in productivity, the rate of increase would not be much more than half that indicated by these data. This is shown by the fact that the total production of agricultural products in 1928-29 was about 16.5 billion rubles, while the total production of industrial products was about 22.3 billion rubles.³ Although statistical data show a small increase in production of agricultural products in 1928-29

¹ The statement is properly qualified in the data given on p. 503, *Kontrol'nye Tsifry Narodnogo Khoziaistva, S. S. S. R., Na 1929-30 God.*

² *Planovoe Khoziaistvo*, No. 9, Sept. 1929, p. 275.

³ *Ibid.*, p. 274.

over 1927-28, it is almost certain that there was an actual decline in production, since in that year the scarcity of agricultural products reached almost famine proportions. Consequently the very low agricultural productivity weighs heavily in reducing the rate of increase of general productivity.

Returning now to the rate of increase of the gross product of industry per year, we have seen that the increase for 1928-29 over 1927-28 was 16.8 per cent. This is comparable with a rate of increase of industrial production in the United States of about 4 per cent.⁴ The difference is very pronounced even if the data on increase in production in the Soviet Union are heavily discounted. How can this difference be accounted for?

In the first place, the Soviet Union is importing large-scale machinery from abroad and at the same time is importing technical aid in the form of foreign engineers who are skilled in the installation and utilization of this machinery. The Soviet Union, which has lagged behind the Western world in industrial development, is therefore able to obtain a very large percentage increase due to the opportunity of profiting by machinery and technique developed in capitalistic countries. It is possible that if the time arrived when the technical and industrial development of the Soviet Union approximated that of the Western world, the large yearly increase due to this cause would disappear.

In the second place, production had fallen off immensely, in comparison with pre-war production in the Russian Empire, and as a result large increases in the early years were due largely to the fact that relatively small increases in absolute amounts showed a large per-

⁴ *Recent Economic Changes in the United States*, Vol. I, p. xv. It should be noted, however, that productivity in certain branches of the national economy is much below that of capitalistic countries. In *Izvestia* of March 24, 1930, there appears the incredible statement that productivity of labour in the mines of the Soviet Union is sixty times less than in the mines of America.

centage increase. It is estimated that the national income of the Soviet Union was 29 per cent larger in 1928-29 than in the same territory in 1913, while population increased 12 per cent.⁵ When allowance is made for the great difference in all economic conditions between the two years under comparison, it is likely that the probable error is as great as the increase in per capita production. It is extremely difficult to compute accurately the difference between the purchasing power of the pre-war and the present ruble. On account of this, any comparison of the total value of production between pre-war Russia and the Soviet Union must suffer from the point of view of accuracy. It is highly improper to compare the productivity of the most important industries of the present with that of the same industries in the pre-war period. Production has been concentrated on staple articles, while countless other miscellaneous articles have almost disappeared. Therefore the increase in production of the basic industries is much greater than the increase in total production.⁶

The concentration of the productive forces of the country on staple and standardized commodities, is, however, a real source of increase in productive efficiency. The total amount of product in proportion to the productive forces used is naturally greater than would be true if a wide variety of products were manufactured. The popu-

⁵ *Economic Survey*, issued by the State Bank of the U. S. S. R., Vol. IV, Nos. 39-40, Dec. 31, 1929. It should be noted that the increase in national income is reduced on account of the practically stationary productivity of agriculture as compared with the pre-war period.

⁶ In the issue of *Za Industrializatsiia* of April 13, 1930, it is stated that during the economic year 1929-30 the production of industry would be double that of pre-war. But this is an error. Even by Soviet statistics this will be true only for large-scale state industry. Furthermore, it depends upon the fulfilment of the Control Figures for this year. The reported results of the first half year indicate that the plan will not be fulfilled; the increase in productivity of industry was 28.8 per cent instead of the planned 32.1 per cent. *Ibid.* Later reports show even more unfavorable results. See p. 321 of the chapter on Planned Economy. It should be noted, however, that the planned increase in production according to the Five Year Plan for the second year of the Plan was only 21.5 per cent.

lation of the Soviet Union is receiving intensive training on how to live without non-essentials and "knick-knacks." Hundreds of articles which fill our department stores and ten cent stores absolutely cannot be obtained in Russia. The Soviet system of industrial production does not have to take account of changes in styles of clothing; neither does it have to produce small quantities of articles of luxury which could be sold at a high price, but for which the production costs would also be very high. Small attention is given to refinement of detail, to polish, and to improvement of finish of products. If the product adequately fills the need, that is all that is expected. As a result there is a great saving of productive forces, even if quality from the æsthetic and artistic point of view distinctly suffers.

Finally, in comparing productivity of the Soviet Union with the productivity of industry in pre-war Russia, or in other countries, allowance must be made for differences in quality of a nature which actually impair the usefulness of the product from a practical standpoint. There can be no argument about the miserably poor quality of product of Soviet industry up to the present time. This poor quality is constantly criticized by the Soviet press, and there is an earnest desire to improve it. But partly on account of the necessity for increasing the quantity of production, and partly on account of the shortage of raw material, execrable quality continues to characterize Soviet manufactures.⁷ If allowance is made for the difference in quality

⁷ One coal Trust, Artemugol, announced that it had fulfilled its production plan with a surplus. *Izvestia*, of April 11, 1930, in a cartoon, ridicules the announcement, with the remark that the surplus consisted of the 30 per cent ash content of the coal. See *Za Industrializatsiiu* of April 11, 1930, for complaints of low quality of the agricultural machinery. The poor quality of the consumption goods manufactured was a matter of common observation. The press carried the story of the worker who bought a pair of trousers and found that one leg of the trousers had been made for a very tall man and the other leg for a very short man. After trying vainly to get them exchanged for another pair he chose the alternative of cutting off one leg of the trousers. See *Pravda* of Jan. 18, 1930, for complaints of quality of textiles. *Pravda* usually publishes the complaints about the quality of product under the heading: "For Quality!"

between present and pre-war production, there can be no doubt that industrial productivity of the Soviet Union had not, by the end of the economic year 1928-29, greatly surpassed the level of the pre-war period.

Such success as has been achieved by Soviet industry has been due in no small degree to the fact that there has been an unfailing demand for all the product which industry has been able to turn out. There was one period during the so-called "scissors" crisis, however, when this was not true. But since both industry and trade became almost completely socialized there has been no difficulty about finding a market for the products of industry. In fact, the reverse has been true, and industry has never been able to produce all that the consuming public has stood ready to purchase. It is very interesting, in view of the difficulty which capitalistic countries are finding in securing markets, to consider the causes of this state of affairs in the Soviet Union. It is frequently said that Soviet industry has no difficulty in finding markets for its products because production is so inadequate. But this is a very superficial view, although it is a partial explanation. So long as the demand for the great staple products cannot be met, the marketing problem is simpler, since fewer technical difficulties are likely to arise under such circumstances. But the mere fact that productivity of staple commodities is still far short of a reasonable subsistence minimum is not an adequate explanation of the situation. This is indicated by the fact that the "scissors" crisis existed during a period when products of industry were much scarcer than at the present time. It is well known, of course, that the mere need for commodities does not constitute a market for them. The millions of unemployed in all countries have a great need for commodities, but their lack of purchasing power prevents their need from becoming an effective demand for products. The Communists say that there is no difficulty about selling the products of industry because only the amount is produced which is planned, while the

planned amount is no more than can be used. This is, indeed, a partial explanation, but only an incomplete one, and could be more accurately stated. Planning in the Soviet Union has come to be principally an exhortation to produce all that is humanly possible, rather than an attempt to curtail excess production in any field. There is practically no branch of industry in which a large increase in production would not be hailed with the greatest delight. Therefore planning, as it is usually understood, is hardly an adequate explanation.

The Soviet officials also say that a reason for this lack of difficulty in finding markets is due to the control which can be, and is, exercised over every branch of the national economy by a central authority. This explanation is an important part of the answer to the question. While the control of the central authorities over all parts of the national economy is not absolute or even adequate for all purposes, the control is of such a nature as largely to obviate the difficulties of finding buyers for products of industry. For example, if it were found that more bricks, cement, and other building material were being produced than could be used at once, it is certain that an order would be given to build enough buildings to use up the material. This can be easily done because of the extreme need for such building. But even if the need were not so great, some use could be found for buildings which could be constructed from the surplus material. Long before the time came when there was a superfluity of buildings, the Soviet Government would have taken action to turn production into other channels. If there were found to be more consumption goods on the market than could be taken at the prices charged, the Soviet Government would order the prices reduced or wages raised. Funds for paying the higher wages would be provided by an issue of currency or by an extension of bank credit. If it be argued that this would cause inflation, the answer is that if

both the quantity of goods and of media of exchange are increased in proportion, inflation cannot be said to exist.

If the unlikely time ever came when the amount of goods which was being produced was greater than people would buy, even if they had the money with which to purchase, the Soviet Government could, and undoubtedly would, reduce the hours of labour and hence avoid a glut of the market.

Finally, the power of the central authorities to expand the currency and bank credit whenever desirable is a potent weapon against a glut of the market. This is a dangerous weapon to use, for it is liable to result in inflation. This has, indeed, been the case. The rate at which the currency and credit system expanded during 1928-29 was much greater than the rate at which production increased. Nevertheless, the Soviet Government has been able to avoid to a considerable extent the ordinary results of inflation, rising prices, through the power which the government has had to regulate prices.

The alternative to rising prices, namely a rationed market, is perhaps as bad as rising prices. But at least it has meant that the Soviet Government could make use of expansion of the currency to a greater extent than other countries, without completely disorganizing the system of exchange and production. It is difficult to say to what extent the Soviet Government will be able to regulate successfully the expansion of the currency and of bank credit in the future. Up to the present, it has been an important factor in creating a market for Soviet products. It should be noted, however, that this has not been the main cause of expansion of currency and bank credit. The expansion has been largely in connection with the financing of the ambitious projects of capital construction. A considerable contraction of the currency issue and of bank credit could occur, however, without causing a lack of buying power,

since the situation at the present time is that the quantity of most goods offered for sale is less than the consuming public stands ready to take at prevailing prices.

In spite of the great increases in productivity which have occurred, cost of production remains very high. Any comparison of the internal price level with the international price level would be meaningless as a measure of the efficiency of the Soviet economy in comparison with that of the rest of the world, even if it were feasible to make such a comparison. National price levels express the result of a complicated relation between the volume of trade and the quantity and velocity of money and bank credit. Reduced to a theoretical common denominator, national price levels tend toward parity.

The existing disparity between the prices of agricultural products and industrial commodities is rather an indication of the inferior position of the peasantry in a proletarian state than an indication of the low productivity of industry.

A real measure of costs is provided in terms of the cost of production measured in consumer purchasing power. The low average wage of the Soviet labourer shows that Soviet industry has a considerable distance to cover to reach the levels of productivity attained by industry in the world of Capitalism.⁸ Nevertheless, the enormous amounts of capital construction which are now taking place are a pledge that productivity of industry will increase rapidly in the future. The *rate* of increase in industrial production is considerably in excess of that of capitalist industry at the present time.

Capital Investment

One of the greatest obstacles to the successful operation of industry under a system of Communism or Socialism has been supposed to be the difficulty of obtaining sufficient

⁸ See the chapter on Labour, pp. 249-255, for the average wage and its purchasing power.

capital funds for investment in industry, in order that the yearly depreciation and obsolescence of the capital equipment could be made good, and sufficient addition to capital equipment made to provide for the normal increase in population. It is obvious that if the total productivity of a country is not to decline, the amount of capital saved each year must provide at least this minimum. It has been generally said that even this minimum amount of capital would not be provided in a socialistic or communistic state. Under our present system of inequality of distribution of wealth and income, saving takes place in large measure through the more or less painless abstinence of persons of great wealth. Thus, if a person has an income of, say, one million dollars, it is obvious that he would normally save a considerable part of his income automatically, since his needs and desires could probably be satisfied by some sum far short of one million dollars per year. On the other hand, if income were evenly divided, or even if the inequality of distribution of wealth and income were substantially less, saving would be greatly reduced, since persons who had formerly had incomes entirely inadequate to satisfy their desires would now have their incomes increased, but the increase would fall far short of fulfilling all their wants, while the automatic saving on the part of individuals with very large incomes would disappear.

To the answer of the Socialist and Communist that this obstacle would be surmounted, since under a system of Socialism, saving would be a function of the state, it has been objected that since the people controlled the state, they would insist on a minimum deduction by the state from the total national income before its distribution among its citizens.

What are the facts in regard to saving and capital investment? Let us analyze the data some of which are included in Table No. I. Total resources of the national economy at the end of the economic year 1928-29 amounted

to 74,501,000,000 rubles. This is an increase of 7.2 per cent over the total resources of the national economy in the previous year. According to the Control Figures, total resources of the national economy are to increase to 85,163,000,000 rubles by the end of the economic year 1929-30. This gives an increase of 14.3 per cent, over the previous year. In both cases, allowances have been made for depreciation at the rate recorded in the Control Figures of the State Planning Commission. Most noteworthy is the greatly accelerated increase of the capital resources planned for the year 1929-30 as compared with that for the previous year. The rate of increase is almost twice as large, which is an evidence of the strained efforts which were being made to increase capital equipment during this period. The question at once arises as to whether the data are reliable. It is likely that there is some exaggeration of the increase in private capital. For both years under review the rate of increase is given as 2 per cent, which certainly seems modest enough. Almost undoubtedly, however, there was an actual decrease in both years instead of an increase. How great this decrease was it is impossible to say, but enough to modify the data on capital resources substantially, and the rate of increase to some extent. The rate of depreciation which is computed is probably a reasonable one, except in the case of the private sector, which has just been mentioned.

When the branches of national economy in which capital investments have been made or are to be made are surveyed, we observe some rather startling differences between the distribution of capital investments in the Soviet Union as compared with capitalistic countries in general. The capital resources of industry increased 18.7 per cent in 1928-29 over the previous year, and according to plan the increase is to be 34.7 per cent during the following year. In electrification, the increase was 41.9 per cent in 1928-29 over the previous year, and is to be

57 per cent for the following year. For residential houses, the increase was 1.6 per cent and is to be 3.5 per cent for the year 1929-30 over the previous year. Here can be seen the much greater emphasis which is placed upon capital investment in branches of the national economy which are to produce other goods, at the expense of capital goods which immediately supply human wants.

It is interesting to note, also, that the increase in total capital resources for the state sector in the two years under review was 11.3 per cent and 22.7 per cent. For the co-operative sector, the increase was 37 per cent and 78 per cent, and for the private sector 2 per cent for both years. As has been noted above, there was probably an actual decrease instead of an increase in the case of the private sector.

It is a difficult enough problem in any country to determine exactly what is true capital investment and what is not. New capital investment in all branches of the national economy for the Soviet Union in 1928-29 amounted to slightly over 5 billions of rubles, and for 1929-30 is to amount to slightly over 10½ billions of rubles, after allowance for depreciation. National income for the first of these two economic years amounted to 28,534 million rubles and is to amount to 34,363 million rubles for the second.⁹ Thus over 17 per cent of the national income was saved for the first of the two years, and over 30 per cent is to be saved for the second year. It has been estimated that for the year 1925 about 17 per cent of the national income of the United States was saved.¹⁰ The propriety of such a comparison may well be questioned on account of the difference in methods of computing both income and capital investment in the two countries, but it is at least suggestive.

⁹ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*, p. 467.

¹⁰ Morris Copeland, "The National Income and Its Distribution," in *Recent Economic Changes in the United States*, p. 759.

TABLE NO. I
CAPITAL RESOURCES, INVESTMENT, AND DEPRECIATION, BY YEARS¹¹
(in millions of rubles)

Branch of economy	1928-29			1929-30		
	Depre- ciation	Invest- ment	Capital re- sources at end of year	Depre- ciation	Invest- ment	Capital resources at end of year
Industry	489	2,304	11,501	554	4,544	15,491
Electrification	48	432	1,301	69	810	2,042
Agriculture	2,067	2,963	29,857	2,119	3,874	31,612
Transport	431	1,328	12,732	465	2,252	14,519
Communications	13	62	312	16	130	416
Commercial storage and agricultural industry.	35	296	950	49	759	1,660
Public instruction	34	273	2,131	37	657	2,751
Public health	18	103	1,097	19	173	1,251
Administration	17	67	641	19	88	710
Municipal economy....	95	249	2,389	102	413	2,700
Urban housing	377	565	11,588	381	792	11,999
Total for national econ- omy	3,624	8,642	74,501	3,830	14,492	85,163
Of this, by sector.						
State	1,339	5,290	38,802	1,489	10,293	47,606
Co-operative	65	471	1,504	95	1,268	2,677
Private	2,220	2,881	34,195	2,246	2,931	34,880
Of this, by economic category.						
Resources for production	1,932	4,462	29,869	2,051	7,784	35,602
Resources for distribu- tion	479	1,686	13,994	530	3,141	16,605
Resources for consump- tion	1,213	2,494	30,638	1,249	3,567	32,956

There may remain a doubt as to whether this saving of capital is not in some way or other fictitious. It is true that in so far as the amount of saving and capital investment is measured in rubles, an important deduction must be made to allow for the difference between the legal, nominal, gold value of the ruble and its actual purchasing power. For reasons which will be explained in the chapter on Money, it is extremely difficult to make an accurate estimate of the difference between the real and the nomi-

¹¹ The data in this table are taken from *Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, pp. 446-452. The data for 1929-30 are those planned in the Control Figures.

nal value of the ruble. Soviet statisticians estimate the wholesale price level to be approximately 1.823 times that of pre-war. The total new investment in industry, as can be seen from Table No. I for the year 1928-29, amounted to 1,815,000,000 rubles, while for 1929-30, according to the Control Figures, it is to amount to 3,900,000,000 rubles. Reduced to pre-war rubles, this gives an investment of about 996,000,000 rubles for 1928-29 and of 2,139,000,000 rubles for 1929-30. Soviet statisticians estimate that the largest amount invested in pre-war Russia in industry in any year was 600,000,000 rubles.¹² This amount was for the entire Russian Empire, including those territories which have been lost to the Soviet Union. It seems reasonable to think that with all allowances for error in Soviet statistics, the investment in industry for 1928-29 was at least as large as for any pre-war year, while for 1929-30 the investment in industry will be at least twice as large as in any pre-war year, if the planned investment actually takes place. Furthermore, it must be remembered that any corrections on account of the difference between the real and the nominal value of the ruble do not affect the percentage increase in amount of capital investment from year to year, or calculations as to the percentage of the national income devoted to capital investment.

It is not possible to compare data for total capital investment in the entire economy at the present time with that of pre-war Russia, since the necessary data do not exist. If the assumption is made that the capital investment in industry in 1928-29 was only about equal to pre-war capital investment, total capital investment was probably less, for in other fields capital investment must have been less than in pre-war Russia. This would certainly be true in the case of capital investment in housing, in capital equipment devoted to commercial purposes, in agriculture, in handicraft industries, and in the reserves

¹² *Economic Survey, op. cit.*, Vol. V, Nos. 8-9. Prices as of Jan. 1, 1930.

of consumption goods. However, the assumption that the investment in industry for 1928-29 was no greater than in pre-war years would be vigorously denied by the Soviet statistician. If the capital investment program of 1929-30 is carried into effect, however, it will then be possible to say that capital investment has beyond any doubt grown to far greater amounts than in pre-war Russia.

Finally, the question will arise as to whether the sums of money which are devoted to capital investment have actually eventuated in tangible and concrete capital equipment. While there is no doubt that the cost of construction of many plants has been extremely high, and although the question may be raised as to how economically many of the plants may operate, the fact remains that the building has actually taken place, and that the amount of tangible capital construction which has occurred in 1928 and 1929 has been enormous. The Turkestan Siberian Railway was formally opened in May 1930, and the great Stalingrad tractor factory was also formally opened at about the same time. The Dneprostroy electrification project, the largest in the world, was being carried forward. Huge textile plants had been completed and were under construction at Ivanovo-Vosnesensk, to mention only a few of the better known projects. Sugar-beet factories in the Ukraine, steel mills in the Urals, electric power stations everywhere evidence the transition of Russia from an agricultural to an industrial state. The Baku-Batum oil pipe line was put into operation in the early part of 1930. The evidence of the eyes proved beyond a doubt that capital construction on a large scale was actually taking place.

The question of whether or not as great a proportion of the national income would be saved under a socialistic system as under a capitalistic system must be definitely answered in the affirmative. Whether or not this would be true in all socialistic systems is another matter. Upon the basis of the greatest socialistic experiment in all his-

tory it can be confidently stated that when a socialistic system takes the form of a dictatorship it is possible to mobilize for capital investment as large a portion of the national income as could possibly be obtained under a capitalistic system.

What were the sources of this capital accumulation? They may be roughly classified as social and private. The two categories overlap to a considerable degree, however. The social saving of capital came from four principal sources. First, there were the internal accumulations of industry and of other branches of the socialized sector of the national economy. According to plan, the internal resources of industry in 1929-30 are to provide 2,430 million rubles for new capital investment, this amount representing the profits of industry for the year. Of this, 1,365 million rubles are to be paid into the treasury of the state. Since the state will advance to industry, in the form of subsidies, 1,692 million rubles, there is a net balance of 327 million rubles payable to industry from the budget, in addition to the amount which offsets the payment of profits into the treasury of the state.¹³ This means that in one sense industry leans on the budget, instead of profits of industry being devoted to the budget for non-industrial purposes.

There is a further grant to industry of 269 million rubles, in the form of long-term credits, which sum represents compulsory payments of a percentage of the profits of industry into a long-term credit fund, which is disbursed through the Bank of Long-Term Credit For Industry and Electrification and through the Central Communal Bank. This sum does not differ in essence from that which is derived from payments directly to the Commissariat of Finance and advanced again to industries in the form of subsidies, except that interest is charged on the long-term

¹³ *Economic Survey, op. cit.*, Vol. V, No. 3, Feb. 15, 1930. The net sum contributed by the budget for the benefit of industry is computed in the Control Figures to be 368 million rubles instead of 327 million rubles. *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*, p. 102.

credit funds advanced by the banks, while interest is not usually paid on the sums granted to industry directly from the budget.

It is worthy of note that the profits of industry which are depended upon to supply funds for capital investment are the planned profits of industry for the current year. Thus in 1929-30, of the total profits for the year, 940 millions are to be realized from a planned 11 per cent reduction in costs of production, while factory prices are lowered by only 2.5 per cent. As a result of this slightly reduced price accompanied by an important lowering of cost of production, the weight of profits in the price of products is to rise from 11.6 per cent to 18.6 per cent.¹⁴ The failure to lower cost of production as planned, which has been one of the disappointments of the year, will necessitate a much greater budgetary assistance than had been originally intended, if the program of capital investment is to be realized.¹⁵ Bank credit will also have to be counted on to provide a greater share of the capital funds than had first been planned. The administrative increases in capital investment which have occurred since the Control Figures were adopted will have a like effect. It seems probable, indeed, that the plan of the Control Figures for 1929-30 in respect to capital investment will not be completely realized.

Second, this saving of capital was derived from taxation, both direct and indirect, local, republican, and Union. In addition to the amount invested in industry through loans and subsidies from the budget, grants of considerable size were made for capital investment in agriculture, electrification, transport, housing, and other purposes.

Third, the saving of capital was made possible through the credit system. According to plan, industry is to be granted short-term credits amounting to 275,000,000

¹⁴ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*, p. 100.

¹⁵ See chapter on Planned Economy, p. 319, for the results of the plan to lower cost of production during 1929-30.

rubles.¹⁶ The long-term grants to industry through the credit system are made through the Bank of Long-Term Credit For Industry and Electrification and the Central Communal Bank, and are included in the above total of budgetary loans and subsidies.

A fourth source of saving was the social-insurance system which mobilized considerable sums for the purpose of housing construction.

Private saving was of three sorts, which took place through the system of state loans, through deposits in the savings banks, and through purchase of shares in co-operative organizations. The total saving through purchase of co-operative shares in 1928-29 was 293,000,000 rubles and in 1929-30 this was to amount to 551,000,000 rubles. Savings in the form of state loans amounted to 800,000,000 rubles in 1928-29 and were to amount to 1,335,000,000 rubles in 1929-30. Savings-bank deposits increased by 214,000,000 rubles in 1928-29 and were to increase by 293,000,000 rubles in 1929-30.¹⁷ Savings deposits are included in the totals of loans to national economy by the credit system, state loans are in part represented through advances to industry by the state and are also purchased by state organizations, while the shares of co-operative organizations are included under the category of internal resources of national economy. Much that is here listed as private saving is thus also included under social saving. It is impossible, moreover, to separate the two categories of saving for still another reason. The purchase of shares in co-operatives was practically obligatory, and the purchase of state bonds was carried on by means of an obligatory monthly deduction from wages, so that neither can be considered strictly private or voluntary saving. This is seen clearly in the case of the state loans where bonds can be sold only after permission is given by

¹⁶ *Economic Survey, op. cit.*, Vol. V, No. 3, Feb. 15, 1930.

¹⁷ Data on co-operative share saving from p. 572, data on State loans from p. 600, and data on saving-bank deposits from pp. 585-586, *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*

specially constituted committees. Savings-bank deposits alone can be considered purely private in character, although even here the funds, after deposit, are loaned out under the authority of the state.

It is very doubtful whether there was any net saving by peasants and small merchants and artisans during the two economic years under consideration. Since the private sector in commerce, industry, and even in agriculture was diminishing in 1928, and was actually being destroyed by objective means in 1929 and in the first months of 1930, it is not surprising that there should not have been any addition to working capital under such circumstances. Rather there was a net decrease. The mass killing of cattle and horses which occurred during the late part of 1929 and the first months of 1930, the liquidation of the Nepmen, and the general insecurity of private property were factors which made this net decrease a very large one.

Turn to another aspect of this social saving and capital investment. In 1928-29, when the yearly rate of increase in production was officially reported as about 24 per cent, the supply of consumption goods was less than it had been during 1925 and 1926. In large measure this was due, of course, to agricultural difficulties, which had resulted in the necessity for rationing the food supply of the population. But it was also accounted for by the tremendous proportion of the national income which was being reinvested instead of being used consumptively. It has always been a favourite diversion of graduate seminars in economics to try to describe the process by which an increased proportion of a nation's income could be saved and used for investment in industry. It has been a little difficult to demonstrate exactly how increased national saving would eventuate in fewer consumption goods, even in the beginning. It was very easy to say that funds would be invested in capital construction instead of being used consumptively, but this did not really solve the problem.

If people consumed fewer goods, and these funds were made available to industry in the form of funds for capital investment, what could be done with them except to offer them for the purchase of the services of the existing supply of productive agents? And how would this operate to actually cause an increase in the objective and concrete factors of production? The answer to this query was that the process worked itself out by turning investment into channels which required a longer period for the capital goods to return a product, such as electrification projects. This would happen, it was said, because of the lowered rate of interest which would enable such investments to pay the required marginal return on the invested capital. Labourers, fuel, raw materials, which could be diverted from one type of enterprise to another would be used in such long-term investment projects, rather than in the building of automobile and textile factories.

Whether or not this is an adequate analysis of the process in a capitalistic economy, it is interesting to examine how the process works out in a socialistic economy. In the first place, the process is different in nature, because the interest rate is not a factor of such dynamic importance. While the payment of interest has not altogether come to an end in the Soviet State, it has become of small importance. Aside from the payment of interest on government bonds and on some categories of bank loans, interest, or at least explicit interest, has disappeared as a factor in Soviet economics.

The enormous sums of capital for new investment were not obtained by means of offering higher rates of interest, but an estimate was made by the authorities as to how much capital could be obtained, and the amount so estimated was then rationed out for the various purposes for which capital was to be used. It was literally true that in 1928-29 and 1929-30 every possible way in which the maximum amount of capital could be obtained was explored and exploited. The available supply of capital

came thus to be not an amount determined by the subjective balancing of present goods against future goods by anybody, either people or state, but simply all the capital which could possibly be extorted. When it came to rationing, the process did resemble in some degree the rationing which takes place through the comparison of the market rate of interest and discounted rentability of the enterprises which could bid for the use of the capital fund. For, of course, no capital was allotted to enterprises which would give a return, say, only after one hundred years. Under neither a socialistic nor a capitalistic economy would such enterprises be able to offer large enough returns to cause an investment in them. The process of discount of future goods is a function which is of great importance in the process of rationing out the available supply of capital goods in a socialistic economy, even if it was not of effective importance in determining the limits upon the total supply of capital in the Soviet Union during the first two years of the *piatiletka*. But the rentability of the enterprises was, of course, of far less importance than other factors in determining which enterprises should receive the funds. If funds had been invested in the light industries, which catered more directly to supplying the consumptive needs and desires of the population, they would have shown the greatest profit. But they were invested not in the light, but in the heavy industries.¹⁸ And this in spite of a veritable famine in consumption goods.

This decision to build up the heavy industries rather than the light, reflected the decision of the Party that

¹⁸ Thus the capital investment, without allowance for depreciation, for the heavy industries was to amount in 1929-30, by the Control Figures, to 2,972 million rubles and to only 563 million rubles for the light industries. The heavy industries are those producing the means of production and the light are those producing consumption goods. These data are for the industries under the planning supervision of the Supreme Economic Council only, but since they constitute the majority of all industries the proportion is significant for industry as a whole. These are planned, not realized, data.

Russia must be industrialized at the earliest possible moment. There had been a dispute in the Party as to whether or not it was possible to build Socialism in Russia as long as the rest of the world remained under the capitalistic system. Even the Stalin group who held to the idea that Socialism could be so constructed realized, however, that it could not be done if Russia were to remain agricultural in character, and the remainder of the world were to remain capitalistic. Since early revolution in the outside world did not seem very likely, the decision was taken that industrialization in Russia must take place without delay.

The actual process of capital construction through the curtailment of the supply of consumption goods meant that men, construction materials, fuel, and electrical power were made available to the heavy industries through grants of funds for their purchase. Grants to textile, clothing, food, and other industries supplying directly consumable goods were not only smaller in proportion, but the output of such goods was restricted in other ways as well. Prices are kept high, so that profits from these industries can be diverted to the heavy industries. Taxes on consumption goods are heavy, and comparatively light on heavy production goods. The prices of the means of production are set as low as possible by direct governmental action, in order to still further encourage the industries which are buying capital equipment. Even the payments for social insurance were lowered for the heavy industries.

Such capital equipment as had to be imported from abroad was often obtained at the cost of exporting goods to pay for these production goods at prices far under those received on the domestic market. This was true of agricultural commodities, such as butter, eggs, honey, preserved fruits, and even grain. The prices received on the international market were not always less than the price paid by the state collecting organs. But the prices received

were decidedly less, measured at the theoretical parity of the ruble, than could have been received if they had been sold on the internal market. Due largely to the difference between the internal and external purchasing power of the ruble, the prices received for manufactured goods were in many cases considerably less than the cost of production by the Soviet industries. So far as the problem of obtaining capital equipment from abroad was concerned, we find that here the process of saving of consumption goods and the resultant increase in capital equipment is a very direct one. Thus butter and honey were exchanged almost directly for tractors and threshing-machines. The butter and honey would certainly have been eaten if the mechanism controlling the saving of capital had been similar to that in capitalistic states. If a Soviet citizen had been confronted by the choice between his share of the butter, honey, and preserves, to mention only the more savoury forms of Soviet export, and his share of the future product of the heavy machinery, the decision would not long have remained in the balance. This increase of the amount of social saving as compared to private saving is analogous in some degree to the increased saving which takes place due to the corporate form of organization in the capitalistic economy. The amount placed in surplus by the directors of corporations is usually greater than it would be if their decision were determined by the majority of the stockholders, since the large income-receivers who dominate corporations do not need large dividends to meet consumptive needs. So, too, in the Soviet Union, the directors of the giant economic enterprise put a great deal more into capital investments than the inhabitants would be willing to do if the choice were an individual one.

To once more consider the problem from a different angle. Do the amounts of capital invested more than make up for the depreciation and obsolescence of Soviet industry? The answer must be decidedly in the affirma-

tive. While for a long time after the Revolution (up to 1925 or 1926) the amount of depreciation which was going on was greater than the amount of construction, at the present time there can be no doubt that the amount of investment in industry is greatly in excess of depreciation and obsolescence. The data on capital investment and depreciation show this, but to any observer, the tangible evidence of such a large number of great enterprises under construction must be convincing proof. It is another question whether or not the depreciation in other fields of production outside of industry does not partly offset this new investment. To anyone familiar with the terrific shortage of lodgings in the cities of the Soviet Union, the depreciation of dwelling houses does not appear to be offset by new construction. But the great and even increasing shortage of living quarters is due not so much to the decay of houses as to the tremendous increase in the population of the cities. Actually in the last few years the repair of houses has been carried on with considerable effect in Russia, and the amount spent on the construction of new lodgings almost exclusively for workers, in 1928, 1929, and 1930 probably entirely offsets the depreciation of urban housing.

Capital saving in the Soviet Union may therefore be summarized as follows:

1. Capital investment in industry was at least as great in 1928-29 as in any pre-war year. If capital saving takes place according to plan, similar capital investment in 1929-30 will be at least twice as great as in any pre-war year.

2. The proportion of the national income devoted to capital investment is as great as that in any capitalistic country, and greater than in most. If the plan of the Control Figures of 1929-30 is realized, the proportion of national income saved will be greater than in any capitalistic country.

3. Much the greater proportion of the saving takes place as an integral part of the economic organization, and private saving is of relatively small importance.

4. Capital saving is much greater than would be possible if the decision to save were made by individuals, or by the majority of the population.

5. The saving of capital which has taken place has been at the cost of the sharpest abstinence on the part of the population.

6. Capital investment greatly exceeds capital depreciation.

CHAPTER IV

AGRICULTURE

“PEACE AND THE LAND!” was the slogan which won the peasants of Russia to the support of the Communist Party and which sealed the doom not only of Tsarism but of the liberal parties which might have succeeded to power if they could have won the support of the peasantry. No one realized better than the Communists themselves that the peasants did not support the proletariat because of any fervour for the establishment of a socialistic régime. Lenin therefore grafted the policy of the *smychka* between proletariat and peasant on Marxianism and thereby assured the triumph of Communism. In all history there is no more striking proof of the power of the human intellect over the material world, than the success of the Communist Party in conjuring into existence an economic and social system, of which the germ had incubated in the mind of a long dead German-Jewish philosopher and which was utterly in opposition to the customs and hopes of the overwhelming mass of the peasant population, in a land where the support of the peasant masses was the first essential to success.

The *smychka* is a brilliant example of the surpassing ability of Lenin to make a policy of opportunism serve at long last the apparently most unrealizable of abstract principles. He saw that the greed of the peasants for the personal possession of the land must be satisfied if Communism was to be born in Russia. Therefore while other parties talked of giving the land, or some part of the land, to the peasants under carefully laid down conditions and

after a Constituent Assembly or at some other distant date, Lenin insisted that the land be given to them at once. It is true that it was given to them through the form of saying that the land became the property of the nation, but when have words meant anything to the peasant? All he knew or cared was that he was invited to take possession of the land at once. There might be talk about the land being the property of the state, but once let Ivan get his hands on it and the state might try to get it back some day if it liked. Thus the support of the peasantry for the Revolution was won, and the fear that any group which overthrew the Communists would bring back the landlord was an insurmountable obstacle to the success of the various attempts of the White armies to overthrow the Bolsheviks. The peasants simply could not visualize the Socialist State as their rival for the possession of the land. The landlord had only recently been ousted and his possible return was a real menace, but the nationalization of land which the Communists talked of was not feared because it was not understood. The Bolsheviks did not make the tactical error of attempting seriously to nationalize the land so long as there remained any effective military opposition to their régime. They simply permitted the peasantry to do them the service of expropriating and expelling the landowners, and bided their time.

As soon as the Civil War had ended, attempts were made to induce the peasants to form collective farms and to sow and harvest the grain collectively. Furthermore, some of the larger estates of the landlords and some of the state reserves of lands were retained in the direct control and management of the Soviet Government, much against the will of the peasantry in the neighbourhood of such state farms. As an accompaniment to the inauguration of the New Economic Policy and as a partial result of the famine years, the Bolsheviks relaxed their pressure on the peasantry and temporarily abandoned any serious attempt at the nationalization of the land. Peasant insur-

rections had warned the Bolsheviks that they must abandon the requisitions of surplus grain as well, and submit for a while to the development of small-scale peasant farming upon the model of the capitalistic countries of Europe.

This retreat of the Communists on the agricultural front gave rise to a general misconception of the policy of the Party toward the peasants, just as the New Economic Policy was erroneously interpreted outside of Russia as proof of the failure of Socialism. The basic policy of the Party toward the peasantry did not change. All Communists agreed that agriculture must some day become collective and that land should be really nationalized. It is true that there were serious differences of opinion as to when and how collectivization of agriculture and effective nationalization of the land should take place. It seems clear now that the strength of the peasantry to resist effectively the movement toward collectivization and nationalization was much overestimated. The truth is that the Russian peasantry is an immense inert force, which is of tremendous importance negatively. But the peasants are quite incapable of working out any constructive program, or of effectively fighting for such a program by themselves, if such were actually in existence. In the struggle between the Bolsheviks and the Whites the support of the peasantry was, in general, on the side of the Bolsheviks, simply because of the peasants' greed for the land which they had taken from the men who were the leaders of the White armies. The support of the peasantry definitely tipped the scales against the Whites and in favour of the Bolsheviks. But when once the Bolsheviks had overthrown the Whites and the worst ravages of Civil War had been repaired during the years of the New Economic Policy, the peasants were as helpless against the determined policy of nationalization and collectivization of the Bolsheviks as they had been against the oppression of the Tsarist landlords or against the raids of the Tartars in still an earlier day. When driven to the wall by unbear-

able oppression the peasant will rise as in the days of Pugachev or of Stenka Razin and will commit acts of savage brutality which show him as the semi-Asiatic which he is, but a determined government can always drown such risings in blood or still them by temporary and unimportant concessions, or by a combination of both, as has been the Russian custom. Apart from these wild and planless outbursts, the Russian peasant is rivalled only by the Chinese coolie in his ability to bear the misfortunes which an inscrutable Providence sees fit to inflict upon him. The Tartar hordes from the deserts of Central Asia, the landlord of Tsarist days to whom he was forced to pay rent while the landlord lived in Paris, the proletarian from the city who brands him as a kulak, confiscates all his possessions and sends him into exile, are all plagues like the typhus. Ivan has long ago decided that it is useless to think about it or to hope. So he eats all that he can when he can, is drunk whenever he is able to get vodka or samagodka, and brings always more children into the world to bear the cold mercy of Nature.

The Communists understood the peasants as no one else had. They had no sentimental Tolstovian illusions. To the peasants they always spoke of the smychka between worker and peasant, but they never attempted to conceal the fact that the Soviet Government was a dictatorship of the proletariat. It has sometimes been erroneously assumed that the dictatorship of the proletariat was a dictatorship only in respect to the overthrown capitalistic classes. There has been little excuse for such an assumption. The public writings of Lenin and of Stalin, for example, are explicit on the point that the dictatorship is in respect to the peasantry as well.¹

¹ Lenin wrote: "During the dictatorship of the proletariat, it will be necessary to re-educate millions of peasants and petty proprietors, hundreds of thousands of employees, officials, and bourgeois intellectuals, to subject them all to the proletarian State and to proletarian guidance; to rid them of bourgeois habits and traditions."—*Works*, Russian edition, Vol. XVII, pp. 197-198, quoted, p. 113, in *Leninism*, by Stalin; translated by Eden and Cedar Paul.

The Communist Party has never admitted the possibility of a Socialist State in which the peasantry would be a permanent element. Indeed, it is a cardinal point in Communist doctrine that a completely Socialist State cannot exist so long as there is a large peasant class. The truly Socialist State is a classless state,² in which there will be only workers who have completely lost the peasant psychology. The Communist Party has never made any secret of its determination to turn the peasant into a proletarian. Stated baldly, this means that the Communist Party has never concealed its intention eventually to destroy the peasant as a class, just as fundamentally as it has been destroying the kulak as a class during the years 1929 and 1930. The peasants in the meantime are soothed by talk of the *smychka*, but the temporary character of the *smychka* has always been evident.

It was essential that some temporary system of land utilization should be legalized until such time as nationalization of the land could be carried into effect. When the Soviet Government set about introducing some order into the system of land-holding which was in existence after the confiscation of the estates of the landlords, it experienced many difficulties, however. Peasants who had been living near large estates and who had been able to lay hold of large amounts of land showed no willingness to share their holdings with peasants from less fortunate villages. Wealthier peasants who had held considerable amounts of land in some cases also presented a problem. Were these peasants to be treated like the former landlords and their holdings expropriated and turned into the common land fund? Was the system of strip farming to be continued, or were holdings to be consolidated? The difficulties of the situation were increased by the fact that the entire system of peasant farming was repugnant to the

² "The purpose of the dictatorship is to establish socialism, to put an end to the division of society into classes. . . ."—Lenin, *Works*, Russian edition, Vol. XVI., pp. 226-227, quoted, p. 27, in *Leninism*, by Stalin.

Communists, who felt that any solution of the problem along the line of individual enterprise in agriculture was wholly unacceptable except as a temporary expedient.

Nevertheless, a more or less generally applicable solution of the problem of land-holding was worked out. The principle of distribution of land according to need was fixed upon and quite generally enforced. In a given village the amount of land which was held by any family was made dependent upon the number of persons in the family who had to be supported by the products of the land. If a wealthy peasant had owned more than this amount of land it was taken away from him and he was reduced to the same land-holding as other members of the village commune. In some cases the surplus inventory of wealthy peasants was also confiscated and distributed among the poorer peasants. The only difference between the rich peasant and the former landlord was that he was permitted to hold the same norm of land as the other peasants while the landlord usually lost all his land. The writer is familiar, however, with cases in which the regular peasant allotment was left to former landlords where they had not actively opposed the Soviet régime and where they were willing to work the land themselves. The animals and other inventory of the ex-landlord were usually simply taken possession of by the neighbouring peasants. The house of the former landlord was frequently used as a village library, club-house, or as some other public building. Where the peasants had indulged their fondness for arson they were sometimes even compelled to build some sort of a public building as a substitute for the estate house. The process of resurveying village lands was carried on vigorously in order to make possible the consolidation of the tiny strips of land so that one man's holding could be all in one piece. Although private possession of land by the peasants was thus legalized, the land remained, in theory, the property of the state, and its alienation by sale was forbidden. A limited right of rental

of land was permitted with the dual purpose of providing some income for land-holders who were unable to cultivate their land and of increasing the harvest of grain by making it possible for the richer peasants to farm more than their own allotment. Such peasants also had the right to employ hired labour.

As an important part of the New Economic Policy the practice of requisitioning all surplus grain from the peasant above the minimum left for his own use had been abolished. This had been one of the most unpopular aspects of War Communism, and although some payment had usually been made for the grain which was taken, the payment was so small as to be practically equivalent to confiscation. In the place of the requisitioning of the surplus grain a fixed land tax was instituted. The peasant was left free to sell his grain on the private market if he so desired.

Here, then, seemed to be the basic outlines of a system of small-scale peasant agriculture similar to that in existence in Germany, France, or any other Western European country. It seemed possible that history might repeat itself, and that the Russian peasantry, having once obtained possession of the land, would cease to support the Revolution, as they had done in similar circumstances during the French Revolution. The Communists were always dogged by the spectre of the growth of a peasantry with a petty bourgeois ideology. The Trotsky group were constantly warning the Party of the growth in power and wealth of the kulak, or so-called rich peasant, and declaring that socialism could never be established if such a class were permitted to obtain a solid footing in the national economy. This fear of the growth of an independent and conservative-minded peasantry such as had always been the bulwark of the forces of reaction in Western Europe so preyed upon the minds of the Communists that the development of a sound system of agriculture of any kind was seriously interfered with.

One of the main measures upon which the Communist Party relied to prevent the development of a petty bourgeois peasantry which would be unitedly hostile to them was the stimulation of class warfare in the village. In order to insure that class warfare should be brought into existence, every peasant found himself registered as a kulak, a ceredniak, or a bedniak. A kulak was theoretically a peasant who hired labour and was therefore an exploiter. A bedniak was a poor peasant, and a ceredniak was a "middle" peasant. But this basis of division was only theoretical. In many villages there were practically no peasants who hired any labour, nor who loaned money or seed grain or work animals, all of which things were supposedly done by the kulaki. The villagers in such cases might report that there were no kulaki in the village. But such a state of affairs was intolerable. If there were no kulaki how could there be any class war in the village? And if there were no class war in the village how was the growth of the petty bourgeois ideology to be prevented? So in most cases the village would be ordered to designate some families as kulaki. This task was shared by the village Soviet and the Committee of the Poor of the village. So some poor wretches in the village were given the brand of Cain and from that time on were subjected to enormous taxes, deprived of electoral rights, and denied the right to send their children to any but the most primary schools,³ even before the time of their final calamity when their total destruction was decreed. Of course, in many instances the local authorities were willing enough to designate certain families as kulaki. It was one way of working off old grudges. One thing is certain. The average family

³ It was necessary to issue a decree of the Council of People's Commissars against the practice of excluding children of persons deprived of electoral rights from the first two stages of the educational system. It was considered undesirable to exclude children of this age, since it was possible, by proper educational methods, to insure their development into supporters of the Soviet Government. See *Pravda*, Feb. 2, 1930. This decree was not, however, to interfere with the policy of excluding the children of the "deprived" from the higher schools.

which was designated as a kulak family was not the more or less legendary kulak in whose existence the Communists actually believed. Most of them were not usurers and exploiters, or if they had been they no longer were, after the great misfortune of being designated as such had fallen upon them. No one in his senses would have willingly been classed as a kulak when he could have avoided it by giving up the practices which were supposed to characterize the kulak class. But so hard put to it to find families who might be classed as kulaki was many a village, that any one who had in times past, even before the Revolution, hired labour or loaned money or other goods, or who had been better off than the average peasant, was fastened upon by the village officials with relief as a means of satisfying the incomprehensible sadism of their proletarian rulers. Thus in one village which was visited by the author, the local Chairman of the Committee of the Poor exhibited a family of kulaki quite in the manner of showing one a family of lepers on whom the judgment of God had fallen. He regarded them with hopeless pity and said that all the troubles in the village dated from the time when the villagers had been compelled to divide themselves into the three classes. When the query was put as to why the family was regarded as kulaki, he replied that some one had to be a kulak and that this family had at one time owned and operated a tea-house, or village inn. He said they no longer kept the tea-house, and that the family was trying desperately to lose its status as a kulak family. The family were present during the interview and confirmed all that the Chairman of the Committee of the Poor had said. They were deprived of electoral rights, the children of the family were not permitted to go to school, they paid 40 per cent of their meagre income as taxes, and they were labelled as enemies of the Soviet State. When asked how long it would take for them to lose the status of a kulak, the family replied that it was said it might be done in five years. The Chairman of the Com-

mittee of the Poor interjected that he was not at all sure that it could ever be done. He no doubt wondered whom he could find to take their places as kulaki if they were to achieve emancipation.

In practice, since the number of people who might by any possible test have been exploiters was very much limited, any one who had two cows and two horses, or who was somewhat less poor than the average peasant, might be considered a kulak. Actually there was no practicable way in which the line between the kulak and the *ceredniak* could be drawn. Nor indeed was the line between the *ceredniak* and the *bedniak* an easy one to draw. The poverty in the average Russian village was so great that had the task been carried out by a European or an American, all the villagers must have been labelled as *bedniki* without exception. The category into which a man was placed was mainly a matter of village politics. If there was a strong Communist group in the village, all those peasants who were hostile to Communism would be pretty sure to be labelled as kulaki. In one case a peasant who before the Revolution had employed twenty-five men as carters to drive his horses and wagons which he hired out in Kiev, and who was as nearly the legendary type of kulak as ever existed, was labelled as a *ceredniak* because he had two sons who were Communists, one of whom was a general in the Red Army, and another son who was a Young Communist. *Ceredniki* frequently complained bitterly that their neighbours, who had more horses or cows than they, were labelled as *bedniki* while they were registered as *ceredniki*. The status of *bedniki* was the most desirable of all, since they were partially, and finally, wholly exempt from the payment of the agricultural tax.

In spite of the efforts of the Party to light and fan the fires of class warfare in the village, the general tendency of the peasants was to preserve a united front against the urban proletariat. The peasants felt that they had a serious grievance in the great disparity between the prices

which they received for their products and the prices which they were forced to pay for manufactured goods. A peasant said to the writer, "Before the War I received the same price in rubles for a sack of potatoes which I receive now. But I must sell more than twice as many potatoes now as I did then in order to buy a pair of boots, and such boots as they are! Look at these!" He stuck out a foot clad in a shapeless and disintegrating leather boot. "Boots which I bought before the War would outwear three pairs of these!"

This operation of the "scissors" was one of the chief complaints of the peasants. The "scissors" was the term used to characterize the divergence which developed after the Revolution between the prices paid for agricultural products and the prices which had to be paid for manufactured commodities. According to Soviet statistics the "scissors" had been nearly closed by 1929. With prices of 1913 as 100, the index number of agricultural prices in the economic year of 1928-29 was 170.3, and of manufactured products was 187.4.⁴ But the peasants did not understand index numbers. They insisted that in actual fact the "scissors" had hardly been closed at all. It is true that these index numbers did not really reflect the actual price relationship between agricultural and manufactured products, since they were based principally upon the fixed prices charged in state and co-operative shops. Such prices did not mean much to the peasant, since he had either to buy a large part of the manufactured goods which he obtained from the private merchant, or else go without them. With the rapid diminution of private trade it is no doubt technically correct to say that an index number based upon prices fixed by the state represents prices accurately, but such an index cannot be used to prove that the price position of the peasantry had improved. The stocks of manufactured goods available in the villages were always extremely small, and this situation was aggra-

⁴ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit., p. 578.*

vated by the measures taken to eliminate the private merchant. The peasant therefore remained sullenly conscious of the diminution in his purchasing power, for which he considered the Soviet Government responsible.

The peasants had supposed that when they had taken possession of the estates of the landlords, life would be very easy indeed. But the amount of land realized from the partition of the estates of the landlord did not go far toward appeasing the land hunger of the peasants. A large proportion of the land owned by the landlords had been rented by the peasants prior to the Revolution. Propaganda posters claimed that the peasants were freed of a rent burden of 350 million rubles per year when the use of this land no longer had to be paid for. But the fact that they had formerly tilled it reduced the advantages of the Revolution in regard to increasing the size of the average peasant holding. Part of the estates of the landlords were retained as state farms, so that the amount of land which was available from this source was still further reduced.

In 1917, just before the Revolution, the peasants owned about 68 per cent of the cultivatable land. The remainder was owned by the landlords, the Church, and the State. In 1927 the peasants owned 89 per cent of the land. The proportion of the land in peasant hands had therefore increased about 30 per cent. From 1914 to the end of 1927 the population increased from slightly over 138 millions to 150 millions.⁵ As a result of the growth of population and the distribution of land to formerly landless peasants, the number of peasant farms increased from about 16 million before the Revolution to about 25 million in 1928.⁶ The size of the peasant holding, therefore, remained extremely small. This can be seen from comparing the total sown area of the peasant farms of the

⁵ *Itogi Deciatiletiia Sovetskoi Vlasti V Tsifrah* 1917-1927, pp. iii-iv. Published by the Central Statistical Administration.

⁶ Speech by Stalin at the plenum of the Central Committee of the Party in April 1929, *O Pravom Uklone V VKP* (b).

Soviet Union in 1927 with the total number of peasant farms for the same year. The total sown area amounted to about 110 million hectares.⁷ The average size of the sown area per peasant farm was therefore only about 4.4 hectares.

The peasant had hoped that with the disappearance of the Tsarist Government, taxes would also disappear. But he discovered the melancholy fact that governments must be supported by taxes, and that the Soviet Government was no exception to the rule. The fact that the *bedniak* was exempt from taxes made the burden the greater on the *ceredniak* who formed the majority of the peasant population.⁸

The unsatisfactory condition of the peasantry began to manifest itself in an alarming diminution in the amount of marketable grain. The peasant was unable to buy machinery or artificial fertilizer, and the results were noticeable in the alarming lowering of the standard of agricultural production. The manager of a *sovkhos* told the writer that in 1924 when he had made a trip through a district of North Caucasus and had attempted to find a threshing-machine, he had indeed found one hundred such machines which had been in operation in this formerly rich grain-producing region before the War, when the land had been held in larger blocks. He found, however, that only five of them were in such a state of repair that they could be operated at all. Since the former large estates had been parcelled out in small holdings no one was able to afford large-scale machinery for working his small plot. The agricultural co-operative associations which were fostered by the Soviet Government did not succeed in remedying this situation to any great extent. The technique of production on the large estates had also been much better

⁷ *Itogi Detsiatiletiia Sovetskoi Vlasti V Tsifrakh, 1917-1927*, p. 168.

⁸ For the purposes of taxation, about 35 per cent of the peasant population are considered *bedniki*, from 3½ per cent to 4 per cent *kulaki*, and the remainder are considered *ceredniki*. Data from the Commissariat of Finance of the U. S. S. R.

than on the average Russian villager's holding. Frequently the estate owners had hired highly trained German managers for their estates, and the productivity was much higher than on the peasants' holdings.

The result of all this was that the huge grain exports for which Russia had been famous before the War never came into being after the War. This was a crushing blow to the Communists. They had visualized difficulties in establishing socialism in a land so overwhelmingly agricultural as Russia, but they had never dreamed that a chronic shortage of food would be one of these difficulties. The famine of 1921 they had regarded as being caused by the destruction of the Civil War coupled with unusual climatic conditions, and they had not expected that a famine could ever occur under anything like normal conditions. The Soviet Government had counted on the resumption of grain exports to pay for the imports of machinery which would enable them to industrialize the country and thereby to "liquidate its cultural backwardness." They saw this expectation fail of realization and the hope frustrated was very painful.

The situation in the village grew less and less favourable as the years went on. While manufacturing and trade were definitely improving, the agricultural situation became constantly more menacing. The time finally came in 1928 when, even though there had been no seriously unfavourable climatic conditions, not only did grain exportation prove impossible, but total grain collections were so low that grain had to be imported and food ration cards had to be introduced. This was a crushing blow to the Party and seriously threatened its prestige abroad, since it was impossible to conceal the disappearance of the grain exports or to hide the fact that after more than ten years of Soviet power, food was so scarce as to necessitate rationing. It is interesting to observe that Soviet statistics did not adequately explain this falling off in the supply of grain. Statistical data showed that for the year 1929 the

planted area for the Soviet Union was approximately the same as in pre-war Russia for the same area.⁹ The Soviet statisticians were willing to admit that there had been some falling off in productivity due to the breaking up of large estates into smaller holdings. Since Communist doctrine has always favoured large-scale agriculture this decline could be admitted without too much loss of face. But the reduction in marketable grain from the great estates did not suffice to account for the discrepancy between pre-revolutionary and post-revolutionary grain exports. It was claimed, therefore, that the peasants ate more of their products than before the Revolution, since they were no longer required to pay rent to the landlords and since the average peasant holding had increased in size. But the Communists felt the need of a personal devil to account for this unlooked-for misfortune which had befallen them. This devil was discovered in the kulak, who was accused of buying up the grain and holding it off the market or working it up into illicit intoxicants, in order to avoid selling it at the fixed governmental price.

There is no doubt that the kulak, like other peasants, was extremely reluctant to sell his grain to the government collectors at fixed prices. But the claim that the peasants ate more of their own products than before the Revolution is absolutely untenable. No one but the most fanatic of Communists ever pretended to believe it. When peasants were asked the question as to whether they ate more food than before the Revolution, they invariably treated the query with bitter amusement. Now the Rus-

⁹ The sown area for that part of the Russian Empire now included in the Soviet Union amounted in 1913 to 119.1 millions of hectares. (Data of the Commissariat for Agriculture of the R. S. F. S. R.) In 1928 the sown area amounted to 115.73 million hectares, and for 1929 to 120.38 million hectares. (*Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 528.) There is always considerable controversy over the accuracy of the statistics of the sown area. Statistics on agriculture are the most unsatisfactory of all Soviet statistics. See Stalin's speech before the plenum of the Central Committee of the Party in April 1929, in which he denies Rykov's contention that the sown area of the Union is constantly shrinking.—*O Pravom Uklone V VKP (b)*.

sian peasant is very shrewd and is inclined, as a matter of habit and policy, to complain of conditions whether they are relatively good or relatively bad, so that the answers to direct inquiries of such a nature must be heavily discounted. Nevertheless, the evidence offered by practically all classes of Russians and the evidence of the eyes could not be denied. The position of the Russian peasant in 1929 just on the eve of the great movement for collectivization was certainly no better than before the Revolution and was probably distinctly worse. Matters had come to an impasse. The Party was determined that a petty bourgeois peasantry should not develop in Soviet Russia. But the measures taken to prevent such a development resulted in so crippling the agricultural economy of the country that only a drastic change in policy could prevent a catastrophic famine sooner or later.

It is uncertain whether or not the so-called kulaki would have developed to a point where they would have been a serious menace to the development of socialism in Russia if administrative measures against them had not been taken. The writer believes that the kulak danger was largely an imaginary one. The land law which prevented the accumulation of anything more than the peasant norm of land in the hands of one person was sufficient guarantee against the growth of a class of "rich" peasants.¹⁰ But

¹⁰ According to data of the Central Statistical Administration, the number of peasant farms without horses was decreasing somewhat. In the Ukraine in 1922, 42 per cent of peasant farms had no horses. In 1925 the percentage had been slightly lowered to 40 per cent. In White Russia the decrease was from 17.5 per cent to 13.1 per cent from 1924 to 1926. In the Northern Caucasus the decrease from 1922 to 1926 was from 46.7 to 43.6. This indicates a slight decrease in the proportion of poor peasants and does not bear out the contention of the Trotskyists that class differentiation among the peasants was growing sharper.

Before the Revolution the kulaki produced 1,900 million poods of grain. In 1927 they produced only 600 million poods. Before the Revolution the other two classes of peasants produced 2,500 million poods. In 1927 this had increased to 4,000 million poods. These data are quoted by Stalin, in the very speech in which he advocated the "liquidation of the kulaki as a class," in order to prove that the *ceredniki* and *bedniki* had received important benefits from the October Revolution. While the figures on the production of the *ceredniki* and *bedniki* are probably liable

whether correct in their fear or not, the boggy of a capitalistic peasantry led to measures which made production of sufficient grain to feed the population an impossibility under the system of the individual peasant holding.¹¹

The catastrophically low grain collections of the harvest of 1928, which necessitated rationing and even encroachment on the so-called "untouchable reserves," made it necessary that some decision should be taken in regard to the agricultural crisis. It was on this problem that new dissension within the Party developed. The dissensions within the ranks of the Party, caused by the battle with the Left Opposition, which also involved the agricultural policy of the Party, had hardly subsided when this new conflict occurred. Stalin had won his great battle with Trotsky on the thesis that the Left Opposition was really a defeatist opposition who concealed their leaning toward the Right by the mouthing of Left phraseology. Outside of Russia this contention of Stalin was considered merely tactical, and since the Left Opposition was defeated it was assumed that the winning group within the Party was fundamentally Right. This misunderstanding was facilitated by the fact that the Right group within the Party actually did support Stalin in his fight with Trotsky. But events were to prove that Stalin had perhaps a better claim to be considered the champion of uncompromising Communism than had the Left Opposition. No doubt Stalin was willing enough for an issue to arise which would afford him the opportunity to discipline the Right just as he had crushed the Left

to a heavy discount, the data certainly do not indicate that the kulaki were increasing in importance to a dangerous extent. Stalin, *K Voprosam Agrarnoi Politiki V S. S. S. R.*, speech delivered Dec. 27, 1929.

¹¹ It is sometimes rather naively assumed that the war scare which followed the rupture of diplomatic relations with England in 1927 was responsible for the food scarcity which led to rationing. It is doubtless true that the hysterical fear of war which characterized the Soviet press during this period did result in an increase in hoarding of food products by the peasants. But the fact that grain exports after the Revolution never took place in any important amounts indicates that the difficulty was a chronic one.

previously. At any rate, such an issue presented itself very soon in the problem which confronted the Party in the form of the agricultural crisis.

The Right, led by Bukharin, Rykov, and Tomsky, favoured the relaxation of the restrictions upon the peasantry and upon the kulak in particular. They had firmly fixed in their minds the lesson of the famine and Lenin's decision to inaugurate Nep. They were in favour of a somewhat slower rate of industrialization in order that the light industries could be developed and more consumption goods imported. In this way the scarcity of manufactured goods could be alleviated, the purchasing power of the money which the peasant received for his goods could be raised, and the peasantry induced to expand the sown area and to increase the general productivity of the land. Stalin bluntly refused to subscribe to such a policy, which he considered a surrender to the kulak. Once this were done the fate of the Revolution would be sealed, he maintained. Instead, he advocated the greatest possible acceleration of the industrialization of the country. In this way the goods famine could be liquidated, he declared, although not perhaps so soon. The food crisis could be met for the moment by the adoption of more severe methods aimed at the kulak, which would force him to disgorge the grain which he had hoarded. From a longer point of view, the problem of agriculture could be solved by the adoption of a determined policy of collectivization of the small peasant farms and the adoption of modern large-scale methods of production, which would be followed by a great increase in the productivity of the land.¹²

The Party realized that the progressive degradation of Russian agriculture was steadily undermining the entire economy of the Union. To the Stalin group, collectiviza-

¹² For a statement of Stalin's policy and his charges against the Right, see *O Pravom Uklone V VKP (b)*, from a speech by Stalin at the plenum of the Central Committee of the Party, in April 1929.

tion appeared to be the only way of salvation for Russian Communism. They had realized the difficulties which they would meet in attempting to win over the peasant for collectivization. The Party, with the exception of the Right Opposition, had not permitted themselves to consider adequately the question of whether collectivized agriculture in Russia was economically possible as an alternative to the system of peasant agriculture. Socialized agriculture had been adopted as the policy of the Party as a matter of emotional enthusiasm. Its economic difficulties and possibilities awaited practical experimentation for their discovery.

The old-school economists had warned the Party that there were certain insurmountable difficulties in the way of immediate collectivization. One economist said, "If agriculture in Russia were actually to be rationalized and mechanized, at least twenty-five millions of the present population would have to be sent into exile; for there would be nothing for them to do. So long as agriculture is carried on largely by human labour these people find employment. With the complete introduction of large-scale methods of production these people would be unemployed." This economist called attention to the erroneous belief commonly held outside of Russia that there existed large amounts of untilled land. Instead, the average holding per peasant, as has been shown above, was exceedingly low, even after the confiscation of the estates of the landlords. There was no more tillable land available in Russia without irrigation, drainage, or other ameliorative operations. Therefore the rationalization and mechanization of agriculture should be synchronized with the development of industry, if the displaced peasants were to find employment.

The Party had also been warned that the peasant was such an individualist and so congenitally lazy that if he did not have the immediate stimulus of hunger he would not work. If he knew that all produce was to be shared

in common he would simply take his chance on sharing in what others had produced without working himself.

The advocates of collectivization in the Party refused to be deterred by these arguments, however. They pointed out that the two so-called difficulties were not cumulative in their effect. If there was more peasant labour than necessary to operate large mechanized farming units, then the intensivity with which the peasant would work was not of such great importance. The rapid expansion of industry which the Party's program of industrialization provided for would absorb any unemployed peasants. Furthermore, the Party refused to concern itself greatly except about one question. This was, "Will socialized agriculture produce more food?" The Communists held that if more food were produced, then under the system of Communist distribution there would be more food for everybody to eat. If the peasants were idle part of the time, that would have to be remedied some time, but meanwhile the pressing problem of food would have been solved. The Communists argued that the crude and wasteful methods of production of the peasants were so inferior to those of modern agriculture that a great increase in production was bound to follow upon collectivization. The critics had said that the increased production would be obtained at an extremely high cost, since the peasants would have to be fed as before, while the costs of new and improved machinery would simply be an added expense. They claimed that Soviet industry had been able to exist through selling its products to peasants at a high price and through the taxes which had been obtained from the peasantry. If the costs of food products were to greatly increase, and if the state could no longer count upon the taxes obtained from the individual peasant households, then the whole economic structure would collapse. The Communist answered this criticism by saying that a similar argument had been used in reference to private trade. It had been said that state trade and indus-

try maintained itself through the exploitation of private trade. But private trade had been practically abolished without the dire results which had been prophesied. Furthermore, the Communist declared that all this talk of costs was rather artificial. If goods were produced they would be available for consumption, whatever their cost. Costs might be high at first, but they could be lowered later, as the productive mechanism improved. Although the cost of manufactured commodities was still high, it had been lowered in comparison with that of the early period when industrial production in state industry was only getting under way.¹³

The Communist always pointed to the United States as the final and convincing argument. There was where mechanized agriculture had developed to its highest extent. The great productivity of the American farm could not be denied. As a matter of fact, however, the general impression which is held in regard to American agriculture is quite erroneous. The average Russian has the fixed belief that all American farms are of tremendous size. He believes that practically all work is done by machinery, and that the horse has almost entirely disappeared from the American farm. This naïve belief is shared by most of the leaders of the agricultural co-operatives of Russia. In consequence, it is generally considered that every kolkhoz should have the maximum amount of machinery.

This child-like craving for machinery is illustrated by the case of a kolkhoz near Moscow, which is one of the oldest in the country. On this farm, with some four hundred acres under cultivation, there were three tractors! There were two silo-filling machines, and a great deal of

¹³ With prices of 1913 taken as 1000, wholesale prices of manufactured commodities fell only from 1,986 on Oct. 1, 1924, to 1,881 on Oct. 1, 1929. (Data furnished by the statistical department of the State Bank.) The decline in the cost of production of manufactured goods had been much greater, however, since it is the policy of the Soviet Government to keep prices at a level high enough to insure profits to industry. These profits are then reinvested in the industry.

other machinery, including a corn-picker which had been purchased with the hope that it would harvest sunflower heads. They had borrowed 32,000 rubles during the previous year to use for the purchase of equipment. In addition to this wealth of machinery there were eighty persons regularly engaged in carrying on the ordinary farm work. It must be said that the farm had one hundred and twenty cows and produced milk for sale in Moscow, so that a larger number of workers was necessary than on a farm which produced only grain. Nevertheless, at least ten times as many workers were employed, and twice as much machinery was used as would be true of an American farm of similar area and type.

The opponents of collectivization pointed to such cases as this as a proof of their contention that cost of production in the kolkhoz would be far above the fixed price which the government was now paying for the grain produced by the individual peasant. But all such arguments of caution were disregarded by Stalin. His supporters were determined that the threat of famine should be met by the drastic measure of collectivization which they were sure would prevent its recurrence, while the unsocialized peasantry, who always barred the way to the complete socialization of the country, could be destroyed at the same time.

Stalin fastened the epithet of "Right Opportunists" upon his opponents. His most telling argument against Trotsky had been that reliance for the success of Socialism upon world revolution was tantamount to a declaration of the hopelessness of taking positive measures to construct a socialistic order in Russia. Similar tactics were used now against the Right. Bukharin, Rykov, Tomsky, and their supporters had lost faith in the Revolution, Stalin declared. Their policy was a dangerous deviation from the "General Line of the Party." The theories of these "Right Liquidators" and "Right Panickers" must be repudiated.

Stalin was able to win over the chastened remnants of the Left Opposition to his policy, which in some respects was more in accordance with the theories of the Left than of the Right. Bukharin, Rykov, and Tomsky continued to fight against this policy in spite of inspired resolutions in the Party press demanding that strict measures should be taken against them for their opposition to the "General Line of the Party." The culmination was reached when, on November 18, 1929, there appeared a solemn warning from the Central Committee of the Party that wilful persistence in their heresies would result in disciplinary action being taken against them.¹⁴ Their public recantation followed almost at once,¹⁵ and Stalin had apparently won a complete victory.

Even before the defeat of the Right, the organizational form which was to be the instrument of collectivization had been chosen. The kolkhoz¹⁶ had to be relied on rather than the sovkhoz¹⁷ as the type of organization which was to effectively socialize the land.¹⁸ The sovkhoz would have been the more acceptable type of organization, but circumstances forced the Party, temporarily at least, to rely instead on the kolkhoz. The sovkhoz is a farm or ranch which is operated by an appointed manager and employs hired labour. It is no more controlled, even in theory, by the workers than in a state factory. The sovkhozi which produce grain are referred to very proudly as "grain factories." State farms are under the general control of Sovkhoz Centre. They may be under the administrative control of the Grain Trust, the All-Union Milk and But-

¹⁴ *Izvestia*, Nov. 18, 1929.

¹⁵ *Ekonomicheskaja Zhizn*, Nov. 26, 1929.

¹⁶ Literally, "collective economy."

¹⁷ Literally, "soviet economy."

¹⁸ The Five Year Plan had provided for an increase in the sown area of the sovkhoz to 1.5 million hectares in the economic year 1929-30, and an increase in the sown area of the kolkhoz to 6 million hectares.—*Izvestia*, Sept. 22, 1929. These estimates were changed in the Control Figures of 1929-30 to 3 million hectares for the sovkhoz and to 15 million hectares for the kolkhoz.—*Kontrol'nye Tsifry Narodnogo Khozi-aistva*, *op. cit.*

ter Trust, a consumers' co-operative wholesale society, or the agricultural commissariat of an autonomous republic, but in no case is the management of a sovkhos co-operative. This is true regardless of whether the sovkhos is a grain, cattle, dairy, or fruit farm.

The kolkhoz, by contrast, is in theory an entirely co-operative institution. Three types of the kolkhoz are generally recognized. The simplest form is known as the tovarishchestvo, or "comradeship." In this type the land is cultivated in common, but the work animals, the productive animals, and other inventory are still privately owned. This type is rapidly disappearing, and is tolerated by the Soviet authorities only as a transitional form to the type which is known as an artel.

In the artel not only is the land tilled in common, but all work animals and animals whose products are sold on the market are collectivized. This type of kolkhoz is the most common, and is the standard type at the present time. It had been originally intended to collectivize agriculture at such a rate that tractors could be provided for all collective farms. But the accelerated tempo of collectivization brought about the collectivization of the land much faster than tractors could be provided for its cultivation. This shortage of tractors together with the slaughter of animals by peasants who were entering the kolkhoz made it necessary to emphasize the matter of work animals and to insist that every peasant should be responsible for bringing into the kolkhoz all his work animals. In the artel it is customary to set a daily wage which is considered an advance to the member of the artel against his share of the proceeds from the sale of the harvest. The artel often finds it difficult to find the funds to make such advances, but the agricultural co-operative centres and the agricultural credit societies have met the need to some extent. The co-operative centres advance money to the kolkhoz in connection with the system of contractation of crops which has become almost universal.

The peasants always want this daily wage to be as large as possible on the principle of "the bird in the hand," but the management always resists the demand to the utmost. At the end of the crop year the profits of the artel are computed. There is then supposed to be a distribution of the profits among the members of the kolkhoz after the sums advanced as daily wages have been deducted. The peasant has good cause to be skeptical about the matter, however. There may not be any profits. There may even be a deficit. But the balance-sheet is of little interest to the peasant. If wages have been paid to him he will have spent them and consumed his purchases. Let the most highly skilled of accountants try to get the money back!

Hard experience with co-operatives has taught the peasant that even though paper profits have been made, to get them distributed is quite another matter. The Soviet co-operatives do not operate upon the principle of the division of profits among the members. The peasant knows that he will probably find that the profits have already been spent for further capital investment. This will no doubt mean that a new barn will be built, or a couple of new tractors purchased, but the old Adam is very strong in the peasant, and he prefers more food, better boots, and more vodka. So skeptical are the peasants of the possibility of the division of profits, that publicity has been given to some cases where such a division actually occurred. In the case of one kolkhoz reported in the press, the yearly profits which were distributed amounted to the sum of 700 rubles per member.

The third type of the kolkhoz is known as the commune. It differs from the artel in that it is a much more advanced collective type. In such a kolkhoz practically all the possessions of the members are communized. Houses, gardens, and poultry are the property of the commune. Wherever possible the members live in a communal house, the children are kept in a communal nursery, and meals are eaten at a common dining-hall. Even working clothes

are provided by the commune, so that there is less need for a monetary wage, and if any is paid it is usually quite small.

The distinction between the three types of the kolkhoz is an abstraction, and in practice one finds that there are many gradations from the tovarishchestvo to the commune. The organizational form differs very greatly, depending upon local conditions and the type of production carried on in the kolkhoz.¹⁹ The peasants who live near the large cities usually carry on a combination of dairying and vegetable raising. They also find employment for themselves and their horses in hauling or as cabmen. In such cases a difficult problem is presented. If some members of the kolkhoz work for hire while other members are at work at the kolkhoz, how are incomes of the members to be equalized? In the Moscow district one kolkhoz paid one ruble per day to men who worked outside the kolkhoz with their horses, while the sum which they earned outside was paid into the treasury of the kolkhoz. Since they had formerly earned as much as 10 rubles per day this caused the greatest discontent. Similar results elsewhere led to the issuance of a general order limiting very strictly the amount which the kolkhoz management could deduct from the wages of those who worked outside the kolkhoz.²⁰ The problem has not been settled, however, and it is difficult to solve in connection with seasonal work by peasants on constructional undertakings. This has been reflected in difficulties which have been encountered in obtaining a sufficient number of labourers to carry on the great program of industrial construction.²¹

The size of the kolkhoz varies from a few hectares up

¹⁹ In the Lower Volga district, for example, the working cattle, seed, and forage were socialized in the tovarishchestvo. See article by A. Kichelev, "O Proryvakh Na Kolkhoznom Fronte," *Izvestia*, April 19, 1930.

²⁰ See order of Kolkhoz Centre in *Izvestia*, March 19, 1930.

²¹ See the special joint circular issued by the Commissariats of Agriculture and Labour, the Supreme Economic Council, and Kolkhoz Centre in regard to the provision of labourers from the collective farms for central constructional work.

to fifty thousand or more hectares. During the period of "high pressure" organizational methods in the winter of 1929-30, there was a craze for the formation of huge collective farms. The idea seemed to be that if large-scale production was desirable, the larger the productive unit the better. Of course such enormous and hastily organized agricultural undertakings would have been exceedingly unwieldy and uneconomic. Although the press originally commented with pride on the formation of these huge farms, the authorities soon awoke to the danger of permitting enthusiasm for the largest possible units to proceed unchecked. Smaller collective farms were constantly being liquidated and merged in ever larger ones, and it appeared likely that by the spring sowing season the process of reorganization would still be going on. A decisive halt was called to the movement, therefore, and the comments in the press became as disapproving as they formerly had been laudatory.²²

The management of the kolkhoz is theoretically elected by its own membership. The management commonly consists of a directorate of three or four members, of whom one is the chief manager. In practice, the manager is frequently a worker who has been sent out from the city.²³ This is by no means true in every case, however. The form of an election is usually carried out, even when a city worker has been sent out. The device of the Party Fraction is employed wherever possible, and the bedniki are often organized separately under the leadership of the local Party members.²⁴ The practice of "cleaning out" recalcitrant members of the kolkhoz also operates to in-

²² See the order of the Commissariat of Agriculture of the R. S. F. S. R. against the formation of "giant" collective farms of "tens and hundreds of thousands of hectares."—*Izvestia*, April 9, 1930.

²³ In *Izvestia* of Feb. 18, 1930, there is an account of the unfavourable reception of one of these proletarian managers by the members of a kolkhoz in the Central Black Earth district.

²⁴ In *Izvestia* of Jan. 25, 1930, there is a series of short articles advocating the organization of the bedniki against the kulaki. This method of fighting the kulaki was constantly reiterated in the press. See also *Pravda* of March 24, 1930.

sure the election of previously selected candidates. General orders prescribing the proper organizational forms and the correct operative principles are frequently issued by Kolkhoz Centre, and by the Commissariats of Agriculture, with the purpose of standardizing the kolkhoz system.²⁵

It will thus be seen that there is not so great a difference between the kolkhoz and the sovkhos in the method of management, as would first appear. Certainly the kolkhoz is not a co-operative farm in the meaning of co-operative which is generally understood in the Western world.

The Party had been forced to rely on the kolkhoz rather than on the sovkhos for the effective nationalization of the land, for in no other way could the land be freed from peasant possession. It was impossible to simply take away the land outright from the peasants and give it to the sovkhos. Through the kolkhoz system he could be gradually weaned away from his instinctive greed for personal possession of the land. The officials of the kolkhoz system insist that the kolkhoz differs from the sovkhos in that the kolkhoz system is controlled from the bottom while the sovkhos system is controlled from the top. It would require incredible naïveté, however, for one to believe that the officials of Kolkhoz Centre had been elected by the peasant membership of the collective farms. It seems inevitable that the kolkhoz will steadily approach the sovkhos in organizational form, and that eventually the distinction between the two will disappear.²⁶

But until the hoped-for results of collectivization could be realized, the immediate food crisis had to be met. A very ambitious program of grain collections was drawn up for the harvest of 1929. Not merely were the amounts to be collected quite large, but the collections were to be com-

²⁵ For example, the order of Kolkhoz Centre in *Izvestia*, March 5, 1930.

²⁶ In an article in *Pravda*, Feb. 18, 1930, the organization of work in the kolkhoz on the basis of the experience gained in organizing the sovkhos and the factory is advocated.

pleted in December, whereas formerly they had dragged on all through the winter. The first reports of the results of the grain collections were quite discouraging. Although the amount collected was greater than in the previous year for the same period, the program was not being fulfilled. It was seen that more stringent measures had to be taken. Every republic, oblast, okrug, rayon and village had been set a quota. The word of command was given that come what might these quotas must be fulfilled and overfulfilled. The forces of the government, the trade unions, the co-operatives, and the Party were mobilized. Every conceivable pressure was brought upon the peasants in order to force them to give up the planned amount of grain. The pretence that the peasant could sell his grain wherever he liked was soon given up. At the consumers' co-operative stores in the villages, goods were frequently sold to peasants only in exchange for grain, or upon evidence that they had sold their grain to the governmental collectors. Peasants who brought their grain into the village for sale on the private market had their grain confiscated. In many districts it was finally decided to set a minimum of grain which should be left to the peasant for his own needs. The rest had to be turned over to the collectors at the officially established price. The minimum which was set in Tver, for example, was less than the minimum which had been left to the peasants in the days of War Communism, when the surplus grain of the peasants had also been requisitioned. In some cases the amount of grain which had to be turned over to the authorities was determined by an inspection of the granaries of the peasants. This method was followed near Tver. But the peasants might somehow conceal the amount of their grain. So in other districts, as in some parts of Siberia, the harvest was inspected while it was standing in the field, and an estimate made of the probable yield. A quota was then set to be turned over to the collectors. In the district from which the German colonists in Siberia came

to Moscow in their attempt to escape from Soviet Russia, they reported to the writer that the estimate as to the harvest yield of the first agricultural expert who had been sent to their village was held to be too low, and he had been imprisoned. A second inspector had more than doubled the estimate of the first. As a result, the peasants were quite unable to turn over the amount of grain which had been set as their quota. They attempted to do so in some cases by buying grain on the private market at ten or twelve times the official collection price. In the cases where they could not turn over the amount of grain set in the quota, they were severely fined, and in many cases their animals, houses, and even furniture were sold in order to pay the fine. In the German Volga Republic, when a man had been fined and his house had been sold to pay the fine, he was automatically branded as a kulak and an enemy of the Soviet power. Not even the man's own son could take him in and give him shelter, in such a case.

Brigades of workers from the cities, groups of Young Communists and others went out from the towns to aid in bringing pressure on recalcitrant peasants and to help spy out any cases of hoarding of grain. The poor peasants were, in general, treated much more gently than either the *ceredniki* or the *kulaki*, with the hope of intensifying the class war in the village, and of gaining the support of the poor peasants in bringing pressure to aid grain collections.

The result of this pressure was that the spirit of the peasants was definitely broken. Following the failure of the requisition policy during War Communism, a considerable degree of awe of the peasants' powers of resistance had developed, and it had taken a great deal of courage to adopt the policy of the requisitions again. The peasants themselves had felt that the government feared them and would not dare to handle them in the ruthless way in which it previously had. But now the peasants had been shown

that the Party was not to be trifled with nor terrified by threats of peasant resistance. The despair of the peasants knew no bounds, but they were helpless in their hate and fear. The grain collections were definitely successful. At the end of the period set, the program, according to Soviet statistics, was fulfilled to the extent of 102 per cent.²⁷ The state grain reserves were replenished and in spite of express promises to the contrary, some grain was even exported. The rationing of food continued, however, and for reasons explained later the food situation became much worse during the following winter.

The success of the grain campaign had an unexpected repercussion upon the tempo of collectivization. Propaganda for collectivization had been carried on vigorously along with the campaign for grain. The same forceful measures which were successful in collecting grain were also successful in compelling the peasants to enter the kolkhoz. When the results of the grain collections were known, the exultation of the dominant Stalin group in the Party was boundless. The dire prophecies by the Right, of famine and failure, had proved false. It was decided to push the campaign for collectivization still more vigorously. In order to stiffen the Communist group in the villages, a special volunteer corps of twenty-five thousand workers from the factories were recruited. These men were to serve as the directors of the collective farms which had been set up. They were lauded in the Soviet press as self-sacrificing proletarians who had volunteered to go to the aid of the villages. But the villagers regarded them in quite another light. They regarded them as parasites whom they must support, and as agents of the oppressive central government. In one village when they were told of the prospective arrival of these missionaries of collectivization they said, "If they are mechanics who can repair

²⁷ According to data of the Commissariat for Trade, the grain collection campaign was fulfilled to the extent of 102.3 per cent by Dec. 10, 1929.—*Izvestia*, Dec. 17, 1929.

tractors very well. But if they are political organizers we do not need them." ²⁸

Collectivization spread at an incredibly rapid rate in spite of the sullenness of the peasants, who felt themselves helpless. When peasants would be asked whether they wished to enter the kolkhoz, a typical answer was, "In the kolkhoz the lazy and the energetic man would be equal in their share of the produce. God created men so that they are all different. The trees in the forest are of unequal height. Men also are unequal in ability. It is wrong to try to reduce us all to the same level." This answer was almost stereotyped, and the writer heard it several times. Peasants in several instances complained that they were being forced into the collective farms, but could not resist. "If there would only be another war! Then they would have to put arms in our hands. If we peasants once get arms we will crush the Soviet power!" This was also frequently heard from some peasant who had been rendered desperate by his troubles.

The kulaki resisted collectivization to the utmost, and they were joined in their opposition by most of the ceredniki and even by some of the bedniki.²⁹ The kulaki felt they had little to lose by their opposition. They were pariahs anyhow. They were denied the right to enter the kolkhoz,³⁰ and if the movement for collectivization were successful they saw that they were lost. They resorted to every possible device to fight the spread of collectivization, from spreading fantastic rumours to burning the barns of collective farms, and to the assassination of local Communists. Some of these rumours were both grotesque and amusing. One such rumour spread during the Chinese

²⁸ *Pravda*, Jan. 26, 1930.

²⁹ See, for example, the articles from local correspondents in *Pravda*, Jan. 19, 1930.

³⁰ A local correspondent in *Pravda*, Jan. 26, 1930, tells of the case of a kulak who gave his possessions, amounting to 16,000 rubles, to the kolkhoz. The correspondent states, with evident horror, that this attempt to curry favour with the kolkhoz was not repulsed.

conflict held that all women weighing more than four poods were to be sent to China to build up the white race! Another rumour had it that all the members of a kolkhoz were to sleep under one enormous blanket. Still another rumour maintained that the children of all peasants entering the kolkhoz were to be stamped on the forehead with the Soviet insignia. When the Whites overthrew the Soviets, the rumour continued, they had sworn to put to the sword all children with this stamp on them. One mischievous youth persuaded his younger brother to permit him to stamp his forehead with a coin dipped in red ink. When the child appeared in the village street a veritable panic ensued. A rumour generally believed was that a manager would be appointed for each kolkhoz, who would drive the members to work with a whip.³¹

In some cases kulaki managed to get into the kolkhoz. In order to rid the kolkhoz of these undesirable elements, the institution known as the chistka, or "cleaning," was transferred from the city to the village.³² A general meeting of the kolkhoz would be called at which all members were supposed to be present. There were usually also some workers from the city, Communists from near-by villages, and a representative of the local G. P. U.³³ An inquisition would then be held to find out if there were any kulaki present. The process, like all such "cleanings" whether in city or village, partook of the nature of a witch hunt in which every one could satisfy any sadistic cravings by asking the individual who was being examined embarrassing questions, or by making direct accusations. However, they were sometimes very amusing also, as in the case of the cleaning held in Turkestan in which a worker from Moscow who had been sent out to manage a kolkhoz

³¹ *Pravda*, Jan. 19, 1930.

³² *Pravda* of Jan. 26, 1930, and *Izvestia* of Feb. 16, 1930, contain accounts of the cleaning of kulaki.

³³ Secret police.

drew up a list of questions which the Uzbek and Kazak peasants were expected to answer. One of his questions was, "What is Socialism?" and another was, "When was Darwin born?"³⁴

During the winter of 1929-30 the collectivization movement spread with ever-increasing tempo. The kulaki fought it by killing their cattle and by trying to induce other peasants to do likewise.³⁵ They were successful to a considerable extent, and from October to February the number of sheep in the Soviet Union declined by 22 per cent, and the number of hogs by 28 per cent. The peasants felt that since all their possessions were to be collectivized it would be desirable to sell or to consume as much of their cattle as possible before the day came when they must turn them over to the kolkhoz. The result was that in a district where the propaganda for killing cattle had spread widely, there would be a temporary glut of meat, while eventually the result was to reduce still further the supply of meat in the entire Union. This was reflected in the sharp lowering of the meat ration. Severe penalties were inflicted, and the mass killing of cattle was finally halted by the requirements that all cattle should be listed and each individual held responsible for his own animals.

The world of the peasant was collapsing about him. Those peasants who were even relatively prosperous were particularly depressed by the course of events. There seemed no future for the individual peasant, yet the writer repeatedly heard peasants declare that they would sooner die than enter the collectives. The future seemed so hopeless that peasants tried to dispose of their possessions at any price and to escape from their own district with the hope that somewhere else things might be better. It was said that during this period in the Crimea a good horse could be bought for 20 rubles. The kulaki even killed their horses, fearing that they would be taken away

³⁴ *Izvestia*, March 31, 1930.

³⁵ *Pravda*, Jan. 18, 1930.

from them and given to the collective farms. This fear proved well grounded.

During the fall of 1929 began the great trek of the German colonists from all over Russia to Moscow with the hope that they might be permitted to leave Russia and go to some other country. Tens of thousands of German peasants came from Siberia, the Ukraine, the German Volga Republic, and the Crimea to Moscow and camped in the empty summer cottages on the outskirts of the city, while they waited for visas to leave the country. In one tiny cottage of four rooms which the writer visited, forty men, women, and children were living. They declared that if necessary they would die in Moscow, but they would not return to Siberia.

It was customary to refer to these German colonists as Mennonites, and to imply that the cause of their desire to leave Russia was religious in nature. Actually these colonists included many faiths, among them Catholic, Baptist, and Evangelical. The impossibility of continuing religious worship if they joined the kolkhoz was an important factor in their determination to abandon their possessions and leave Russia. But all the colonists with whom the writer talked emphasized the economic factors much more than the religious. They felt that they were like rats in a trap, with economic destruction certain. One colonist said that in the district in Siberia in which he had lived, a kolkhoz had been formed and had operated successfully. It had been dissolved as a kulak kolkhoz and its leaders imprisoned. The same fate overtook another kolkhoz which had been formed under similar circumstances. These German colonists had always maintained a higher standard of living than that of the Russian peasants. Since they were not to be permitted to farm individually and since every effort to build up an efficiently operated kolkhoz met with resistance, they saw themselves condemned to a radical degradation in their standard of life. Although some of them were permitted to leave Russia,

others were forcibly returned to Siberia, and all other German peasants were forbidden to come to Moscow or to attempt to leave the country.

To aid the group of twenty-five thousand workers who had been sent out to organize and administer the new collective farms, every other type of urban inhabitant who could be induced by favours or pressure to go to the villages was pressed into service. For example, in Moscow the students of the advanced musical schools were mobilized for the purpose of carrying the cultural revolution to the kolkhoz. Hospitals and clinics in Moscow were stripped of doctors and nurses in order to supply the needs of the collective farms. School-teachers were also sent in increasing numbers to the country districts for service in the kolkhoz. Students who were finishing the training course for teachers were sometimes told that they must serve for three years in the kolkhoz, or they would not be permitted to obtain positions elsewhere. Every effort was made to provide moving pictures. In one case of which the author heard, a professor of astronomy was sent out with his projection apparatus to give illustrated lectures on astronomy to the kolkhozniki. Students in the agricultural technical schools were taken from their studies and sent to aid the collectivization movement. One woman who was doing graduate work in bee culture was peremptorily ordered to go to a kolkhoz on the lower Volga. At the kolkhoz at which she arrived she was put in charge of the repair of tractors and of camels' harness!

All this was in part a sincere attempt to exploit the very real cultural possibilities of the kolkhoz. But it had another aspect as well. The peasants were inclined to regard all persons who came from the city as agents of the Soviet Government. Therefore all arrivals from the city were driven to make common cause with the local Communists no matter what might have been their original sympathies. In districts inhabited by national minorities, the natives

regard all Russians as supporters of the Soviet Government. In raids by insurgents, Russians are often killed regardless of the exact political affiliations of the unfortunate victims. Since self-preservation was involved, every inhabitant of the city who was sent to the country became a soldier for the Communist cause.

The desperate resistance of the kulaki and their success in rallying the other peasants to a like resistance resulted in the determination of the Party to exterminate these troublesome enemies. On December 27, 1929, Stalin announced the policy of the complete "liquidation of the kulaki as a class."³⁶ At least five million people were expected to be involved in this liquidation of a class, but on account of the difficulty of distinguishing between the *peredniak* and the kulak, the eventual result was that a much larger number were involved. It is hard to say just what Stalin's intention was when he announced the policy of the "liquidation of the kulaki as a class." Of course no one ever contemplated the outright massacre of millions of people. In the course of the execution of the policy some thousands of kulaki were shot. The severity of the treatment of the kulaki depended largely upon the district in which they lived. In some cases they were executed when the only charge against them was that of carrying on active propaganda against collectivization. Many kulaki and their families committed suicide. Nevertheless the number who were actually executed or who committed suicide was small in comparison to the total number of kulaki, or of peasants who were included in that category.

Within a few days of the announcement of the Party's determination to liquidate the kulaki, the policy began to be put into operation.³⁷ In practice it consisted in confisca-

³⁶ *K Voprosam Agrarnoi Politiki V S.S.S.R.*, speech by Stalin at a conference of Agrarian Marxists.

³⁷ The decision of the Party to "liquidate the kulaki as a class" was made public Dec. 27, 1929. Expropriation and exile for the kulaki began almost at once. Near Odessa, in the village of Beliaevke, the possessions of the kulaki were confiscated, and they were allowed three days in which to evacuate their houses, which were turned into clubs, nurseries,

tion of the land, houses, animals, farm implements and machinery, grain, food supplies, furniture, and in some cases even the clothing of the kulaki, by local Soviets, groups of bedniki, or by members of the nearest kolkhoz. The kulaki were then compelled to leave the district at once, or they were rounded up and concentrated in a few houses of the village until final decision could be taken as to their disposition. These acts were "legalized" later by a special decree of the Council of People's Commissars and of the Central Executive Committee.

After this decree some attempt was made to regularize the expropriation of the property of the kulaki. It was announced that the property which was confiscated was to be used to make the entrance payment for bedniki who were entering the kolkhoz, and who did not have the means of paying for their membership share. The question at once arose as to what should be done in the case of villages near which there was no kolkhoz. Should the kulaki be expropriated anyhow, and who would get their property? This question only arose after numberless instances in which the local bedniki had already with great enthusiasm expropriated the kulaki and divided the property among themselves.⁸⁸ In fact the whole policy of the liquidation of the kulaki as a class was seized upon as the opportunity to carry on wholesale expropriation and even unrestrained looting. The Moscow committee of the Party declared for the policy of the "liquidation of the urban bourgeoisie as a class," and proceeded to thoroughly liquidate the remnants of the Nepmen. In some cases the local officials expropriated the kulaki and then sold the property of the kulaki to themselves. The house of an expropriated kulak would be bought by a local official for a trifling sum, since no one else dared bid against him.

etc. The decree of the Council of People's Commissars and of the Central Executive Committee of the Union legalizing these confiscations was not issued until Feb. 1, 1930.

⁸⁸ See, for example, *Izvestia*, March 19, 1930.

The Party officials began to be somewhat concerned as they saw the growth of lawless plundering, and Stalin, in answer to questions put to him on the matter, declared that expropriation of the kulaki should take place only in districts of complete collectivization, where the property could be turned over to the kolkhoz.³⁹ The local officials were not at once affected by this announcement, for they called attention to the fact that the kulaki, knowing that expropriation was only a matter of time, were selling their possessions, killing their cattle, and fleeing to the cities.⁴⁰

The kulaki who were driven out or who themselves abandoned their farms were in an utterly hopeless position. They made desperate efforts to find work in factories, in construction work, or in the mines. The writer encountered kulaki from Tambov who were working on the Turkestan-Siberian Railway, near the Chinese frontier. Kulaki do not have the right to join labour unions, however, and wherever found are supposed to be rigorously "cleaned out."⁴¹ The okrug Executive Committee of Serpukov told the writer that they were considering setting aside a part of the rayon with the poorest land as a kulak rayon. It was proposed in the North Caucasus to set aside the poorest land for the kulaki, give them one horse for every two families and one plough for every four families, draw up a program of production which they would be compelled to fulfil, and then to requisition all grain above a fixed ration.⁴² Thousands were deported to the lumber camps in the Northern Territories for compulsory labour. As late as May, 1930, the writer saw a train

³⁹ "Voprosy Sverdlovtssev I Otvet Tov. Stalina, *Za Industrializatsiiu*, Feb. 11, 1930.

⁴⁰ In *Pravda* of Jan. 30, 1930, there appeared a cartoon ridiculing officials who gave careful consideration to the problem of "What is a kulak?" While such over-careful officials were pondering this question the kulaki were escaping. After Stalin's change of policy in the beginning of March, however, *Pravda* devotes issue after issue to describing the grievous errors which have been committed by the local officials in confusing *ceredniki* with kulaki.

⁴¹ See *Pravda* of Feb. 20, and *Izvestia* of Feb. 16 and Feb. 20, 1930.

⁴² *Pravda*, Feb. 11, 1930.

of box cars filled with kulaki and their families who were being deported from the Urals to Tashkent in Central Asia. What was to happen to them after their arrival there, they did not know. In some cases the more desperate kulaki turned to banditry.⁴³

The Party had considered it a master-stroke to turn over the property of the kulaki to the kolkhoz for the benefit of the bedniki, but the policy had an unexpected result. The artificial character of the division of the peasantry into the three classes has been explained above. There was no practical limit on the number of peasants who could be labelled as kulaki. It was easy, therefore, to class peasants who had formerly been considered ceredniki as kulaki. The more peasants who could be classed as kulaki, the more property there would be to expropriate for the kolkhoz, or to pillage, if the central authorities could be evaded. So there arose numberless instances of this sort. In one case which came to the writer's attention, a peasant and his wife, their daughter and son-in-law lived together. They said, "The cow had a calf. We kept it until it became a cow. We had one horse and after saving a long while we bought another. We had always been considered ceredniki, but now we are called kulaki, and all our things have been written down on a list and we are held responsible for them until they can be sold. They have not taken the two cows and two horses yet because the kolkhoz does not have enough forage for them. But we are told that in the spring we will be turned out of our home and everything taken away from us." If anyone actively opposed collectivization he was almost sure to be listed as a kulak. Even bedniki were not safe. An old man who had three sheep and whose total possessions were valued at 215 rubles was listed as a kulak and his property confiscated.⁴⁴ Another man of seventy years of

⁴³ See *Izvestia*, Feb. 8, 1930, for an account of the shooting of a group of men for taking part in an attack on a train near Vladikavkas.

⁴⁴ *Izvestia*, March 20, 1930.

age was expropriated because thirty years before he had engaged in trade to a small extent. Even men who had formerly been Red partisans in the Civil War were treated as kulaki. On one occasion a member of the okrug executive committee found himself classed as a kulak and his property expropriated. Ceredniki who were actually serving in the Red Army were classed as kulaki and had their property confiscated.⁴⁵ Such instances could be cited without number, for after the change in policy which followed Stalin's statement in March, they were published in the Soviet press, as part of the propaganda campaign to modify the worst excesses of the collectivization campaign.

Until the beginning of March 1930 the collectivization movement was carried on with ever-increasing momentum and with absolute disregard of the wishes of the peasantry in the matter.⁴⁶ Collectivization became purely administrative. The Executive Committee of the rayon or okrug would declare that the district was a "region of complete collectivization." The peasants were to understand by this that they automatically became members of a kolkhoz, although few practical steps toward setting up such an organization might have been taken.⁴⁷

When the peasantry proved recalcitrant they were threatened with the armed forces of the government. Peasants in Central Asia who refused to join collectives were threatened with deprivation of irrigation water if they continued their refusal. In one case in Russian Turkestan, the Russian worker who had been put at the head of the local kolkhoz said, "If necessary the Soviet power can bring such forces against you that there will not be left one stone of your houses upon another."⁴⁸

Peasants were forbidden to sell their produce in the

⁴⁵ *Izvestia*, March 25, 1930.

⁴⁶ Peasants were often told that if they did not join the kolkhoz they would be considered kulaki. See *Pravda*, March 9, 1930.

⁴⁷ See *Pravda*, March 22 and 23, 1930, and *Izvestia*, April 19, 1930.

⁴⁸ *Izvestia*, March 31, 1930.

bazaars of the cities or to private persons.⁴⁹ Instead they were compelled to turn their produce over to the governmental co-operatives, where they received much lower prices. In some instances peasants who had joined a collective were not permitted to have enough milk for their own use, even when they had turned one or more cows over to the collective.

As further pressure was brought against the peasants, the food situation became steadily worse. The disappearance of the peasants from the bazaars coincided with the closing of the private shops. Even the city proletariat became disaffected. Many of them had brothers or fathers who had been expropriated as kulaki. Some of the workers became so distressed by reports from the villages that they returned to their native villages in the hope of protecting the interests of their families or relatives there. In meetings held in factories to work up enthusiastic support of the workers who were going out to manage kolkhozi, there were cases of the workmen themselves threatening with violence these future managers of the kolkhozi.⁵⁰

Even the incredible capacity of the Russian peasant to bear oppression had reached a limit. Peasant insurrections flared up all over the Union. In particular, there were risings in the Northern Caucasus, in the small republics making up the Caucasian Federation, in Turkestan, and even in the district around Riazan which is only a few hours from Moscow. In general, these revolts occurred in districts inhabited by national minorities, where there still existed the tradition of freedom supported by the sword, and where the feeling of racial solidarity had prevented winning over even the bedniki to the cause of collectivization. But the revolts were not confined wholly to these districts. Isolated assassinations of the workers who had gone out to manage the collective farms were

⁴⁹ In Odessa, for example, a peasant was fined 50 rubles for selling 7 kilograms of butter.—*Izvestia*, March 21, 1930.

⁵⁰ *Rabochaiia Gazeta*, Feb. 25, 1930.

numerous. The writer was told of one Moscow factory which had sent out four of these worker-managers to the kolkhoz. Two of them had already been murdered by the infuriated peasants. The most appalling stories of torture and mutilation of these workers by the peasants were spread by word of mouth, for the government rarely permitted news of these peasant assassinations to appear in the press. One story which was told was of a woman who had attempted to smuggle some milk for her children out of the collective dairy barn. When her act was discovered by the manager of the kolkhoz, he ordered her to give up the milk. She refused, and he attempted to take it from her. The woman attacked the manager, who drew his revolver and shot her. The peasants, when they heard of his act, attacked the manager and killed him with pitchforks. The dead woman's husband then killed the brother of the manager who was the bookkeeper of the kolkhoz. Many stories were told of instances in which the peasants at night had surrounded houses occupied by workers sent out from the city, and had burned the houses and their occupants.

The culmination of these peasant uprisings was reached when disaffection began to appear among the troops sent against the insurgent peasants. It was discovered that a very large proportion of the officers of the Red Army were the sons of kulaki. Wounded soldiers returning from the Manchurian campaign found that their parents had been dispossessed and exiled from the villages. In one case it was said that the troops had refused to fire on the peasants, and had been disarmed. For a moment panic almost took possession of the Stalin group in the Party. It appeared that the Party had been led into a cul-de-sac. To proceed further with collectivization and the "liquidation of the kulaki as a class" seemed madness, yet the loss of prestige which would be entailed by a complete retreat appeared to be an effective bar to such action. Practically no foreign observer in Moscow during this

period considered that it would be possible for Stalin to survive the confession of bankruptcy of policy entailed in a declaration of a "Newest Economic Policy." Yet Stalin succeeded in effecting this seemingly impossible manœuvre. Foreign observers had not sufficiently grasped the fact that the Russian peasant is entirely helpless in any positive sense. All he required was for the pressure upon him to be slackened, and he ceased at once to resist the Soviet power. When the most flagrant abuses were halted, the peasant risings were quickly suppressed, since the peasants were entirely unorganized and had no program of action. Furthermore, the prestige of the Party had become so bound up with the prestige of Stalin, that it would have been difficult to repudiate his leadership without seriously injuring the Party. Most important of all, however, was the fact that Stalin had complete control of the Party. No one dared to challenge openly his leadership. The machine which he had built up was in a position to demand unquestioned obedience, regardless of the wisdom of the orders given. Outside the Party there was a complete vacuum. The activities of the G. P. U. had completely eradicated any traces of an opposition to the Party. No one could even imagine what would happen if the authority of the Party should break down. There was literally nothing to take its place.

Under such circumstances Stalin was in the position of an Asiatic despot whose slightest wish, however insane, had to be carried into effect. There were rumours that Stalin had gone mad, and that power was passing into the hands of the Right. Actually Stalin wavered only for a moment, and managed the necessary retreat with a remarkable understanding of the situation and of the Russian people. He suddenly repudiated the worst excesses of the collectivization movement in an article which appeared in all the newspapers under the title of "Dizziness From Success."⁵¹ In this article he called attention

⁵¹ "Golovokruzhenie Ot Uspekhev," *Pravda*, March 2, 1930.

to the great success of collectivization, which at the time of writing comprehended 50 per cent of all the peasant households in the Soviet Union. This great and unlooked-for success, he said, had resulted in a mood of exultation and intoxication in which many comrades had begun to say that anything was now possible, and that complete Communism could be attained at once. He recited some of the serious mistakes which had been made. The peasants had been forced into the kolkhoz against their will; sometimes by the threat of armed force. This was wrong, and collectivization henceforth must be voluntary. Worst of all had been the numberless instances in which *ceredniki* had been treated as *kulaki*. This was an unallowable perversion of the class war in the village, and must be corrected at once. Collectives had been formed by administrative act and without the necessary preparation. Instead of developing from the *tovarishchestvo* through the *artel* to the commune, Party workers and Soviet officials had insisted upon the formation of communes at once, in which everything was communized. This was a mistake, and the *artel* was the type of organization upon which emphasis must be placed. There would be plenty of time later for them to develop into communes. The great need for collectivization was in the great grain-producing regions of the Union where the advantages of large-scale production were applicable to the kolkhoz. Therefore the pressure for collectivization in the outlying regions of the republic, which were inhabited by national minorities, and in the North where dairying was the principal occupation of the rural inhabitants, was to be abated. On the other hand, the policy of the "liquidation of the *kulaki* as a class" was to be carried on without interruption, except that every care must be taken that *ceredniki* should not be treated as *kulaki*.

The publication of Stalin's "decree" caused a tremendous sensation. In some instances, peasants were reported to have paid as much as fifteen rubles for one copy of the

newspaper in which his decree appeared. At one place, so eager were they to obtain the newspapers, that they destroyed the kiosk in which they were being sold. One peasant said that they regarded it in the same way as their forefathers had regarded the edict which emancipated the serfs.

The article by Stalin was followed by a decree of the Party which was along the same line, but which was more detailed, and which also included other subjects. The compulsory closing of churches must cease, and forcible repression of religion must come to an end. Peasants must once more be permitted to sell their produce in the cities.⁵² A supplementary statement of Stalin, "To the Comrades of the Kolkhoz," issued some days later, still further clarified the position of the Party.⁵³

Some amusing sidelights on the attitude of the peasantry toward the concessions which were granted to them after Stalin's decree, were shown in the explanations which the peasants offered as to why the change in policy had occurred. Generally, the peasants felt that the fear of a boycott of the spring sowing and the peasant uprisings had saved them from their intolerable position. It happened, however, that the concessions in regard to religion which were coupled with further modifications of the agricultural policy contained in the decree of the Party, antedated by only one day the day of prayer set by the Pope for the persecuted Christians of Russia. It was a source of great mortification to the Party that these concessions had to be granted at such a time, and the Soviet press was quite hysterical in its rage against the Pope. The press was full of anti-papal cartoons for days. This had a quite unforeseen effect. The great mass of the peasants had never heard of the Pope of Rome, as he was called in the press, but now their attention was called to his activity against religious oppression. In many cases the peasants

⁵² *Izvestia*, March 15, 1930.

⁵³ *Pravda*, April 3, 1930.

at once assumed that the Pope had been responsible for the entire change in policy, with the result that the Pope achieved an enormous popularity in the Russian village. "The Pope alone cares for our sufferings," they said. "See how he looks after his peasants!"

The immediate effect of the article by Stalin and the subsequent decrees of the Party and of the government, was the wholesale desertion of the kolkhoz by the peasants. In the hope of stopping the stampede, a series of concessions and of remissions of taxes were granted to the peasants who remained in the kolkhoz. Since the sowing season was getting under way, however, and the peasants who remained outside the kolkhoz showed a disposition to refrain from sowing, it was necessary to issue further instructions ameliorating the condition of the individual peasants, so that the two acts tended to neutralize each other. Stalin had expressed the belief that the percentage of collectivization would be stabilized at 40 per cent, but the percentage of collectivization during the sowing season of 1930 seems to have been much less. In some districts collectivization fell from over 90 per cent almost to zero.⁵⁴ In the Moscow oblast, where 70 per cent of the peasant farms had been collectivized, the whole movement almost collapsed.⁵⁵

A vigorous campaign was kept up in the press in order to compel the correction of the acts of violence which had aroused such antagonism on the part of the peasantry. It was hoped that in this way the great spring sowing campaign would not suffer from a general boycott by the peasantry. However, the confusion which existed was

⁵⁴ In two villages of the Smolenski okrug, which had been 98 per cent collectivized, scarcely anyone remained in the kolkhoz.—*Pravda*, April 7, 1930.

⁵⁵ Exact statistics on the percentage of collectivization for the whole Union at the time of the spring sowing are unobtainable. In an editorial in *Izvestia* of April 6th, the percentage of collectivization is put at from 40 per cent to 45 per cent. In an editorial in *Pravda* of April 7th, the figure is put at from 30 per cent to 40 per cent. Both estimates are probably too high.

indescribable. Peasants left the kolkhoz one day and returned the next. Most of the old individual land boundaries had been destroyed in order to enable the kolkhoz to have all its land in one large block. What land was to be given to peasants who left the kolkhoz? One peasant said, "I have been to the Soviet many times to find out where my land is. They have told me several different times, and I have gone to look for it but I could never find it." Similar problems existed in connection with the seed, animals, and other inventory which had been turned over to the kolkhoz. In one village near Moscow, everything was given back to the peasants who wished to leave the kolkhoz, even including the kulaki in this re-distribution. In this village, peasants received their horses from the kolkhoz, but had to pay 75 kopecks per day to the kolkhoz for the use of their own animals. In other villages, only the chickens and one cow per family were returned. Since all this reorganization had to take place in the midst of spring sowing, the difficulties which had to be met can be imagined.

In the reports of the spring sowing, it became evident that the individual peasant farms were not planting anything like as much grain as had been planned. On the other hand, the reports showed that the sovkhozi were more than fulfilling their program, and that even the kolkhozi were exceeding their planned program.⁵⁶ In general, it may be said that the spring sowing campaign progressed much more favourably than seemed possible, considering all the difficulties which had to be met.

It became evident that the crop year of 1930 was to be the crucial one for the agriculture of the Soviet Union. More than that, it would be the crucial year for the entire politico-economic system. If collectivization proved an

⁵⁶ The total sown area for the spring planting increased 6.9 per cent over that of the previous year. See *Pravda*, July 31, 1930. During September a considerable amount of Russian new-crop wheat began to appear on the world market, indicating the confidence of the Soviet Government in the probable results of the fall grain collections.

economic failure, or if the sowings of the individual peasant farms were so limited that another famine resulted, it might very likely prove the end of the Soviet régime in Russia. The peasant risings had shown that even the Russian people had a limit beyond which suffering could no longer be borne. Humanly speaking, Russia had been on a war-time basis since 1914. There had been a temporary respite for two or three years from 1924 to 1927, when there was enough food and when life had not been so hard. But it is doubtful whether even the fatalism and passivity of an Asiatic people, such as the Russians essentially are, could have borne another famine, following upon the years of insufficient food which had begun again in 1928.

In spite of difficulties with grain collections, the harvest of 1930 was good enough to make possible the exportation of millions of bushels of grain. This grain would have been consumed in Russia if it had not been for the exigencies of the Five Year Plan. Although meteorological conditions were exceptionally favorable, the ability of Russian grain to once more become an important factor in the markets of the world is evidence of a considerable degree of success on the agricultural front.

The Party has counted very strongly on the increase in marketable grain which is expected to occur as a result of collectivization. Since there will be no kulaki when collectivization is completed, and since all kolkhozi must turn over all marketable grain to the government collectors at the officially set prices, the Communists are convinced there will be no hoarding of grain for speculative purposes. The great increase in productivity due to better methods of cultivation, such as the planting of selected and cleaned seed, and the use of chemical manures, is counted on to greatly augment the surplus of marketable grain.

It is likely that there will be considerable disappointment over the proportion of marketable grain which will

be received from the kolkhoz. The sovkhoz, where the number of workers is only what is necessary to operate it, is on quite a different footing. But the total acreage of the sovkhozi is very small in proportion to that of the kolkhozi of the country, and it is to the latter that the Soviet Union must look for important additions to its grain production in the next few years. In order to satisfy the peasants who have joined the kolkhoz it will be necessary to raise the standard of food consumption considerably above that of the bedniak, if there is enough grain raised to do it. This must be done before there can be any question of surplus or marketable grain. It is doubtful, therefore, if the amount of marketable grain in 1930 will be as large as expected.

The determining factor, however, is that time fights on the side of the Soviet Government. The shortage of tractors of this year will have been somewhat alleviated by the production of the Stalingrad plant which was opened in June of 1930, and which is to have a capacity of 50,000 tractors per year when once it has got into full production, as well as by the additional number of tractors which will have been imported from abroad by that time. By the spring of 1931 the Soviet Government will have been enabled to discount the refusal of the individual peasants to sow. If they do refuse to sow to the full extent of their capacity, their land will simply be taken from them and turned over to the kolkhoz. In the course of the next three or four years large areas of irrigated land will have been added to the total tillable acreage of the Union.⁵⁷ There is no doubt that the per acre yield in Russia is capable of being very greatly increased. The whole world since the War has experienced a vast expansion of agricultural production, even when

⁵⁷ The United States Government spent about 200 million dollars on irrigation and reclamation projects from 1900 to 1930. The Soviet Government expects to spend about the same sum for similar purposes during the course of the Five Year Plan. About half a million hectares of land are to be irrigated during this period.

circumstances seemed to have been unfavourable for such an increase. When a situation arises where a government is willing to strain every nerve to increase agricultural production, and is willing to invest huge sums in doing it, there seems little doubt that the total production can be greatly increased.

A great many problems have still to be solved, however, before the agricultural crisis in the Soviet Union will have been entirely liquidated. Although there may be sufficient grain to feed the population, the provision of sufficient meat, vegetables, and other auxiliary food-stuffs will present difficulties for several years to come. The mass killing of animals by the peasants, largely as a protest against measures taken to force them into the collective farms, has so reduced breeding stock that several years will be required to restore the situation to normal. Furthermore, the collective farm is hardly as well adapted to the raising of live-stock and poultry and the growing of vegetables as to the production of grain. The experience with this type of state and co-operative farm has been small, and some time will be required in order to set up enough of them to provide the necessary amount of meat products.

When collectivization is complete, the great problem of the surplus labour power in the country districts must be solved. The use of agricultural machinery will undoubtedly free millions of human beings for employment in industry. We have seen this take place on a much more limited scale in the United States since the War, as several millions of farmers have moved to the city. In the United States this addition to our urban population has been absorbed with difficulty, and has added to unemployment difficulties. Can this problem be solved in the Soviet Union? Soviet industry is expanding at an enormous rate, and the great program of capital construction is also calling for a vast quantity of workers. This expansion will take care of a portion of the agricultural population which is released from the production of food

products. It is intended also to develop industries in the country, particularly of a sort which will provide for the partial finishing of agricultural products. It is proposed, for example, to have small factories which will work up the raw flax into linen, and which will supplant the individual peasant in this work, while still reserving the industry for rural labour power. Finally, for reasons which are developed elsewhere, the economic system of the Soviet Union has the possibility of preventing unemployment to an extent which is almost impossible for the unmodified capitalistic system. Although the problem of providing employment for the surplus rural population is an important one, it does not seem to offer an insurmountable obstacle to solving the agricultural problem of the Soviet Union.

The huge expenditures for such an ambitious agricultural program, together with the enormous capital investment in industry, entail an incredible strain upon the whole economic structure of the country. The collectivization of agriculture forces at once upon the Soviet Government the necessity to decide whether or not the new agricultural proletariat are to be treated upon the same basis as the urban proletariat. Will the system of social insurance be extended to include them? Will the food ration of the agricultural proletariat be as large as that of the urban proletariat? Will the seven-hour day be introduced in the sovkhoz and kolkhoz? Will a system of nurseries, clubs, and other forms of social aid be extended to the country districts? Will the limited quantities of manufactured goods now be shared equally between the city and the village? Up to the present time the city has constantly been favoured at the expense of the peasantry. Thus, when there was a crop failure in 1929 in the district about Uralsk, the members of trade unions received ration books which enabled them to buy bread at the state and co-operative stores. The peasants received no ration books, in spite of the fact that there was practically no bread obtain-

able without the books, and that they were literally starving. Meat supplies have been sent to Moscow from districts which were so unwilling to furnish these supplies that special orders had to be issued threatening local officials with arrest if they did not provide the metropolis with meat.⁵⁸ Difficult as it is to obtain manufactured goods in the larger cities, the supply of such goods is still less in the provincial towns and villages.

It was possible with some consistency for the Soviet Government to favour the urban proletariat at the expense of the peasantry as long as the peasants remained individual producers, and refused to permit themselves to become part of the socialistic system. But with collectivization the peasantry would disappear as a separate class, and would be theoretically indistinguishable from the urban proletariat. The dilemma will be a difficult one to face. If the attempt is made to equalize conditions as between the agricultural and urban proletariats, an enormous drain upon the resources of Soviet economy must result. The standard of living of the Russian peasant has always been shockingly low. Since the rural population is about four or five times as great as the urban population, to raise the standard of living of the peasant to that of the city worker would require economic resources four or five times as great as to effect a proportionate increase in the standard of living of the city workers.

A real effort is being made in the direction of improving the standard of living of the peasants who have joined the kolkhoz. Mention has been made of the practical conscription of teachers, doctors, musicians, and even actors for the purpose of carrying on social and cultural work among the collectivized peasantry. Nurseries for the children of working women have been established in many cases. In some areas new centres of agricultural life

⁵⁸ Months after this, however, complaints continued to be made that the local authorities were not willing to allow supplies of meat to be sent to the cities.—*Izvestia*, May 25, 1930.

are being constructed, with communal homes replacing the tumble-down cottages of the peasantry. All this, however, must of necessity proceed slowly. If the attempt were made to extend these benefits universally among the agricultural population, it would be impossible to improve conditions among the urban proletariat. The Party never forgets that the one class whose loyalty it can expect to have, and whose support it must have, is the urban proletariat. Therefore some tangible evidence of the improvement in conditions must be offered to it from time to time. This class had unwillingly submitted to a drastic reduction in its food supply, but attempts had to be made to placate it in other ways. The urban proletariat could never be expected to consent to see the advantages of the successful exploitation of collectivization of agriculture restricted to the peasantry, even temporarily.

It is almost certain, then, that even if collectivization is successful, the domination of the rural proletariat by the urban proletariat will continue for some time. Efforts will undoubtedly be made to improve the economic and cultural position of the peasantry, but the immediate benefits of a successful termination of the campaign for collectivization must be reserved to the workers of the city. In order to do this, it is probable that the kolkhoz will for some time have distinctly feudal elements in its organizational form. Some sort of control from the outside will be necessary in order to prevent the peasants from eating all that they produce. The price policy of the government will have to be so regulated as to permit only the lowest possible price which will still permit the production of agricultural produce to be carried on. During this period of a new feudalism it is likely that peasant discontent will continue to smoulder. Nevertheless the improved opportunities for inculcating the doctrines of Communism will undoubtedly result in the growth of a stronger and more militant element among the peasantry, who will actively

support the Soviet power. If the Soviet government is not involved in foreign wars it will probably succeed in carrying out such a policy.

It has now been thirteen years since the October Revolution when the peasant was promised "Peace and the Land." To the peasant has come the bitter realization that the October Revolution gave neither peace nor land. The World War gave way to the Revolution, the Revolution to the Civil War, the Civil War to the "Class War in the Village," and of them all the last has probably caused more sheer human misery than any of its predecessors. Yet the land meant more to the peasant even than peace. He would welcome war and invasion now, if through them he could keep the land. With despairing resignation he faces the fact that the land has passed from his hands, and that only a miracle can ever restore it.

To the Party the success of collectivization will mean that a giant step has been taken toward the creation of the "classless state." The peasantry will be "liquidated as a class," and will emerge as an agricultural proletariat. The hours of labour of the peasant will be shortened, and his income regularized and somewhat increased. He will have schools, clubs, movies, communal nurseries for his children, a communal kitchen and dining-hall, and probably a communal dormitory. His native craftsmanship will disappear and he will, like the city proletarian, become half master, half servant of the machine. The peasant problem will have disappeared because the peasant will have ceased to exist.

The results of the great experiment in the collectivization and mechanization of agriculture in the Soviet Union is of vital significance to the whole world. Never before have large-scale methods of production been applied to agriculture over such an area and to so many different types of agriculture. If the results demonstrate the technical success of the collectivization movement, the question

must at once be raised whether it can also be applied to a capitalistic economy or a democratic political system. Having in view the world-wide crisis in agriculture, it may be that the answer to this question will determine the victory in the future struggle between the capitalistic and communistic social and economic orders.

CHAPTER V

INTERNAL TRADE

AT the head of the system of internal trade stands Narcomtorg, the People's Commissariat of Trade of the U. S. S. R. There are similar Commissariats for each of the seven republics, and under these, in turn, are similar regulative bodies for the oblast, the okrug, and the rayon. Narcomtorg stands in somewhat the same relation to commerce as the Supreme Economic Council stands to industry. The mechanism and organization of the Commissariat of Trade differs in some degree from that of the Supreme Economic Council. Through a complete reorganization of the Commissariat of Trade which took place in February, 1930, the structure of the Commissariat was altered so as to conform as much as possible with that of the Supreme Economic Council.¹ The Supreme Economic Council is like a great holding company which appoints the directors of the various industries and even gives direct orders about their management. The Commissariat of Trade, until the time of the reorganization, acted more as a regulating than as a managing body. This was partly due to the fact that the most important factor in internal trade is the consumers' co-operative system. While these consumers' co-operatives are by no means free from governmental control to the extent that consumers' co-operatives are in the rest of the world, they had not been completely integrated into the state economic system, and therefore were not as directly controlled by the Commis-

¹ See the decree of the Central Executive Committee and the Council of People's Commissars of the Union of Feb. 13, 1930, published in *Izvestia*. This decree sketches the main features of the reorganization.

ariat for Trade as the Trusts and Combinations, which carried on industrial production, were controlled by the Supreme Economic Council. Furthermore, since Trusts and Combinations do still perform some commercial functions, these functions could not be so directly controlled by the Commissariat for Trade since the Trusts and Combinations are under the direct control of the Supreme Economic Council. Therefore, the control over the commercial functions of these bodies by the Commissariat of Trade was an external control.

In spite of the inherent difficulties in attempting to integrate the commercial apparatus of the country under the direction of the Commissariat for Trade, a decision of the Central Executive Committee of the Union and of the Council of People's Commissars of February 13, 1930, legalized the reconstruction of the commercial apparatus which had already taken place. It is rather significant that this reorganization followed upon the reorganization of industry and was contemporaneous with that of the banking system of the Union. The reconstruction of three such vital elements of the economic apparatus of the Union was part of the general transformation which reflected the state of mind of the Party. It was felt that the time had come to dispense with economic forms which had been too closely copied from those of capitalistic countries, and to substitute more socialistic forms which would permit the maximum utilization of the principle of planned economy, and which would more closely approximate the system of economy which might be expected to exist when Socialism had finally completely superseded the present transitional period. The orthodox theorists of the Party held to the idea that during the first years of Nep the economic system could be characterized as State Capitalism, while, since about 1927, the process of constructing a future socialistic order had been going on. The unexpectedly rapid sweep of collectivization of agriculture had created in the rank and file of the Party the hope that the

great day when complete Socialism might be said to exist was not far off. It was, therefore, considered desirable to hasten the transformation of the economic apparatus as much as possible, in order that the basis for a truly socialistic economy could be laid. The reorganization of the Commissariat for Trade was one of the most difficult parts of this general reconstructive movement.

According to the plan of reorganization, the Commissariat for Trade will have as its most important function in regard to internal trade the direction and planning of the food industry, with a view to reconstructing it upon the latest technical basis. It is to oversee the distribution of food and other articles of consumption in the industrial regions of the Union. The Commissariat is to plan and direct the interchange of products between the city and the country. Since it is hoped that agriculture will shortly be entirely collectivized, it is expected that this exchange will take the form of the interchange of the products of state industry and of state agriculture. In order to provide for the necessary food and raw materials for the city, the Commissariat is given control over the system of agricultural contractation, and of the collection of grain and technical crops by the agricultural and consumers' cooperative organizations. The Commissariat is also to participate in working out the plans for the construction of state and collective farms, and in working out their productive plans. The Commissariat is also to have general leadership over the development of the system of public feeding through the creation of public kitchens, dining-halls, and food factories. The transportation and refrigeration of food products is also within the particular province of the Commissariat, as is also the development of new articles of food and diet, and of substitutes for existing ones.

The control of the Commissariat over both the consumers' and agricultural co-operative organizations is greatly increased by the terms of the decree, although this

increased control is supposed to take effect in accordance with the statutes of the co-operative organizations. In order to strengthen and make this control more effective, consumers' co-operative organizations as well as agricultural co-operative organizations are expected to participate in the formation of a series of new Combinations or obedienie, which are also modelled somewhat after the obedienie which were created when the Supreme Economic Council was reorganized. It is difficult to see how the co-operative organizations are to be integrated with state organizations and brought with them under the direct control of the Commissariat of Trade without destroying what remains of their co-operative character. The task of transforming the structure of the co-operative organizations so as to fit into the new scheme of things is bound to be a very laborious one. If the task is successfully accomplished it must almost inevitably result in the destruction of the co-operative organizations as independent entities. But, since this independence has always been rather fictitious than real, the result may very likely be to render their structure much more rational than it is at present.

The new commercial Combinations are legal entities, as are the newly organized industrial Combinations. They have independent balances and accounts. Consumers' and agricultural co-operative organizations are supposed to have freedom of choice as to entering the Combinations or not. If they do enter the Combinations they are associated with corresponding state organizations, according to agreements which they make, provided for by a special decree of the Council of Labour and Defence. These Combinations are to be directing and planning organs for the organizations which enter into them. The Combinations are to direct the capital construction programs of their constituent organizations, and to oversee the construction of new undertakings by the building organizations. They are to direct the organization of warehouse and storage systems, to work out price-lists,

organize scientific research and consultation, train and distribute technical personnel, and finally to appoint and dismiss the leading personnel of their constituent organizations.

Undertakings of Union and of Republican significance are expected to enter these Combinations, as well as the more important of the undertakings and organizations of local significance. Even in cases where certain organizations or undertakings do not at once enter the Combination, they are required to submit to the general direction and supervision of the Combination. Control over the organizations of Republican and local significance is to be carried on through the medium of the Republican and local Commissariats for Trade. By the terms of the decree, six Combinations were established, while others were to be established later. The six Combinations were for bread, meat, fish, vegetable oils, conserves, and cold storage. The Combinations are directly under the supervision of the Commissariat for Trade of the Union, which supervises the production programs of the Combinations, the price-lists of their products, their financial plans, their balance-sheets, and reports; appoints and dismisses the leading personnel, and confirms their statutes.

The Combinations provided for in the decree comprise only the organizations and undertakings engaged in producing or marketing food. In the realm of industrial goods the Commissariat for Trade only gives general direction to the consumers' co-operatives and state undertakings which supply these goods to the population.

According to the new system, the Commissariats of the Republics and of the oblasti will be also representatives of the Union Commissariat for Trade. This is an important step in the direction of centralization. In respect to grain, flour, and meat the Union Commissariat for Trade deals directly with the local sections for regulating trade, without the mediation of the Republican Commissariats. This is also true in regard to goods which enter into foreign trade.

In these fields the control of the Union Commissariat for Trade is direct and supreme. In accordance with the new plan of organization, organs for the control of trade are to be organized even in the rayons, which are the lowest political and economic unit above the village. This change is probably the result of difficulties which were met in getting local authorities to send supplies of meat and other food to the central urban districts. The same difficulties were encountered in getting local authorities to furnish food products for export.²

The Republican Commissariats of Trade sometimes set up and administer organizations for carrying on retail trade. Thus the Commissariat for Trade of the R. S. F. S. R. has set up large organizations in the various oblasti of the Republic which carry on an important share of the retail trade of the large cities. In Moscow the retail trading corporation of the Republican Commissariat for Trade is known as Goom. This organization maintains one enormous department store in the centre of the city, and many smaller stores all over Moscow. In addition to these department stores this organization also maintains a large number of kiosks and small street stands for selling candy, cigarettes, etc. Special stores for the sale of shoes, clothing, wine, and tobacco are also part of the retail net of the organization. These stores, whether department stores, special shops, or kiosks, are confined to the largest of the cities, in the main, although there are some throughout the oblast. They are organized on the basis of the oblast, although they are under the direct control of the Republican Commissariat for Trade and not of the government of the oblast. In the city of Moscow alone, 480 stores and kiosks are maintained by this organization. In theory, at least, these retail stores which are under the direct management of the Republican Commissariats of

² See *Izvestia*, May 17, 1930, for references to difficulties in connection with the export of butter, and *Izvestia* of May 25, 1930, for reference to difficulties with the supply of meat for the cities.

Trade are intended not only as one part of the general scheme of distribution of commodities, but they are supposed to act as model organizations for demonstrating the most efficient methods of retail distribution. They are also supposed to permit the Commissariats of Trade to maintain closer contact with the consuming public, and thus furnish data for determining the regulation of internal trade.

The political and economic divisions under the Union Republics also have, in some cases, set up organizations for carrying on retail and wholesale trade. The most important of all these is Mostorg, which carries on wholesale and retail trade in the Moscow oblast. It is organized as a joint-stock company, of which the stock is held to the extent of 77.2 per cent by the Executive Committee of the Moscow oblast, 10.3 per cent by Trusts of the Moscow oblast, 11.2 per cent by the Moscow Municipal Bank, and 1.3 per cent by the Commissariat for Finance of the Union. A similar organization called Sevkvartorg exists at Rostov-on-Don for the Northern Caucasus oblast, one at Leningrad called Sevzaptorg for the northwestern part of Russia, and one at Kharkov, which serves the whole of the Ukraine. There are several others also, but none of them does more than twenty-five per cent of the business which is handled by Mostorg. Mostorg is under the management of a board of five directors who are elected by the stockholders. There is also a council which has certain advisory functions. This council is composed of representatives of the stockholders, of labour unions, and of the regional districts of the Moscow oblast. In 1929-30 its basic capital was increased to 7 million rubles and its special capital to 3.5 million rubles. It has about five thousand employees.

Mostorg has 9 wholesale divisions which handle hardware, technical equipment, chemicals, building supplies, knit goods, textiles, clothing, office equipment, and jewelry. Mostorg has the monopoly for the entire Union

for the supply of lead-pencils to government offices. It also supplies building material for all capital construction in the oblast. It enters into contracts with the factories of the oblast for the supply of work clothes to the labourers of the factories. The total turnover of Mostorg has grown from 3.5 million rubles in 1921-22 to 288.4 million rubles in 1928-29. According to the Control Figures of 1929-30 the turnover is expected to be 467 million rubles. Mostorg has 11 district branches in the oblast, which operate 115 stores. In the city of Moscow there are 109 stores in addition to the huge department store which is the best-known feature of the organization. It is perhaps of some interest to note the cost of merchandising of Mostorg. In 1928-29, its total merchandising expense was 7.9 per cent of the total turnover of goods at selling price. Taxes amounted to 3.9 per cent, wages and salaries of the staff to 1.9 per cent, capital costs to 1.6 per cent, and other expenses to 0.5 per cent.³

Retail trading is also carried on by chains of shops which are usually organized on the basis of a filial organization of a Trust or of a Combination. An example of such shops is the stores which sell textiles and which are operated by Textorg, a filial of the Textile Combination. Other shops are those operated by the Rubber Trust and which sell rubber goods. These shops at one time were an extremely important part of the retail distributive mechanism, and constituted one of the principal means by which the manufactured products of industry were placed on the market. But their importance has very greatly diminished. It was found that with the growth of the vast chain of stores of the consumers' co-operative system there was considerable duplication of functions between the two types of distributive mechanisms. It was decided, therefore, that these special shops which were operated as the subsidiaries of industry should gradually be liquidated, and their busi-

³ Data furnished by Mostorg and by the Trade Museum of Centrosoyuz.

ness taken over by the consumers' co-operatives. The Trusts strenuously resisted this in some instances. They claimed that the existing organization of industry and commerce made the contact between the producing organ and the consumer much closer, and that by this means it was possible to get more directly in touch with the tastes and desires of the customers. But the final decision went against this vertical form of combination. Nevertheless, some of the industrial Combinations managed to retain a part of their system of retail shops, although their relative importance in the retail market is not great.

Still another type of retail store is that which is part of a chain of shops run by a Trust of local importance. Mosselprom in Moscow is an example of such a Trust. Its factories carry on an important amount of production. In Moscow the factories of this Trust employ 14,300 workers. The Trust produces candies, macaroni, fancy bakery products, beer, tobacco, toys, and some other products. About fifty per cent of its production is marketed by the Trust itself through its own stores in Moscow. It has 35 large stores, 370 kiosks, and 4000 agencies in restaurants and individual sellers. It sells only its own products through this net. Its products which are not sold through its own stores are sold through the wholesale organizations of the consumers' co-operatives, through the tobacco Syndicate, and through the state export organizations.⁴

Most important of all in the retail trade of the country are the co-operative organizations. Some retail trade is carried on by each of the three great groups of co-operative organizations; namely, the agricultural, the producers', and the consumers' co-operatives. The producers' co-operatives maintain a few stores for the sale of the kustarni products manufactured by the peasant artisans. These products are mostly linen and embroidery and carved wooden objects, such as toys. But the producers'

⁴ Data furnished by Mosselprom.

co-operatives sometimes sell their products directly to the consumers. For example, a small artel of bakers will maintain both a bakery and a retail bakery shop. It is interesting to observe that prices at such bakeries are generally somewhat higher than the prices of similar baked goods sold at the consumers' co-operative shops.

Agricultural co-operatives are responsible for a part of the retail marketing of directly consumable agricultural products, particularly of dairy products.

More important, however, than the other co-operatives, or, indeed, than any other type of organization engaged in the retail trade, are the consumers' co-operatives. An idea of the great importance of the consumers' co-operatives in the trade of the country can be obtained from the following statistics:

TABLE NO. II

Retail Turnover	1924-25	1925-26	1926-27	1927-28	1928-29	1932-33 ⁶
	%	%	%	%	%	%
State and Consumers' Co-operative	57	61	67	75.9	80.5	93
Consumers' Co-operative alone	28	33	39	53.3	57.4	64.7
Private Trade	43	39	33	24.1	19.5	7

It may be added that the changes which were taking place in the latter part of 1929 and the early part of 1930 made it almost certain that the specific gravity of the private sector of retail trade would diminish at a rate very much faster than that envisaged by the Five Year Plan. This change will have the effect of still further increasing the importance of the consumers' co-operatives relatively, since almost all the trade which is lost by the private sector will accrue to the consumers' co-operatives. At any rate, only a small proportion of it will accrue to the state enterprises. At the end of 1928 the membership of the consumers' co-operatives was 22,666,645, while the number

⁶ According to the Five Year Plan.

of stores was 87,863. The number of stores shows some decrease from the maximum of 28,631 in 1926, but this represented merely a consolidation of stores in the interests of economy.⁶ The number of stores is once more increasing, as the membership and the volume of trade shows a very large growth from year to year.

It has been decided in principle that the responsibility for the retail distribution of commodities shall be assumed by the consumers' co-operatives, and the result has been the growth of a vast network of consumers' co-operative societies and of retail stores which completely covers the Soviet Union. In their outward appearance these stores copy, as nearly as their limited financial resources will permit, the chain stores of the United States. Indeed, the directors of the consumers' co-operative organizations devote a considerable amount of attention to the American chain-store systems. Books and periodicals dealing with the chain-store system are eagerly bought and translated into Russian for the use of the employees of the system. A trade museum is maintained in Moscow in which various mechanical devices employed in American chain stores are exhibited. Inadequate financial resources, however, prevent the co-operatives from imitating very closely the chain stores in the quality of their service, or in the variety and quantity of their assortment.

The consumers' co-operatives at one time followed the practice of selling freely to non-members. Even at the present time an enormous amount of goods is sold to customers who are non-members. But the policy has developed steadily in the direction of restricting the sale of a constantly increasing list of commodities to the holders of co-operative membership cards. In the beginning this restriction applied only to the purchase of certain standard kinds of cloth, and a few other articles. But by the beginning of 1930 the list of articles obtainable only by means of a co-operative card had become very great. Only by

⁶ Data furnished by *Centrosyuz*.

means of co-operative cards could kasha, for example, be obtained. And since kasha is such an important article of the Russian diet, this constituted an important inducement to join the co-operatives. Furthermore, only a limited quantity could be obtained on a co-operative card, since the amount purchased was noted on the card, and no more than a certain amount could be bought per month on one card. As a result, membership in the co-operatives came to be not merely by one member of each family, but there was an inducement for all members of a family to join. Since this system of rationing of commodities among co-operative members grew up alongside the government system of ration cards, the result was to set up a double system of ration cards, so that when anyone went out to buy the family supplies it became necessary for the family representative to equip himself with all the family ration books and co-operative membership cards before sallying forth. The co-operative societies made a virtue of necessity, however, and used the necessity for rationing the limited supply of commodities as the basis for a drive for members. In some towns only bread and meat could be obtained without co-operative cards. The co-operatives also raised the entrance fee, and it was finally proposed to raise it to a sum equal to one month's wage of the person buying the membership. In any event, the charge made was a percentage of the monthly wage, which sum, however, could be paid in installments.

Until the summer of 1930 it was usually possible for any person who possessed a co-operative book to buy at any co-operative store. As the food shortage became more acute, many of the workers' co-operatives refused to sell commodities of which there was a shortage to members of other co-operatives. In other cases co-operative stores were closed entirely to persons who were not members of the particular society.

The process of buying anything in a consumers' co-operative, as indeed in any Russian shop, is not a very

convenient or rapid one. It is necessary first to ascertain the price of the article or articles which one wishes to buy. This is often possible only after standing in line for some little time to get up to the place where the goods are on display. Then the prices of the goods desired must be added up, and the money paid to the cashier. A ticket is next given for the amount of the purchase, and it can then be obtained from the salesman. This system, no doubt, gives wonderful training to the population in performing mental arithmetic, for the various sums usually must be computed by the purchaser, often before he has made the actual purchase. The customer may well invoke his racial or class divinity to grant his prayer that the sum total which he pays for his ticket may coincide with the actual cost of his purchase. When one considers that the purchase of apples, turnips, and carrots by the pound is likely to result in some intriguing fractional sums, the possibility that this happy result will eventuate seems to be almost infinitesimal. The fact that, after all, in perhaps the majority of cases this does happen, shakes one's belief in the theory of probabilities. At the best, if the kopecks do happen to tally, one is forced to wait in three different lines if the store is crowded, which is usually the case.

The consumers' co-operatives do not pay dividends upon the capital stock or entrance fee which the co-operative member has invested in the co-operative. The policy of the co-operatives is to sell at as low a price as possible and no rebates or dividends upon purchases are paid. The elimination of both interest on share capital and of dividends upon purchases saves a large amount of bookkeeping and unnecessary expense. The advantage of belonging to a co-operative is wholly that of being able to buy a greater amount or variety of goods than the non-member. But since it is the policy and hope of the consumers' co-operatives to make membership practically universal, the distinction between members and non-members will tend to disappear. It should be noted, however, that no

one who has been deprived of civil rights can belong to a co-operative. Since this group in absolute numbers is quite large, numbering some millions, there will always be this minority outside the co-operative system.

Wholesale Trade

The wholesale trade of the Union is carried on through state commercial organizations and the consumers', the producers', and the agricultural co-operative organizations. Among the first are the organizations known as gostorgs which are engaged mainly in the purchase of material for export. They were organized to deal in particular lines of goods or products. For example, one organization of this type bought up Oriental rugs, most of which were offered for sale on the foreign market. Similar organizations purchased fish, wood, and so forth. These organizations have been diminishing in importance, and are to be finally reorganized on a different basis. These gostorgs were of importance during the period of Nep as a means for contact between governmental and private wholesale trade, but their functions have been largely taken over by the co-operative organizations and by the new export Combinations.

The Combinations, which have also gone through a devious process of development, act as the agents of the great industries in supplying these industries with material, and in selling their product. The products of the heavy industries, such as iron and steel, do not appear to any extent upon the general market. Pig-iron and steel rails, for example, are sold by one industry to other industries or to the railways. The Combination for the industry arranges general agreements with the industries using these products, providing for the amount to be delivered during the course of a year, the time of delivery, the price, and the kind and quality. Payments between the buying and selling organs are usually made through the State Bank or its agents, without the necessity of payment of

money, by means of a system of clearance. The buying industry is also represented by its Combination in such a transaction. The prices which are charged are under the jurisdiction both of Narcomtorg and the Supreme Economic Council, but in the realm of price-fixing for products sold by one industry to another, the authority of the Supreme Economic Council is the greater. There has been an expressed tendency to allow the industry which sells the product considerable latitude in fixing the price which shall be charged for a specific item, within the limits, however, of the policy of price reduction by the plan for the year in question. Thus a general reduction in the price charged for all goods to be used in further production was the announced policy for the year 1929-30. An industry was left some freedom in deciding what should be charged for a particular piece of machinery, but the price charged for all categories of machinery must, on the average, be lowered. If an industry does not have a Combination to represent it, it is represented by its Trust, so that Trusts are found dealing directly with other Trusts or with Combinations. Combinations and Trusts also sell their products directly to government organizations and institutions such as the Red Army and the Commissariats.

Industry finds its contact with the retail consuming market through the medium of the wholesale organizations of the co-operatives, or through the large state stores, such as Goom and Mostorg described above. The most important single organization for wholesale trade is known as Centrosoyuz, which is the central purchasing and distributing organ of the consumers' co-operatives. Centrosoyuz acts as the representative of the consumers' co-operative unions, and makes general agreements with the Combinations and Trusts of the Soviet Union for the delivery of specified qualities and varieties of goods to the co-operative unions. Sometimes in these agreements the quantity is stated, but usually a certain proportion of the output

of a Trust or Combination is contracted for, at a stated price. The practice of agreeing to furnish a fixed percentage of output instead of a fixed amount is due to the market situation, by which the quantity which would be taken at the market price is almost always greater than the quantity available at the fixed market price. The consumers' co-operative organizations are, therefore, willing in most cases to take more than the industries can guarantee to furnish. Therefore, the agreement has an element of elasticity to provide for additional quantities, if they can be produced, or to allow for unforeseen reductions in the quantity which the industries can produce in a given period.

Centrosoyuz has, in many cases, taken over the warehouses formerly owned by the Syndicates and Trusts, and goods which have to be stored are stored in these warehouses. However, whenever possible, goods are shipped directly from the factories to the warehouses of the primary consumers' co-operative associations, or even to the stores themselves. In the case of the rural co-operatives this is impossible, but the goods are shipped directly from the factories to the district representative of the consumers' co-operative unions, from which they are distributed among the various co-operative unions. In general, there has been an important degree of rationalization of distribution during the last two or three years, which has resulted in the elimination of much unnecessary reshipping and rehandling, and in the more economical utilization of the limited amount of warehouse space available.

Centrosoyuz acts only as the representative of the constituent consumer co-operative organizations, and each lower organization is separately responsible for the goods which it has contracted to take. However, the contact of Centrosoyuz with all the sources of supply is much better than would be possible in the case of separate co-operative unions. The weaker co-operative unions in this way are protected by securing, through Centrosoyuz, an

equitable part of the available supply of goods. If it were not for this arrangement the rural and provincial unions would be helpless in competition with the larger metropolitan unions which are advantageously located with respect to the source of supplies. In 1927-28 Centrosoyuz acted as intermediary in handling 43 per cent of all commodities handled by the consumers' co-operative system. Centrosoyuz also supervises the general accounting system of the consumers' co-operatives.

In addition to Centrosoyuz there are other wholesale consumers' co-operative organs. Such an one, for example, is M. O. S. P. O., the Moscow District Association of Consumers' Co-operatives. Such an organization performs for the co-operative unions of its district somewhat the same functions which Centrosoyuz performs for the co-operative unions of the entire country, sometimes concluding contracts through Centrosoyuz (to which it is affiliated), sometimes concluding contracts jointly with it, and sometimes independently of it. The volume of business they handle is very large. M. O. S. P. O. in 1928-29 carried on wholesale trade amounting to 1,400,000,000 rubles. It is composed of 988 rural and 136 city co-operatives.⁷ All the consumers' co-operative wholesale organizations make a small charge to the lower organizations for their services. This charge is based upon a percentage of the value of the goods contracted for or handled by them.

The wholesale purchase of supplies for the agricultural co-operatives is carried on by Selskosoyuz and through the associations of co-operatives engaged in the production of particular commodities, such as the Linen Centre, Grain Centre, Poultry Centre, etc. With the growth of the system of collective farms, however, the system of supply is being reorganized, with the rôle of Kolkhoz Centre the predominant one.

The producers' co-operatives, since they are composed

⁷ Data furnished by M. O. S. P. O.

of so many different types of producing co-operatives, do not have such a well-integrated system for disposing of their products, or for supplying their co-operatives with raw materials. Some buying and selling is carried on by the individual artels, sometimes by the district associations of artels, and some by the republican organization of all the producers' co-operatives in the Republic. In this way an artel with one or more factories producing machine tools may sell its product directly to some Trust which uses the machine tools in its factories. On the other hand, the products of the linen-weaving and lace-making artels will be sold for export through the agency of the All-Russian Association of Producers' co-operatives operating through Narcomtorg and the appropriate export concern.

In the wholesale handling of agricultural products the system is somewhat complicated, although the general tendency has been toward simplification, and a great deal of reorganization with this purpose in view has taken place in the past two or three years. Formerly, in the case of the purchase of grain, there were, in addition to the private dealers, three main types of governmental and co-operative grain purchasing organizations. Beginning with the grain collections of 1928, the private trader in grain was rapidly eliminated, till in 1929 practically no grain was handled by private merchants. This was accomplished by various means, including direct prohibition by the state, under threat of severest punishment for the buyer and seller. Exclusive of the private trader, grain was purchased by the state trading companies, called *gostorgs*, by the consumers' co-operatives, and by the agricultural co-operatives organized under the Grain Centre. The state trading companies purchased grain principally in the northern districts, where the grain co-operative producers were of small importance, due to the fact that these districts produced little grain for the market. The importance of the consumers' co-operatives in the purchase of

grain from the peasants was also relatively of greater importance in these districts.

The agricultural grain co-operatives and their central organization, Grain Centre, however, came to have by far the greater importance in the purchase of grain. It was intended, when these centres were formed, that they should supplant the former system of the purchase of grain through the three separate types of organizations, and, indeed, that was what happened. In the grain collections of 1929 the part played by the Grain Centre was of much greater importance than that played by the two other organizations. Grain Centre organizes not only the purchase of grain but also organizes the supply of seed, fertilizer, and other supplies for the peasant producer. In addition, it has organized great tractor columns which agree to plough the land of a village or of a collective farm in return for the sale of the grain produced through its organization. This is done through a system of contracts, which may cover one agricultural year or may be for as long as nine years. All the grain which the village produces and sells on the market must be sold to this Grain Centre, which deducts from the amount due the village for its grain, all charges for seed, fertilizer, or for tractor ploughing. Originally contracts were made with individuals, but this is no longer done.

The grain which Grain Centre buys, at a price which is fixed by the Commissariat for Trade, is turned over by them to two different organizations. One is known as Soyuz Khleb, and the other as Export Khleb. As the name suggests, that going to Export Khleb is intended for sale abroad. The part which is sold to Soyuz Khleb is distributed among three principal recipients. A part goes to the State Grain Reserves. Another part goes to the consumers' co-operative organizations, mainly through Centrosoyuz, and the third part goes directly to the state Combinations, Trusts, and Commissariats.

Price Regulation in Retail and Wholesale Trade

In contrast to the free market prices of capitalistic economy, prices are fixed by authoritative regulation in the Soviet economy. But the system of regulation is a rather complex one. There are, to begin with, several different categories of prices. There are wholesale prices and retail prices, prices for consumption goods and for producers' goods, prices for grain, and prices for industrial crops such as flax and cotton, prices in state stores and in co-operative stores, and the system of regulation is somewhat different in each. Yet the prices in each category are linked in one way or another with those in other categories. Thus, the prices which are charged for production goods must have their effect on prices charged for consumption goods, the prices paid for grain affect the prices paid for bread and so on. As a generalization, prices are within the competency of the People's Commissariat for Trade of the Union. As a first principle of regulation of price by this commissariat and by the other organs which control price, is the doctrine that prices must not be competitive. That is to say, neither state organizations may compete with each other nor state organizations with co-operative organizations. Indeed, so far as selling price is concerned, there is little temptation for such price competition to occur, since the actual prices are almost always lower than free competitive prices would be. There has been some competition in the past between state and co-operative organizations engaged in the purchase of agricultural products, but this has been almost completely eliminated. Prices paid for agricultural products by the state wholesale purchasing organization and by the co-operative centres are set by the Commissariat for Trade of the Union in agreement with the Commissariat for Trade of the seven Union Republics. In the case of the purchase of linen, for example, the Commissariat for Trade draws up a plan of the amount of linen which the

state trading company and Linen Centre are each to collect, with the price which they are to pay. This price might differ slightly from one part of the country to another, but both co-operative and state trading organizations must pay the same amount, no more and no less. In the case of production goods, as has been said, the authority for regulation is divided between the Commissariat for Trade and the Supreme Economic Council, with the latter in more direct control. In the case of retail consumers' goods, control over prices is even more diversified. The prices of commodities which are of particular importance in the worker's budget are set by the Commissariat for Trade of the Union. The Commissariats of the Republics may add to the list of commodities whose prices are regulated only by permission from the Commissariat of the Union. About 40 per cent of all commodities are free from price regulation by the Commissariats. Aside from the staple commodities, prices are not set in detail, but the percentage of profit which retail and wholesale organizations can charge is regulated. For clothing and other similar goods detailed prices are set only on the standard kinds which are used principally by the workers. Instead, general orders are given about raising or lowering prices by a given percentage on a given kind of commodity. General changes in such prices cannot be made without the permission of the Commissariat for Trade, and the Commissariat for Trade may take direct action in ordering prices to be either raised or lowered on a general class of merchandise. In practice, general orders about changing prices are issued jointly by the Commissariat for Trade and the Supreme Economic Council. For example, on February 18, 1930, the two jointly issued an order to the appropriate Combinations to lower factory prices of cotton textiles 10.5 per cent, of shoes 10 per cent, of galoshes 10 per cent, and of clothing 7 per cent. Orders were also issued to the workers and transport consumers' co-operatives, to Centrosoyuz, and to the organs of state

trade to bring about a reduction in retail prices in all cities, in all places where new construction work was being carried on, and in workers' settlements. This reduction in retail price was to amount to 9 per cent on cotton textiles, 10 per cent on shoes, and 8 per cent on ready-made clothing.⁸

But it will be seen that this is not the end of the matter of price regulation. A dispatch from Kharkov tells of the organization of workers' brigades under the direction of the All-Ukrainian Central Council of Trade Unions, who descended upon the workers' consumers' co-operative stores in the cities of Donbass, Dnepropetrovsk, Nikolaev, and Kharkov for the purpose of finding how the orders of the November plenum of the Central Committee of the All-Union Communist Party had been carried out. The workers' brigades found that instead of lowering prices they had been raised in almost every instance. The brigades ordered prices to be lowered. They reported that they had succeeded in lowering prices by 800,000 rubles in Lugansk, by 2,800,000 rubles in Kharkov, and by varying amounts in other cities. The basis for computing the lowered prices was not stated. One poor, distracted director of a co-operative store who remonstrated with the brigade on account of the fact that the orders of the workers' brigade conflicted with the instruction of his superior officers was dismissed from his post.⁹

According to data of Centrosoyuz, of 38 central labour co-operative associations only 16 had lowered prices on shoes, galoshes, sugar, meat, vegetables, and other items as they had been ordered to do. Also the lowering of prices was unequal. An article which had sold for 21.5 kopecks was lowered one-half kopeck in price in Ivanovo-Vosnesensk, and 3.5 kopecks in Moscow. Complaint was

⁸ *Za Industrializatsiiu*, Feb. 18, 1930. Although this order was issued jointly by Narcomorg and the Supreme Economic Council, a previous order, which is referred to in the order cited here, was issued by Narcomorg alone, apparently because it dealt only with retail prices.

⁹ *Izvestia*, Feb. 7, 1930.

made that the central labour co-operative associations had been making a net profit of 2.8 per cent on turnover, instead of 0.81 per cent which had been decided upon as the normal rate. In another instance, it was found that gelatine sold in one consumers' co-operative store for 48 kopecks per kilo, at another for 45 kopecks per 400 grammes, at another for 45 kopecks per 200 grammes. All these stores were in Moscow.¹⁰ These illustrations will afford some idea of the complexity of the systems of price regulation.

Narcomtorg has the right to order the movement of commodities from one part of the country to another, in accordance with the needs of the economic or social policy of the moment. Thus, special amounts of goods were sent into the agricultural districts during the grain-collection campaign of 1929 in order to induce the peasants to part with their grain. Also special consignments of goods were sent to the collective farms at this time in order to encourage peasants to enter them. Press reports of February 18, 1930 emphasized the need of sending special consignments of goods into the regions in which lumbering was being carried on in order to speed up the work of the lumber industry which was lagging behind the program. This emphasizes the fact that the Soviet system of internal commerce is under the direct authority of the Soviet power, and that either the government or the Party can intervene directly in distribution in order to bring about an immediately desired result. A special reserve fund of industrial goods is maintained under the direct control of the Commissariat for Trade in order to make this policy effective.

Private Trade

In recent years the importance of the private trader has rapidly declined. Private trade was permitted to develop as a part of the policy of Nep, mainly because the task of bringing about the socialization of industry, trade, and

¹⁰ *Izvestia*, Jan. 22, 1930.

agriculture was too great for the Communist Party at that time. The task of building up not only a complete industrial, but also a commercial organization for a country the size of Russia, was, of course, a colossal one. In industry, in commerce, and in agriculture the old personnel which had carried on economic activity under a system of private enterprise had to be utilized. The loyalty of this personnel to Socialism was at best doubtful, and at worst extremely hostile. The members of the Communist Party, and the non-Party elements which were loyal to a program of socialization and who also had the slightest aptitude or training for staffing a completely socialized economic order were far too small in number to make it possible to operate completely such an order. It was an act of real genius upon the part of the responsible membership of the Party to introduce the policy of Nep, which in essence meant the momentary concentration upon the socialization of industry, and the partial abandonment of the marketing and agricultural spheres of the economic order to a limited degree of private exploitation.

By means of this concentration on the industrial sphere, it was possible to avoid the fatal mistake of spreading out the scanty supply of loyal socialistic personnel over so large a field that their dominance and leadership would have been frittered away. But neither the sphere of marketing nor of agriculture was completely abandoned to private enterprise. Particularly was this true of marketing. In the very first place, foreign trade was retained as a complete state monopoly, and the measures to strengthen that monopoly were increased steadily from year to year. This monopoly of foreign trade was maintained rigidly in spite of proposals that it be abandoned. It was of the utmost importance, both to the maintenance of the socialized status of industry, and to facilitate the gradual re-conquest of commerce and trade, that this should be the case. The regulation of private trade could never have been, from the socialistic point of view, carried on with such a

degree of success, if the supply of goods coming on the retail and wholesale markets had been subjected to the effects of the intervention on this market of goods purchased abroad.

The responsible elements in the Party never forgot that Nep was, in the words of Lenin, "a step back in order the better to leap forward." Nowhere is this seen better than in the policy of the Party toward the marketing system. From the first, as large a portion as possible of wholesale trade was conserved for the state. From the very beginning of Nep, industries were organized into Trusts, and one of the most important functions of these Trusts was the marketing of the product of their constituent factories. Later, through the creation of Syndicates, the wholesale marketing of industrial products by the state was still further strengthened.

Foreign investigators have, in the past, compared the prices of goods on the retail markets with those of goods sold in private and in state or co-operative stores. Of course, the prices in the state or co-operative stores were always found to be lower, and this has been cited as an evidence of the superior economy of the state and co-operative, as compared with the private stores. This is quite ridiculous. It was never expected that state and private trade were to compete on even terms.

The prices charged on the private market always were higher than on the government-controlled market, with occasional and accidental exceptions. As the numbers of private dealers decreased and the supply of food-stuffs grew more limited, this difference in price sometimes was enormously great. For example, when butter was sold on ration cards at 65 kopecks per pound, it was sold at the private dealers for 5 rubles per pound, or at a price almost eight times as high. However, the amount of butter which could be obtained on the ration card was so small that there was plenty of demand for butter at the higher figure. The private dealer always set his prices as high as

the market would bear, and during a period of rationing and monetary inflation these prices reached surprising heights.

Private trade was always a temporary expedient, and from two sides the policy of high prices on the part of the private stores was made inevitable. In the first place, the Nepmen who ran these shops knew very well that they were tolerated only as a temporarily necessary nuisance. A Nepman was never permitted to exercise constitutional rights. In a socialistic society he was a pariah, and he knew it. There could never be any doubt of the futility of attempting to build up a solid business for the future by the policy of the lowest possible prices consistent with the greatest profits over a long period of years. His policy was, and had to be, to obtain the greatest possible profit from each transaction. He recognized the government policy of undercutting his prices, and he retaliated by the only possible means. He did not attempt to compete on a price basis. But he did try to obtain a stock of those goods of which there happened at any moment to be a market deficit, and he then proceeded to sell them for every kopeck which he could obtain. He was fairly successful in this policy for a while, for there was, and always is, a large category of "deficit" goods which he was always able to sell for a price higher than that charged by the government shop, if only he could obtain a supply. So long as he was treated on anything like the same basis in the supply of goods to him by state industry as state-marketing organizations were treated, he was able to make a profit in this way. While the amount of goods which the state organizations had to sell melted away like snow before the assaults of the buying public, his shelves retained a supply for some time by the device of raising the price to the point where he could just comfortably turn over his stock. Thus, during the early days of Nep, goods which were unobtainable except as a matter of luck in a state or co-operative store could always be bought at

the shop of the Nepman, if one had the price and were willing to pay it.

Furthermore, the state did everything possible to cripple the Nepman, and to make his costs of marketing as high as possible. This was done for two reasons. First, the Nepman was hated for himself alone. That is to say, the dominant Party was determined that he should never become a political or economic power. In addition, anything which could be done to injure the Nepman was considered to react to the benefit of state and co-operative trade. So the Nepman was penalized in all possible ways. First, his taxes were made much heavier than state taxes. The rent which he had to pay for his premises was higher. He had to pay better wages to his clerks, and if he dealt with the trade union in any other way he was always at a disadvantage compared with a socialized trading enterprise. State industry in supplying the market always favoured state trade. The Nepman might try to overcome this by bribing the administrative personnel of industry, but this was dangerous, and on the whole generally unsuccessful as a policy. His access to the foreign market was only through the state trading monopoly and here again he was at a decided disadvantage.

That the Nepman's prices should be higher was thus inevitable. As long as the Nepman was a factor in the market, the policy of the state was to make profits, if any, almost entirely in industry. That is, the price policy of the state was to make prices as low as possible to the consumer, and to look for profits not to the marketing organization, but to industry. In this way it could be sure that any profits of state industry were passed on to the consumer in the shape of an addition to cost, as inevitably in private trade as in state trade.

During the latter part of 1929 and the first months of 1930, in connection with the general exultation at the unexpectedly rapid sweep of the collectivization movement in agriculture, there arose among the rank and file of the

Party the belief that complete socialization of the economic and social system was possible at once. Stalin had announced the policy of the "Liquidation of the kulaki as a class," and the Moscow Committee of the Party strove to emulate him by declaring for the liquidation of the Nepmen as a class. During January and February, 1930, private trade almost disappeared in Moscow. It was reported that not one private clothing shop was in operation in Moscow during this period. The great majority of other private retail shops were also closed. Their stocks of goods were confiscated and the Nepmen were in many cases arrested and sent to Siberia or the islands of the White Sea. In an interview given to the Sverdlovist students, Stalin, however, declared that the policy of completely eliminating the Nepmen at the present time was a mistake. Shortly, thereafter, the Moscow Committee withdrew their statement demanding the complete liquidation of the Nepmen. The article by Stalin of March 2 entitled "Dizziness from Success" and the order from the Central Committee of the Party further lessened the pressure on the Nepmen. The policy of extermination had been too efficient, even during the short time it was in force, to permit any important revival of private trade. This great hunt of the Nepmen, in spite of the fact that the hounds were soon called off, meant the virtual end of all private trade other than that carried on by the peasant pedlars.¹¹

In addition to the private dealers who might be placed in the category of merchants, there were a vast number of peasants who brought milk, butter, vegetables, fruit, and even meat to the cities and sold directly to the consumer, by standing on the sidewalks and offering them for sale. Sometimes a full-grown man would stand for hours beside a few handfuls of withered apples, or an old woman would have a small bucket of dill pickles as her entire stock in

¹¹ See "The Fate of the New Economic Policy of the Soviet Union," *The Economic Journal*, No. 158, Vol. XL, June, 1930, by the author.

trade. Nevertheless, in the aggregate an important share of the food supply was carried on in this way. The government attempted to restrict this peddling by means of taxation, but the pedlars always tried to evade these taxes. A frequent sight in Moscow in 1929 was to see a whole mob of petty dealers running before a policeman or two, carrying baskets on their heads or arms, pushing wheelbarrows, as they attempted to save themselves from the wrath of the law. However, beginning in the winter of 1929-30, more effective methods were taken against these peasant pedlars. They were forbidden to carry their sacks of produce into the trains with them. They were sometimes stopped at the gates of the city and their produce confiscated. But most important of all, the growth of the collective farms began to diminish the supply of produce for this market of uncertain legality. Peasants who joined collective farms were forbidden to sell their goods in this way. They were forbidden to do so even when they first subscribed to membership in a collective farm, but once such a collective was fully organized the peasant had no individual produce to sell, so automatically temptation was removed. Heavy fines were levied on peasants who persisted in selling their produce in the bazaars.¹² These repressions were all part of the extremely sharp turn to the Left which took place during the fall of 1929 and the first two months of 1930. Following the change of front by Stalin at the beginning of March, 1930, and the similar position taken by the Central Committee of the Party shortly thereafter, the produce pedlars reappeared in the streets in greater numbers than ever, since they partially took the place of the food shops of the Nepmen who had been "liquidated."¹³

This peddling seems to be very hard to eradicate completely. The Russian is accustomed to buying in this

¹² *Izvestia*, March 21, 1930.

¹³ See "The Fate of the New Economic Policy of the Soviet Union," *op. cit.*

way, as are all the other races of the Union. The peasants have been selling through this bazaar system for countless generations. To them the bazaar is not merely an economic institution; it is a social institution as well. It takes the place of the club and the bridge party in the more effete capitalistic and Western civilizations. An attempt is being made to supplant them by small street stands and kiosks which are managed by state or co-operative organizations, and which are perhaps intended to wean the Russian people gradually from their beloved and highly unsanitary bazaars.

The continued march of collectivization makes it certain that even this most primitive form of private trade will cease to exist. Within the next two or three years it appears inevitable that state control of trade will be as complete as state control of industry is at the present time.

CHAPTER VI

FOREIGN TRADE

FOREIGN trade in the Soviet Union is a monopoly of the state. The principle of the state monopoly of trade is one of the characteristic features of Soviet economy. When the New Economic Policy was introduced in 1921, although private trade on the internal market was re-established, this particular aspect of state monopoly was grimly adhered to in spite of the goods famine which then existed, and which to some extent has existed down to the present moment. It was the belief of the Soviet theoreticians that if foreign trade were permitted, it would no longer be possible to control the basic elements of the economy of the state. It was considered that private trade between the economy of the Soviet Union and capitalistic countries would undoubtedly entangle inextricably the economy of the Soviet Union with that of the capitalistic world, to the inevitable weakening and destruction of Soviet economy. This insistence upon the state monopoly of foreign trade seems to have been entirely justified. It is certain that Soviet industry could not have survived competition with capitalistic industries in the years when the ravages of the Imperial War, the Revolution, and the Civil War were being slowly repaired. It might have been possible to achieve something of the same result by means of a very high protective tariff. But to have been effective this tariff would have had to be so high as to have been absolutely prohibitive. At times, however, it was necessary to import some commodities. Through a governmental monopoly it was possible to import the quantities of commodities required without

causing undesired competition with state industry. It would have been extremely difficult to obtain the same result by means of a tariff system. Rates would have had to be changed continually, while at the same time it would never have been possible to predict with exactitude the results of raising or lowering duties by a given amount.

The state monopoly of foreign trade is still a necessity, in the opinion of the Soviet Government, and always will be a necessity, at least until the time when all the world has become a socialistic super-state with a rationalized and centralized planning of its economy. It is difficult to deny the necessity of this monopoly. Without it, a completely controlled and planned economy would be impossible. The importance of the foreign-trade monopoly is apparent in connection with the very foundation-stone of a system of centralized economic control. The price of certain basic commodities such as grain and oil is fixed on the world market, and unless their export is within the hands of the central economic authority, regulation of the general price level becomes exceedingly difficult, if not impossible. The regulation of separate prices which make up the general price level becomes even more difficult. Furthermore, with the trading monopoly in the hands of the state, it is possible to export commodities at a technical loss, in order to pay for other commodities which are deemed essential to Soviet economy. Thus, consumption goods can be exported at prices much lower than those obtainable on the internal market, and capital equipment can be imported with the funds obtained. It is true that the payment of a subsidy on exported goods would have somewhat the same effect, but would be much more complicated and difficult to administer. Finally, it may be said that the monopoly of foreign trade at the present time does not present a contrast to the condition in respect to internal trade, for private trading of any sort has almost disappeared.

The state monopoly of foreign trade is administered by the Commissariat of Trade, which is usually referred to

by Russians by its abbreviated title as Narcomtorg. It is, of course, difficult to maintain an absolute and iron-clad monopoly of foreign trade. Persons within the Union frequently desire to send small parcels to friends outside the country and vice versa. It is possible to do this within very narrow limits. It is essential that such parcels shall be sent from one private individual to another, and not by commercial organizations. For example, it is possible for a Soviet citizen who has a friend outside the Union to receive from him a very limited number of parcels in a given year. This citizen might receive a package of, say, coffee from his friend abroad. But the citizen could not order the coffee from a foreign merchant who would ship it to him. This is done in order to guard absolutely against any commercial intercourse being carried on outside the governmental monopoly. But even if the Soviet citizen possessed a friend abroad who would send him the coffee, he would have to be richer than most of the inhabitants of the Union if he were willing to receive it even as a gift, for the duty on coffee was raised at the beginning of 1930 to 15 rubles per kilo! The duty on other commodities is proportionately high; in the case of fine clothing reaching fantastic heights. The purpose of such duties is frankly prohibitive, but it is apparently thought expedient to leave this tiny loop-hole in the monopoly to cover special cases.

All other imports and exports must be carried on through Narcomtorg. This is true even for co-operative and state undertakings. In the case of consumption goods or of material which is to be used in the manufacture of consumption goods, duty is charged, even if the goods are to be sold or manufactured by state or co-operative undertakings. This is in addition to any tax on the sale of the article itself. For example, there is a duty on cacao beans which are used in the manufacture of chocolate and also a tax on the chocolate when it is sold on the internal market. This is rather interesting when we consider that the confectionery enterprise also pays an income tax and then

pays a large percentage of its profits into the state treasury as well. It might be thought that one payment into the treasury which would total the same as all these separate taxes would suffice. But the duty which is paid upon the cacao bean is not only a source of revenue, but acts as a means of preventing the manufacturer from using any more of the cacao beans than is absolutely necessary in the manufacture of confectionery. And this is considered very desirable, since valuta used for the purchase of cacao beans cannot be used for purchasing tractors.

It is natural that the apparatus for carrying on the entire foreign trade of a great country should be complicated. One would naturally expect that the concentration of all international trade in Narcomtorg would result in the creation of a dangerous "bottle neck" due to over-centralization. Indeed, this was the result. The organization of buying and selling abroad up until the time of the reorganization of the Commissariat in the early days of 1930 was exceedingly cumbersome. In countries with which the Soviet Union had established diplomatic relations, Narcomtorg was represented by trading delegations known as Torgpreds, which bought and sold commodities, made contracts, and, in general, were the commercial agents of the Soviet Union. In countries where diplomatic relations did not exist, or had been interrupted, or where special circumstances required it, a special corporation was sometimes organized under the laws of the foreign country, with which Narcomtorg made contracts in regard to commercial affairs. This is the case in the United States and in England, where Amtorg and Arcos respectively transact business for Narcomtorg.

If a state or co-operative undertaking wished to purchase some supplies from abroad it was necessary for it to make a request through its Trust to its Combination or Syndicate, and the Syndicate would then apply for a license from Narcomtorg to import the supplies needed. Narcomtorg might or might not grant the license. If it

were possible to obtain the supplies in the internal market, even if the price were double that which it would cost to import the supplies in question, the license would almost certainly be refused. If the valuta balance were particularly low the license might be refused anyhow. If the license were granted, however, the order for the supplies would have to be placed through the Torgpred in the country from which the purchase was being made. The specifications would usually have been made out in the Russian language, and the Torgpred would have first to have them translated, and then submit them to prospective sellers. Even small miscellaneous orders had to go through this long and tortuous channel. As a result it took so long to receive commodities from abroad that state enterprises who needed small but essential repair parts and so forth would often order them through one of the foreign concessions in order to circumvent the enormous amount of red tape involved in every order. Small miscellaneous orders made up some fifty per cent of the number of orders handled by the Torgpreds or by the trading corporations, although in value they amounted to only about five per cent of the whole of the orders placed abroad. Handled in this way they were tremendously time-consuming.

Some of the worst difficulties were obviated, even before the complete reorganization which occurred later, by the organization of special bodies within the Soviet Union, who were responsible for buying and selling for special industries or for some of the co-operative organizations. Thus Centrosoyuz was the representative of all the consumers' co-operative associations in Russia, and bought goods directly in the foreign market. Selskosoyuz performed a similar function for the agricultural co-operative societies. The petroleum industry had an organization which also bought and sold directly instead of through the Torgpreds. In this way it was possible to attain some degree of specialization instead of having the hopeless situation of one Torgpred buying and selling everything

from petroleum and mammoth ivory to tractors and tea. However, in all cases the buying and selling by such organizations were under the regulation of the Torgpreds in those countries where they existed, and in close co-operation with the general trading corporation for the Soviet Union where they did not.

It was decided to rationalize the state foreign-trade monopoly by means of a process of decentralization. Narcomtorg was no longer to carry on the actual functions of buying and selling, but was to become entirely a regulating and planning body which would give general direction to foreign commerce. The Torgpreds were to continue in existence, but they were to be responsible only for the regulation of buying and selling and for the supervision of the drawing up of general and long-term contracts. They were not to have any longer the weight of the great mass of small orders to handle.

This process of decentralization and of rationalization was accomplished during the early part of 1930. A number of existing joint-stock companies which had carried on the purely commercial functions of buying and selling abroad were reorganized and others were created. By this reorganization these new combinations were made an integral part of Narcomtorg, and were given administrative and regulative as well as commercial functions. In this way it was hoped that the amount of delay in executing orders would be lessened and that the complexity of the state trading monopoly would be considerably diminished, since these organizations would have much more autonomy than formerly. Instead of having to go to Narcomtorg for authority for every purchase or sale, they now became competent to exercise the essential authority themselves. By this reorganization, thirteen export combinations were created: "Grain Export," "Timber Export," "Flax Export," "Fur Export," "Poultry Export," "Ore Export," "Industrial Export," "Food Export," "Drug Export," "Handicraft Export," "Antique Export," "Fruit

Export," and "Miscellaneous Export." Autonomous departments of the Petroleum, Coal, and Match Combinations will control the export of their respective commodities. Nine import concerns were created: "Metal Import," "Electrical Import," "Textile Import," "Agricultural Import," "Leather Import," "Non-ferrous Metals Import," "International Books Import," "Kino-Import-Export," and "Miscellaneous Imports." A special department of Centrosoyuz will handle imports of consumption goods. For trade with the Far East a special combination called "Eastern State Trade" was created, which was to handle all such imports and exports except cotton, silk, and petroleum. A special combination for the transportation of imports and exports was also created, called "State Freight Transport."¹ These concerns were created as legal entities and have somewhat the same structural relationship to Narcomtorg as the Industrial Combinations have to the Supreme Economic Council. These concerns will handle directly the buying and selling of commodities in small quantities. In the case of very large contracts extending over a considerable period of time, the Torgpreds will still supervise their negotiation and conclusion. After such a contract has been drawn up, however, the particular import or export combination has authority to arrange for the actual shipment of the commodities. For example, a general contract to deliver five thousand tractors might be signed by the Torgpred and some foreign corporation. The contract might provide that delivery was to take place during a period of eighteen months. The importing combination, "Agricultural Imports," however, would have the right to specify from time to time just what part of the contracted number of tractors it desired to have delivered in a given month. If the contract permitted it, "Agricultural Imports" might specify that two thousand tractors be delivered on shipboard during the

¹ See *Za Industrializatsiiu*, Feb. 11, 1930, for a brief account of the reorganization of the mechanism of foreign trade.

month of February, one thousand during the month of March, and the remainder the following February. Within the limits of the contract, "Agricultural Imports" would have complete autonomy. It is expected that as a result it will be possible to operate with smaller staffs in the Torgpreds abroad. It is planned to have specifications translated in the U. S. S. R. into the language of the country in which purchases are to be made, and thus avoid the difficulty which has arisen when specifications drawn up in Russian reached the Torgpred and Torgpred was compelled to find a technician who could translate the specifications. It is also intended to encourage an increased representation in the Union of those foreign firms which have obtained, or which intend to obtain, orders from the importing combinations, in order that more direct contact can be obtained. It is intended to simplify the work of the Torgpreds by exporting commodities only to the principle world markets for these commodities, instead of trying to sell all exports in all countries. There had been insufficient co-ordination between the work of the Torgpreds abroad and, as a result, there had frequently been competition in the international market between the Torgpreds in the different countries. The scheme of reorganization attempted to obviate this by organizing a central bureau in the Torgpred in Berlin which was to be responsible for the co-ordination of the activities of all the Torgpreds of Western Europe. It is hoped that by this general reorganization, the state-trading monopoly will avoid the existence of the "bottle neck" situation which had developed when all details of foreign trade had to pass through Narcomorg and the Torgpreds.

The character of the foreign trade has gone through a complete transformation in comparison with pre-war conditions. In the first place, Russia before the War, imported a very large proportion of consumption goods. In 1928-29 over 90 per cent of all imports were raw materials and capital equipment. In 1913 only 19.2 per cent

of exports were industrial products. In 1928-29, 60.5 per cent of all exports were industrial products. Before the War Russia was one of the greatest grain-exporting countries. In 1928-29 no grain was exported. In 1928-29 the export of oil was almost four times that of pre-war times.² The importance of poultry and dairy products in relation to other agricultural exports has greatly increased over that of the pre-war period.

This complete transformation in the character of the foreign trade of the Union reflects the changes which have occurred in its internal economy. The tremendous excess of production goods over consumption goods in the total of imports reflects the decision of the Party to industrialize the country at a phenomenal rate. The transformation also reflects the inability of the Union to obtain foreign loans with which to finance this process of industrialization. It is one of the causes of the famine in consumption goods which characterizes the internal market. The trading monopoly has been used as one instrument to compel the population to undergo extreme abstinence in order to procure the means with which to purchase the capital equipment required by the grandiose plans of the *piatiletka*. By means of the trading monopoly the Soviet Government is assured that, of all goods exported, the greater part of their total value is used to pay for equipment. In concrete terms, this means that eggs and butter are exported and sold at a fraction of the price obtainable on the internal market, and the valuta obtained in return is used to purchase tractors, lathes, and mechanical conveyors.

The growth of industrial exports has also been largely the result of the necessity to pay for the importation of capital equipment, and the impossibility of paying for it by means of the exportation of grain. It is probable that,

² Statistics from *Monthly Bulletin* No. 1, U. S. S. R. Chamber of Commerce for Western Trade, 1930. In these statistics, lumber and petroleum are included under the head of industrial products. This accounts, in part, for the high percentage of industrial products in total exports.

with the important exceptions of oil and matches, almost all Soviet exports of industrial goods, like the exportation of food products, could be sold on the internal market at a price higher than the nominal price obtained on the international market. But it is felt that the capital equipment is absolutely essential, and that therefore the internal market must go short of both industrial and agricultural products if these can find a market abroad. Thus Soviet trade not only presents the aspect of a very restricted importation of consumption goods, but also of the exportation of goods for which there is a very great demand on the internal market. It is, of course, frequently necessary to export goods at a loss, in terms of their nominal cost. But it is considered that the value of the valuta obtained in exchange is enough greater than its nominal value in rubles to offset this loss. In some cases, however, this process is carried to such an extent that the loss cannot be measured by the difference between the real and the nominal foreign exchange value of the ruble.

It is natural that producing concerns are not anxious to sell on the foreign market when they could obtain much higher prices on the internal market. It has sometimes been necessary to issue stringent orders forbidding the sale of goods on the home market, which, according to plan, were to be sold abroad.⁸ However, the loss does not fall upon the industrial organizations themselves, except that their profits are thereby reduced. Trusts and Combinations which sell their goods on the foreign market are frequently granted special dispensations by Narcomorg, such as the remission of import duties upon raw materials in order to compensate them for any loss which they may undergo. It is the announced policy of Narcomorg never to inflict an actual loss on a firm which sells its product abroad, but in one way or another to insure that its actual costs on the exported products are covered. The loss, if

⁸ See the order of the Supreme Economic Council of the U. S. S. R. in *Za Industrializatsiiu*, Feb. 1, 1930.

any, is spread over the whole importing and exporting balance of Narcomtorg.

Low prices received on the world market for agricultural products are partly compensated for by the fact that they are obtained from state and co-operative organizations which are able to buy them at much less than the price on the private market. During the winter of 1929-30 butter sold sometimes on the private market as high as 5 rubles per pound. Roughly, this gives a price of \$2.50 per pound. The price received on the international market was not more than one-sixth as high as this.⁴ The price of butter in the co-operative and state stores was very much lower than on the private market, of course.⁵ During the months of February and March it was, however, practically unobtainable in the co-operative and state stores. This is, of course, the old familiar "dumping" on the foreign market which is so widely practiced by capitalistic countries. But in this case it has been carried to unheard-of lengths. The motive is, however, quite different from the dumping carried on by capitalistic countries. Under the capitalistic system, dumping is caused by the inadequacy of the internal market to absorb the product of the industry which is dumping. But quite the contrary is true in the Soviet Union. There is not the slightest lack of markets. The internal market would be profitable to the producers. But the program of industrialization demands capital equipment, and all sacrifices must be made for this purpose.

The growth of the export of Soviet oil represents a real and solid achievement of Soviet industry. There is

⁴ From Dec. 6, 1929, to Feb. 1930, the price of Russian butter on the London Provision Exchange ranged from 160 shillings per hundredweight to 148 shillings per hundredweight. Data furnished by the United States Department of Commerce, Bureau of Foreign and Domestic Commerce, from the Weekly Dairy Product Notes of the Empire Marketing Board.

⁵ Butter sold for 2 rubles 61 kopecks per kilo in Moscow on Dec. 15, 1930, in the consumers' co-operative stores. At this price it sold for a little more than one-fourth the price charged on the free market.

lish precedent. Certainly there was nothing which could be considered unethical in such a manœuvre, and events proved the wisdom of it. On the other hand, trade with the United States has constantly increased, in spite of the contentions of the Soviet Government that trade on a large scale would be impossible without the existence of diplomatic relations. With the United States it was impossible for the Soviet Government to manœuvre as it had in its relations with the government of England. In the first place, it was evident that the United States Government could not be shaken from its policy by threats of trade reprisals. This was true on account of the fact that a conservative government was continuously in power in the United States. Furthermore, products exported to Russia did not make up a large enough proportion of total production to impress the United States Government with their vital importance.

Most important of all, the Soviet Government recognized that industry in Soviet Russia needed American products and American technical aid far more than industry in the United States needed Soviet trade. The Five Year Plan, upon the success of which the Party has staked its hopes, is essentially an attempt to copy the mechanical features of the American system of mass production. It would be almost impossible to do this without large amounts of American manufactured capital equipment and the technical aid of American engineers and mechanics. Consequently the Soviet Government cannot afford to use its American trade as a pawn in international diplomacy, except as other countries may be induced to grant concessions to the Soviet Government in the hope that some of the orders which have been going to the United States may be diverted to its nationals. The Soviet Government must preserve its trading connection with the United States for a few years at whatever cost, or suffer in its industrial development. This situation furnishes a strong presumption against the use of the Amtorg as an

adjunct to Communistic propaganda in the United States. While the Soviet Government is convinced that the World Revolution is as certain to come to the United States eventually as it is to come to the rest of the world, it is generally recognized by the most fanatic of Communists that the United States will be one of the last bulwarks of Capitalism. It seems highly doubtful, therefore, if the Soviet Government would endanger the success of the Five Year Plan to aid one of the weakest of the Communist Parties of the world, and one which the Russian Communists regard with considerable contempt.

Soviet foreign trade is used as a part of Soviet foreign policy in a different fashion in the Near East and in the Far East. These industrially backward countries are a market for Soviet manufactured products, just as they serve a similar function for the products of capitalistic countries. In this way they are fields of colonial exploitation for the one socialistic country as they have been for capitalistic countries. But it is precisely in these countries that the Soviet Government has the greatest hope for the World Revolution. In these countries, therefore, Soviet foreign trade is most directly connected with Soviet *welt-politik*. The Soviet Government considers that the British Empire is the centre of the colonial system of the whole capitalistic world. Once the British Empire is defeated on the colonial front, the entire façade of European capitalistic domination of the backward countries must collapse. The Soviet Government considers likewise that the British Empire is particularly vulnerable and that the hoped-for collapse is not far distant. Consequently, it is worth-while to subordinate strictly economic ends to political ones where the prospect of early success is so bright.

The Soviet Government is, therefore, determined that British manufacturers shall be subjected to maximum pressure in Persia, Afghanistan, Chinese Turkestan, and Mongolia, because there Russian products have the advantage of a shorter haul from the manufacturing centres than do

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Soviet foreign trade is used as a part of Soviet foreign policy in a different fashion in the Near East and in the Far East. These industrially backward countries are a market for Soviet manufactured products, just as they serve a similar function for the products of capitalistic countries. In this way they are fields of colonial exploitation for the one socialistic country as they have been for capitalistic countries. But it is precisely in these countries that the Soviet Government has the greatest hope for the World Revolution. In these countries, therefore, Soviet foreign trade is most directly connected with Soviet *welt-politik*. The Soviet Government considers that the British Empire is the centre of the colonial system of the whole capitalistic world. Once the British Empire is defeated on the colonial front, the entire façade of European capitalistic domination of the backward countries must collapse. The Soviet Government considers likewise that the British Empire is particularly vulnerable and that the hoped-for collapse is not far distant. Consequently, it is worth-while to subordinate strictly economic ends to political ones where the prospect of early success is so bright.

The Soviet Government is, therefore, determined that British manufacturers shall be subjected to maximum pressure in Persia, Afghanistan, Chinese Turkestan, and Mongolia, because there Russian products have the advantage of a shorter haul from the manufacturing centres than do

British goods. In order to undersell the British manufacturer, goods are unhesitatingly sold far below the cost of production as measured in terms of the theoretical gold value of the ruble. This policy is also followed when Russian goods are sold in Europe and in America, but in such cases it is done in order to obtain the means to purchase machinery and other essentials to the Soviet program of industrial development. This motive is effective also in the case of goods sold in other parts of the Orient, since some of the purchasing power so obtained can be used in the advanced capitalistic countries also for the purchase of the means for industrialization. But in many cases, it is probably true that the Soviet trading organization cannot transfer the payments which they obtain in the Orient to other countries, since they are compelled by treaty provisions and other considerations to import certain products from the countries in which they sell goods. If the Soviet Government could, it would prefer to dispense with the importation of such products, but it is unable to do so for the reason stated. The Soviet trading organizations have been charged with imitating and forging British trade-marks in order to drive out British trade, just as similar charges used to be made against the Germans in the days when Great Britain was feeling the pinch of competition from that quarter.

Assuredly the Soviet Government will spare no pains in its determination to injure British trade. A salesman for an American agricultural machinery company was in Russia, negotiating for the sale of some thousands of tractors to the Soviet Government. It was during the winter of 1929-30, when the Soviet Government was moving heaven and earth in order to obtain tractors for use in the spring sowing campaign. As a matter of interest, the salesman was shown a plant in which tractors were being constructed. He noticed about a dozen tractors which were loaded on railroad cars ready for shipment. These tractors were painted and polished to a high degree, very

much as the salesman's company prepared tractors which were going to be sent out for demonstration at state and county fairs. The salesman inquired where the tractors were being sent. He was told with great pride that the tractors were for export!

Soviet trade is a particularly disturbing factor on international markets, because it is not influenced by the same factors to the same degree as is true of the commerce of capitalistic countries. Soviet trade is little affected by changes in the international price level, by movements of the exchanges, by gold movements, or by other monetary considerations. Commodities which are exported from the Soviet Union are not seeking a market because they cannot be profitably sold at home. Goods which are sold abroad do not move out of Russia according to the principles of "comparative advantage." Goods are sold abroad by direct order of the competent authorities in order to pay for necessary imports. From the viewpoint of the Party, the imports of capital equipment must be obtained. Whatever is necessary to pay for them must be sold no matter what the price on the internal market, or no matter how low the price on the foreign market. If grain cannot be exported, then eggs and butter must be. This results in making the kind and amounts of Soviet exports highly uncertain.

This variability is much more pronounced in the case of imports. For the last two years the Soviet Union has purchased all the tractors and "combines" in the United States for which money or credit could possibly be obtained. As a result, agricultural machinery companies did a boom business and their shares soared to new high records on the New York Stock Exchange. These stocks declined again when it began to be realized that this business was of a distinctly temporary character. The Soviet Government is fully determined to manufacture all the tractors which it will use, and through the erection of the huge new plants at Stalingrad and at Chelia-

binsk it is preparing to do this. The peak demand for tractors from abroad will have been passed within the next two or three years and probably within the next five years will have become negligible. This development has already occurred in the case of railroad equipment. At one time the Soviet Union imported large amounts of rolling stock and other railroad equipment. But the writer was told that the Soviet Union has now become self-sufficient in respect to railroad equipment and it has been decided that no more shall be imported.

It seems probable, therefore, that in the future the opposition to Soviet trade will grow stronger and stronger as it becomes apparent that Russia is no longer a market which can be permanently exploited. For a long time there will be profitable contracts to be had by foreign concerns in Russia. But a permanent and well-ordered trade of the ordinary sort is impossible. The Soviet Union is extremely anxious for long-term credits and unlimited orders can be obtained on this basis. While the Soviet Government has a reputation for paying for goods promptly at the time specified in the contract, the experience of foreign concessionaires during the past year is not encouraging to any concern which might be considering doing business on this basis. The capitalists who do business with the Soviet Union might well remember that to the Party, which is more than the government in Russia, they are as truly enemies of society as the Russian bourgeoisie, and that if conditions were favourable they would be treated as ruthlessly.

CHAPTER VII

THE BANKING SYSTEM

The State Bank (Gosbank)

AT the head of the banking system of the U. S. S. R. stands the State Bank. This bank was established in 1921, as a consequence of the change from the system of War Communism to that of the New Economic Policy. During the latter part of the period of War Communism, banks and the credit instruments connected with them had entirely disappeared. State enterprises received grants of money from the state budget, which were not repayable. The state industries, on the other hand, turned over such goods as they produced to the state without compensation. Private trade was carried on either by means of barter, or by the hand-to-hand exchange of goods against metallic currency or foreign valuta.

With the change to Nep, it became obvious that industry could not be financed by means of direct grants from the budget. Although grants from the budget to industry were not entirely abolished, some sort of banking system was necessary in order to provide for the deposit of the temporary balances of industry, and to provide short-term credit. The change to Nep also resulted in an altered attitude toward the re-establishment of a money economy. While formerly it had been considered a point of doctrine of Communistic theory to abolish the use of money, it now became evident that, with the new policy, money would have once more to be used as a unit of account and as a medium of exchange. Consequently, the establishment of the State Bank was associated with the new attitude of

the government toward money. The establishment by decree of the Council of People's Commissars on October 12, 1921, of the State Bank of the R. S. F. S. R., (changed, at the time of the formation of the Soviet Union, to the State Bank of the U. S. S. R.), did not by any means coincide with the decision taken at a later date to stabilize the currency. It was a preparatory step toward stabilization, in so far as some sort of a state bank was the necessary condition to stabilization. But the decision to stabilize the currency did not come till later, and at the time of the creation of the State Bank, stabilization of the currency would scarcely have been possible, nor would the policy of the Party have permitted it.

On November 16, 1921, the Bank began its activities in Moscow. A little later a number of branches were established in other cities. During this early period the Bank was confronted by the difficulty of carrying on its business transactions at a time when the currency unit was depreciating at an enormously rapid rate. The State Bank was finally authorized on October 11, 1922, to issue bank notes, and in November the issuance of these notes actually began. From the very first the bank notes, or *cher-vontsi*, were designed to be a stable form of money, and the policy of the Bank was to keep them so. But these relatively stable bank notes circulated alongside the Soviet money tokens which continued to be issued as a part of budgetary policy, and which in consequence were constantly declining in value.

Thus during the first year of its existence the State Bank was confronted with the problem of how to carry on its business when no stable currency unit was in existence in the country, while from the second year of its existence up until the final currency reform in 1924, it was confronted with the task of carrying on its affairs under a system of two officially unrated paper currencies, one of which was almost stable in value and purchasing power, and the other of which was rapidly declining in

value. The devices which the State Bank used during the period of the use of the depreciating currency units alone, and when its notes were in circulation alongside this depreciating currency, were of course very unsatisfactory. The search for some sort of a stable basis for computing the increase in prices and the depreciation of the paper currency finally led to the use of a theoretical gold ruble as the unit of account, and paved the way for tying the value of the chervonetz to the value of gold, when the final stabilization of the currency took place.

When the chervonetz was first issued, the decree of the Council of People's Commissars provided that "the date when the exchange of bank notes into gold will begin will be announced in a separate governmental decree." As yet, that date has never been announced, although the promise was explicitly made that at some future date they were to be exchangeable for gold at a parity established in the decree providing for their issuance.¹

The State Bank is managed by a board of directors, of whom the chairman was formerly appointed by the Council of People's Commissars upon the recommendation of the Commissar of Finance. In 1929, however, the directorate of the Bank was reorganized in such a fashion as to largely emancipate it from the control of the Commissariat of Finance. The Bank, since that time, has had almost the status of a People's Commissariat. The divorce of the State Bank from the Commissariat of Finance did not mean that the Bank was thereafter to pursue a more conservative policy in regard to issue, as might have been expected. On the contrary, it synchronized with the fullest development of the policy of divorcing the currency from a gold reserve. Moreover, the status of the State Bank

¹ For an account of the development of the banking and currency system of the Soviet Union from the revolutionary period through the first years of the re-establishment of the banking system and the temporary stabilization of prices, see Katzenellenbaum, *Russian Currency and Banking, 1914-1924*, and Yurovsky, *Currency Problems and Policy of the Soviet Union*.

following this change became less and less that of an autonomous central bank on the capitalistic model. Instead, it was to become a more completely and typically socialistic institution, thoroughly integrated with the economy of the country. Henceforward, the Bank was not to oppose the grandiose Party program of capital construction by a conservative banking policy. This change marked the decline in influence of the economists and bankers who had been inherited by the Bank from pre-revolutionary days.

The State Bank has a Note Issue Department and a Banking Department somewhat after the model of the Bank of England. The Note Issue Department transfers to the Chief Pay Office of the State Bank, chervontsi against a minimum cover of 25 per cent in precious metals and stable foreign currencies. In the beginning it was customary for the Bank to maintain a firm cover of over 30 per cent of its note issue, but during 1926 the ratio began to approach the legal minimum, and for a considerable time has remained very close to the minimum ratio. This can be seen from Table No. III. Although the legal ratio of firm cover to bank-note issue is still maintained, this fact has little significance, for there is a large issue of Treasury Notes which is entirely without firm cover.

The Bank carries on fiscal operations for the government, and serves as the depository of government funds. It buys and sells government bonds, and through its numerous branches and agencies is in a position to serve the government in this respect. These branches serve not only the State Bank, but often the Industrial Bank, the Agricultural Bank, and others, either as agents, or by permitting representatives of these banks to use the facilities of the branches of the State Bank in carrying on their operations. To as great an extent as possible, duplication of branch establishments by the State Bank and the other banks is in this way avoided, and it is customary for the

TABLE NO. III

YEARLY CHANGES IN THE BANK NOTE ISSUE, FIRM COVER AND RATIO, OCTOBER 1, 1924, TO OCTOBER 1, 1928. MONTHLY CHANGES THEREAFTER.²

			<i>Bank Notes Transferred to the Head Office</i>	<i>Firm Cover</i>	<i>Ratio %</i>
			<i>(in thousands of chervontsi)</i>		
1924	Oct.	I	52,185	23,900	53.3
1925	"	I	75,664	26,335	34.8
1926	"	I	85,667	23,511	27.4
1927	"	I	102,657	26,895	26.2
1928	"	I	109,010	27,952	25.6
	Nov.	I	112,328	29,007	25.8
	Dec.	I	112,131	30,237	27.0
1929	Jan.	I	112,256	30,138	26.8
	Feb.	I	106,505	30,188	28.3
	March	I	108,365	31,168	28.8
	April	I	110,213	31,131	28.3
	May	I	115,450	31,238	27.1
	June	I	112,905	31,492	27.9
	July	I	121,676	31,394	25.8
	Aug.	I	126,983	32,988	26.0
	Sept.	I	135,989	35,287	25.9
	Oct.	I	146,628	36,919	25.2
	Nov.	I	156,586	39,558	25.3
	Dec.	I	157,540	39,739	25.2
1930	Jan.	I	153,697	38,816	25.2
	Feb.	I	150,027	38,374	25.5
	March	I	153,580	38,895	25.3
	April	I	155,598	39,144	25.2
	May	I	164,629	41,375	25.1
	June	I	170,087	42,770	25.1
	July	I	186,037	47,820	25.7

same quarters to house one of the State Bank's representatives and those of one or more of the other banks.

Apart from the importance of the State Bank in introducing a system of relatively stable currency, it has continued to be the central mechanism for regulating the currency issue and the credit policy of the Soviet Union. Its importance in this respect does not depend solely upon

² Data furnished by the Statistical Department of the State Bank, up to Nov. 1, 1929. From the *Economic Survey* thereafter.

its position as a bank of issue. Its control of the credit policy does not to any important degree depend upon its discount policy. It is not limited in the same degree, as is the Bank of England, to the raising or lowering of the discount rate as a means of controlling the expansion or contraction of credit. The State Bank follows the policy of directly rationing credit to industry and trade, within the limits provided for by the general industrial and financial plan for the Soviet Union.

The State Bank has a Statistical and Planning Section, which is closely connected with Gosplan, the State Planning Commission of the U. S. S. R. So important is its work in planning credit extension to the economy of the country that it has been proposed to constitute it a department of the State Planning Commission, so that it would have a dual control. This statistical department is in close connection with the statistical department of the Commissariat of Finance and also with the Central Statistical Board, which in its turn is an organ of the State Planning Commission.

Within the Banking Department of the State Bank there is set up an elaborate mechanism for insuring the closest relationship between industry and commerce and the Bank. Thus there is a section of the Bank which is devoted to the banking affairs of each of the major industries to which it extends credit. There is a credit section for the textile industry, another one for the leather industry, and so on. These sections have two major functions. In the first place, they supervise the expenditures of the funds granted by the Bank to these industries. This function consists not merely of arranging for the deposits of the receipts of the various industries which are clients of the Bank, and for regulating the payment of funds to these clients. What is perhaps more important, each of these sections exercises a considerable degree of supervision and control over the expenditure of the funds advanced to the corresponding industry by the Bank. This is not merely to

prevent the illegal use of these funds. It goes much farther and oversees the expenditure of the funds, and reports to the proper authority if the funds are not being used economically and in accordance with the directions given to the industry by the State Planning Commission. Thus these sections of the State Bank play an extremely important part in the planned economy of the Soviet Union, and are one of the most direct means of control over industry, by the state-planning organs.

These special sections of the Bank also assist the various industries in working out their annual and quarterly plans, particularly the part of their plans involving the use of bank credit. Each section reports to the Bank the amount of credit which its corresponding industry requires for the next quartile or year. The higher authorities utilize these estimates of the special departments in drawing up the plan of credit for the Bank.

The State Bank occupies a unique position among the central banks of the world on account of the fact that both the Bank itself and its clients are the creatures of the state. On account of this, the relation of the Bank to all branches of national economy is much more intimate than would be possible in a capitalistic economy. This circumstance affects to an important degree the entire credit mechanism of the Bank.

While the State Bank deals directly with industrial and other undertakings, its credit policy is determined by considerations which are entirely different from those of commercial banks in a capitalistic economy. In the first place, none of its operations are carried on primarily for profit. Considerations of safety of principal or of interest are not of great importance in ordering the program of loans of the Bank to the economic organization. If a certain amount of bank credit is to be extended to an industry according to the ratified yearly or quarterly plan, the State Bank extends this amount of credit, without regard to the chance of its repayment. Whether or not the industry

would be liable to cover its cost of production, was, of course, one factor in determining the plan of credit extension which was drawn up by the state-planning organs. But it is not the only factor or even a major factor. The present basic charter of the Bank provides that if its capital is impaired it is to be restored by the government, and the Bank is safeguarded in this way, at least, against losses which would render it insolvent. It is probable, however, that in most cases the government would, by means of a subsidy to an industry which was unable to pay its debts, insure the repayment of loans to the Bank, instead of only restoring any impairment of its basic capital.

The State Bank has certain obligations which it must fulfil in connection with the extension of credit to industry and the other branches of national economy. The fulfilment of these obligations, as has been said, is mandatory on the Bank. But how is it possible for the Bank to fulfil all such mandates without endangering its solvency? It can do so, in the first place, because it was consulted in drawing up the plan of credit for the national economy. The Bank furnishes the competent state-planning organ with data as to the demands for credit from industry, commerce, and agriculture which are likely to be made upon it. These data the representatives of the Bank have received from the special departments and sections mentioned above. The Bank also submits data as to the probable amount and time of repayment of loans previously granted, the balance of receipts and disbursements for given industries and similar data. The Bank then states its own estimate of the amount of credit it will be able to advance to specific branches of the national economy. The branches of the national economy may disagree with the proposals of the State Bank in regard to the extension or repayment of credit. Thus, industries which are within the jurisdiction of the Supreme Economic Council may protest to it, and the Council may take this protest to the

State Planning Commission, and finally up to the Council of Labour and Defense (Sto). The railways may protest against the Bank's credit plan through the Communications Commissariat. Before carrying their protests to higher authority, the branches of the state economy will, of course, have tried to reach an agreement with the Bank through the special department of the Bank which deals with its affairs. In a few cases the Bank may have even insisted upon a greater extension of credit than the industry, but this is rare and only happens when some change in plans develops and it is necessary to exert the authority and guidance of the state-planning organs through the Bank. Such a rare case may arise, as in 1929, when the supply of brick was apparently not going to be sufficient for the needs of industry. It was possible for the brick-making works to be stimulated to carry on a greater productive program by means of extending more credit than they had at first requested.

Differences between the Bank and the branches of the national economy usually develop, however, whenever these branches of economy desire a greater amount of credit than the Bank considers itself in a position to grant. In such cases the Bank is often over-ruled, and may be forced to expand credit to a greater extent than it had originally intended. This involves a further expansion of the note issue, which in turn depends upon the firm cover which the Bank is able to provide for its note-issue department. But whereas in capitalistic countries which are on a stabilized gold-currency basis, the legal minimum ratio of note issue to firm cover sets a limit which cannot be overstepped, the State Bank has an alternative. It can in effect say to the state, "Our supplies of firm cover will not permit the further expansion of our chervonetz issue. The Commissariat of Finance must provide the necessary funds if our estimate of credit expansion is to be exceeded."

Since the law provides that Treasury Notes can be

issued up to the limit of three-fourths of the amount of Bank Notes,³ the state can, if it so desires, issue these Treasury Notes, or, from its other sources, advance funds to the Bank out of which loans to industry can be made. These special advances of the Commissariat of Finance to the State Bank are carried on the balance-sheet of the Bank as Special Loans to Industry and Agriculture on Account of the Commissariat of Finance, and as Government Funds for Loans to Industry and Commerce on the assets and liabilities sides respectively of the balance-sheet of the State Bank. Or they can be transferred to the State Bank as part of the funds of the Commissariat of Finance which are included in the total of its deposits and current accounts. In this way the State Bank protects its legal ratio of firm cover to bank-note issue, although the value of doing so may well be questioned.

It is the policy of the government and of the Bank's administration to re-mold the credit mechanism of the Soviet Union, so that a minimum amount of the exchange of the country will be mediated by the use of money. It is intended that settlements of obligations between industries, commercial organizations, and now even the new collective and state farms, will be made through a system of bank clearings, instead of the use of money. To a certain extent this is similar to the system of bank checks and inter-bank clearings which is familiar to the Western world, and which is exemplified by the Par Clearance System and Gold Settlement Fund of the Federal Reserve System. But the policy goes much farther than that. The relation of the various units of the Soviet economy to each other may be likened to the relation of the units of a great private corporation, such as General Motors Cor-

³ It was originally provided that Treasury Notes could be issued up to 50 per cent of the amount of chervontsi outstanding. Treasury Notes could be issued only in denominations of one, three, and five rubles. The law was changed Aug. 1, 1928, to 75 per cent, and with the rapid increase in the currency issue at the present time it seems probable that all limitations on the issue of Treasury Notes will be abandoned.

poration, to each other. It is not considered necessary that clearings of mutual indebtedness between various branches of the national economy should even require the sending of bank checks or other such instruments back and forth between them. Instead, the Combinations, the Trusts, and even the component factories are expected to settle their obligations and obtain payment for their product from each other and from commerce and industry, merely by credit and debit entries on the books of the banking system. It is even proposed to go farther than this, and to transfer the major portion of the financial accounting departments of industry to the banking system, so that the accounting department of an industry will also be a department or section of the banking system. It is interesting to note that this policy fits in very well with the theory held by at least some of the Party that the use of money in a socialistic state is an anomaly and should be abolished as was done under the system of War Communism. The functions of money would thus be reduced to that of a unit of account, and its use as a medium of exchange would be superseded by its use as a book-keeping standard of value. This substitution of bank clearing for money would involve not only the State Bank but the entire banking system as well. But the State Bank would be the link which would bind together all the branches of the national economy with the other banks.

The State Bank began to experiment with new types of credit agreements, in order to develop this policy. As an example of such an agreement, that between the State Bank and the People's Commissariat for Ways and Communications may be cited. According to this agreement the railroads are required to deposit their receipts with the local branches of the State Bank. Every ten days these funds are credited to the account of the Commissariat at the head office of the Bank. The Commissariat does not use these funds at all, but instead meets its expenses out of a special credit which the State Bank has

opened for the Commissariat. The amount of the credit available to the Commissariat is definitely fixed for each month, on the basis of a quarterly agreement between the Bank and the Commissariat. The credit thus established is used in part by the central supply agencies for meeting their obligations as they fall due, and partly is distributed among the management boards of the different railways, in accordance with the instructions of the Commissariat.

The State Bank has made a study of the receipts from the railways and of the disbursements to them from their credit fund. Similar studies are made of the receipts and disbursements of other branches of the national economy with the purpose of enabling the Bank to make the most efficient utilization of its resources. In this way it is possible for the Bank to cut down its expansion of credit and note issue to the minimum. In the case of the railways it has been found that in the course of the first two decades of the month the receipts amount to some 32 per cent to 33 per cent of the monthly receipts for each ten-day period, and from 34 per cent to 36 per cent of the monthly receipts during the last decade of the month. On the other hand, the expenditures of the railways follow a different course. Disbursements at the centre continue at a rather even rate for the entire month, but for the different railways the expenditures amount to about 57 per cent for the first decade of the month, 32 per cent to 34 per cent for the second decade, and about 9 per cent to 11 per cent during the last decade. Consequently the Bank has to finance the railways during the first part of the month, which is offset during the latter part of the month by a return flow of funds. The amount of the debit or credit balance of the Commissariat depends upon the degree of coincidence between the actual deposits of the Commissariat and the estimates of the quarterly plan. Thus during the fiscal year 1928-29, the receipts of the railways were estimated at 1,830 million rubles, while the railways were to have a credit of 1,754 million rubles. The differ-

ence between these two sums, amounting to 76 million rubles, was to be turned over to the Treasury. In computing the balance in favour of the Commissariat of Ways and Communications, only the amount in excess of the credit plus the estimated payment to the Treasury was credited as a net balance. Nevertheless this amounted for the year to 186 million rubles. Of this amount, 58 million rubles were returned to the railways to cover expenditures due to extra mileage. The remainder was placed to the account of the Treasury, of which 80 million rubles were used for additional expenditure on railway construction, and 48 million rubles were used for other budgetary requirements. This will perhaps serve as an illustration of the rather complicated relationships between the State Bank, a branch of the national economy, and the Commissariat of Finance.⁴

In order to carry out completely the policy of the integration of the banking system with the national economy, a complete reorganization of the banking system of the Soviet Union took place during the first half of 1930. Until this time the banking system had been largely patterned after that of capitalistic countries. Bank credit was advanced by means of the bill of exchange and discount operations connected with it. These bills of exchange were usually drawn by the seller of commodities against the buyer as is customary in the Western banking world. In the Soviet Union this meant that industries sold goods on credit to commercial organizations, drew bills of exchange against the commercial organizations and then discounted them at the bank. In this way the State Bank financed the turnover of goods by means of advances to industry.

The unexpectedly rapid spread of collectivized agricul-

⁴ See the *Economic Survey, op. cit.*, Vol. V, No. 1, Jan. 15, 1930, for an account of this agreement. See *Ekonomicheskaja Zhizn*, March 6, 1930, for a description of the agreements drawn up between the State Bank and the Lumber Syndicate, and between the State Bank and the Coal Combination.

ture had reduced the private sector to such a degree that it seemed possible to revise the banking system on the basis of an almost completely socialized economy. It was decided that commercial credit advanced by industry to commerce should be abolished, and that bank credit should take its place. This did not mean that any additional bank credit was brought into existence, since bank credit had formerly been advanced to industries through the medium of the bill of exchange and its discount. This process was now replaced by the practice of advancing bank credit to the commercial purchaser instead of to the industrial seller of commodities, and by abolishing credit advances by non-banking institutions almost in their entirety. This meant the virtual disappearance of the bill of exchange as a credit instrument in the Soviet Union.

At the same time the State Bank completely gave up the old attitude toward its customers. It had originally paid a great deal of attention to the question of the solvency of its customers, had required warehouse receipts as security for loans, and so on. It was determined that, since practically all trade and industry had been concentrated in state institutions, it was an anomaly for the State Bank to have to concern itself at all with questions concerning security and solvency of its clients, which, like itself, were creatures of the Socialist state.

Instead of problems of security of loans and solvency of clients, the State Bank, by the reorganizational plan, was given an increased responsibility for overseeing the degree of fulfilment of the planned program by all its clients. It became an extremely important element in the scheme of supervision of industry. It was considered that the State Bank, in the course of banking operations, could maintain closer contact with all the industrial units than could any other body.

By the provisions of the reorganizational plan, a certain amount of bank credit is allotted to each industrial Combination according to the amounts specified in the Control Figures which have been worked out for the year by the

State Planning Commission in consultation with the State Bank. The Combination then proceeds to allocate these sums of bank credit to each of its constituent enterprises. The Combination can re-allocate these sums during the year among its enterprises, with the consent of the State Bank, or if necessary to increase production, even without previous notification to the Bank. After re-allocation has been made, the Combination must so inform the State Bank, if it has not previously done so. The Bank is supposed to see to it that these funds are paid out to the enterprises through the branches of the Bank only as the individual enterprises furnish evidence that they are successfully fulfilling the plan. If the enterprise requests additional funds beyond those provided in the Control Figures, or is failing to fulfil its promfin plan in any way, the State Bank must investigate and immediately notify the Combination and the Supreme Economic Council.

A basic element in the reorganizational scheme is provided for in the transfer of all accounts of each client into one single current account, the *conto corrente*. The basis of each client's account is the grant of bank credit provided for in the Control Figures. Thereafter this *conto corrente* is built up by payments of other clients into it on account of products sold or services rendered, and is drawn down as the client meets necessary expenses out of it. In this way it is expected that the utilization of bank credit will be tied up more directly with the actual turnover of goods than was possible by the former system of discounts of bills of exchange and miscellaneous loan operations. The purchasing organizations will use their bank credits as they make payments for goods actually transferred to them. The producing organizations will receive payment as they actually deliver goods to the commercial organizations. In this way also the Bank is expected to be able to supervise the degree of fulfilment of the plan, since the movement of funds from one account to another will measure the production and marketing of commodities.

It is also provided in the reform plan that all payments between the various branches of the national economy and state institutions shall be made through credit transactions at the State Bank. This is done by debiting and crediting the accounts of the two organizations which are in a debtor-creditor relationship to each other. This does not apply to industry alone, by any means, but includes the Commissariats, the co-operative organizations, and the state and collective farms.

The abolition of cash payments between the different branches of the national economy is probably the most important part of the reorganization. It is expected that this new system will greatly reduce the need for currency emissions, since the use of cash will largely be confined to wage payments and to payments for retail purchases.

By means of this banking reform the State Bank is expected to become almost the exclusive source of short-term bank credit, and with its branches is to form a unified bank clearing system for the entire Union. In the furtherance of this reform the short term credit business of the other banks is being transferred as rapidly as possible to the State Bank, and the other banks are to become exclusively long term credit banks, with their resources made up principally of their own capital and special grants from the budget.⁵

⁵ See Vol. V, Nos. 4, 5, 6, *Economic Survey, op. cit.*, March 1, March 15, and April 1, 1930, for an account of this reorganization. See also the article by Piatikov, the head of the State Bank, in *Pravda*, Feb. 14, 1930. The reorganization was worked out gradually, and may even be said to be still in progress. It was found necessary to issue successive orders from the competent authority, providing the necessary rules and regulations for the new system as it was found possible to work them out in actual practice. See the order of the Central Executive Committee and the Council of People's Commissars referred to in *Za Industrializatsiiu*, Feb. 2, 1930, with reference to the transfer of short-term credit in agriculture to the State Bank. See also the basic order of the Supreme Economic Council, No. 888, in reference to the new relations of industrial enterprises, Trusts and Combinations to the State Bank, *Za Industrializatsiiu*, Feb. 25, 1930, and order No. 1144, *Za Industrializatsiiu*, April 5, 1930. The hope that the reorganization would result in a great economy in the use of currency has not been realized. The inflation of the currency has continued at a rapid rate through the summer and autumn of 1930.

TABLE NO. IV

I. BALANCE-SHEET OF THE STATE BANK OF THE U. S. S. R.^o

(In thousands of rubles)

ASSETS		July 1, 1930	LIABILITIES		July 1, 1930
Cash		37,593	Capital		325,000
Bullion, Coin, Precious Metals and Foreign Currencies		469,725	Reserve Fund		139,945
Securities		442,998	Special Reserves		32,130
Debtors		4,522,396	Note Issue		1,860,366
Special Loans to Indus- try and Agriculture on Account of the Commissariat for Fi- nance		97,848	Government Funds for Loans to Industry and Agriculture ...		109,221
Offices, Branches, and Agencies (balance)		965,681	Deposit and Current Accounts		2,109,186
Other Assets		541,221	(Including funds of the Commissariat for Fi- nance)		
Total		7,077,462	Commission and Inter- est (balance)		382,139
			Other Liabilities		2,119,475
			Total		7,077,462

II. STATEMENT OF THE NOTE ISSUE DEPARTMENT OF THE
STATE BANK OF THE U. S. S. R.

On July 1, 1930

ASSETS		CHERVONTSI	LIABILITIES		CHERVONTSI
Gold in Coin and Bars		39,450,363	Bank notes transferred to the State Bank...		186,036,596
Other Precious Metals in Coin and Bars ..		2,547,844			
Foreign Currency ...		5,523,639	Balance to which notes may still be issued.		963,404
Drafts in Foreign Cur- rencies		297,792	Total		187,000,000
Bills in Chervonetz and Other Assets...		139,180,362			
Total		187,000,000			

*The Bank of Long-Term Credit for Industry and
Electrification (Prombank)*

This Bank was established in 1928 as the result of the consolidation of two existing banks, the Bank for Industry and the Bank for Electrification. The Bank is, in form,

^o Table No. IV from the *Economic Survey, op. cit.*, Vol. V, Nos. 12-13, July, 1930.

a joint-stock undertaking, with its shares owned by the Supreme Economic Council, the Commissariat of Finance, the Commissariat of Trade, the State Bank, electrical power stations, executive committees of oblasti, and others. There is even a small amount of share capital privately owned, which is an inheritance from the former Bank for Industry and the policy of Nep. It is proposed, however, to eliminate this insignificant amount of private capital, and even to change the form so that the Bank will no longer be joint stock in form. Its total share capital in December, 1929, amounted to 130 million rubles, of which about one million was privately owned. Dividends have been paid upon the capital stock in the past at the rate of 6 per cent. In 1928-29, however, by decision of the board of directors, no dividend was paid, and the funds thus conserved were used as a special fund for loans to industries of local importance.

The Supreme Economic Council has control of credit extension to industry by the Bank, and the Bank is required to inform the Council of improper or inefficient use made of credit given to industries. There are separate banks for the R. S. F. S. R., for the Ukraine, and for the Caucasus. A special branch is to be opened in the Urals. The Bank also has representatives who transact its business in the branch establishments of the State Bank. Where the Bank does not have its own representatives, it has correspondent relations with the branches of the State Bank.

The Bank has a special planning department which draws up its credit plan. This plan is an amalgamation of the plans which are worked out by the oblast executive committees with the aid of their planning organs, passed up to the competent organ of the Union Republic, combined there with the plans for the credit needs of the industries of republican significance, and then turned over to the republican branches of the Bank. The credit plan of the Bank, after it has finally been amended and consolidated in the planning department of the Bank, is

turned over to the Council of People's Commissars for approval. Their approval depends, in the main, upon the recommendation of Gosplan, which has perhaps amended and revised the plan. The plan, thus finally ratified, and reconsidered quarterly, sets the limits within which credit is extended to industrial and electrical undertakings. The Bank extends long-term credits exclusively, since when it was organized in 1928, it turned over the short-term assets and liabilities of its two constituent banks to the State Bank, and received the long-term industrial and electrical assets and liabilities of the State Bank.

The Bank is the agency through which funds for capital investments in industry are allocated among the various industries. It receives very large grants from the Commissariat of Finance, which are for the account of the budget. It is the intention of the government to permit these funds to accumulate as an addition to the special capital of the Prombank, as they are repaid by the industries which borrow them. The government, however, can decide at any time whether the funds repaid shall be added in this way to capital, or shall be repaid to the Commissariat of Finance. These state budget appropriations on September 1, 1929, amounted to 1,242 millions of rubles.⁷ It is intended to increase greatly these budgetary grants in the economic year 1929-30.

Industries are compelled by law to pay 25 per cent of their profits into the capital funds of the Bank. They are required by the Supreme Economic Council to keep their long-term deposits in this Bank. The Bank pays 6 per cent interest on such deposits. Industries are also required to pay over to the Prombank 12½ per cent of the amount which they set aside for depreciation, which is usually at the rate of from 6 per cent to 8 per cent per year. The Bank has the right to keep this fund for five years. Another 12½ per cent of the depreciation fund is placed

⁷ *Economic Survey, op. cit.*, Vol. IV, No. 34, Sept. 30, 1929.

in circulating capital by industries, and 75 per cent is used for actual repairs and upkeep.

The Bank makes loans for a maximum period of forty years. Newly established industries begin the repayment of their loans one year after commencing operations. The interest which is charged on loans depends upon the profitability of the industry to which the loans are made. Thus the oil industry pays 6 per cent, as does the textile industry. The metallurgical and the coal industries, however, pay only 2 per cent. The maximum interest rate charged is 6 per cent, and the minimum 2 per cent. The total assets of the Bank on September 1, 1929, amounted to 2,207 million rubles, of which the Bank's own resources amounted to 534 million rubles.⁸

The Prombank is not only considered as a source of bank credit for industry and electrification, and as a source of distribution of capital funds from the budget, but it is also regarded as an important instrument of control over capital investment. Thus the Prombank sets up and operates the accounting departments of many important construction enterprises. This is true, for example, of the Dneprostroy electrification undertaking. The Bank is divided into several departments with this purpose in view. It has an operative department, a credit-planning department, departments for the metallurgical, fuel, chemical, electrical, timber, and other industries, and a department for industries of local significance.

The All-Russian Co-operative Bank (Vsekobank)

The All-Russian Co-operative Bank was originally established as the Consumers' Co-operative Bank, through the initiative of the consumers' co-operative organizations, in 1922. In the same year, however, its name was changed to the All-Russian Co-operative Bank, and instead of serving the needs of only the consumers' co-operatives, it began to serve the co-operative societies in general, although the

⁸ *Ibid.*

agricultural co-operatives continued to be served chiefly by the agricultural credit system. The original capital of the Bank was set at 10 million rubles, which was subscribed to by the various co-operative societies. This was later increased until it amounted on July 1, 1929, to 40 million rubles of authorized capital, of which 33,796,178 rubles were paid up. On the same date, 14,741 co-operative societies were shareholders, which included all the central co-operative organizations. Besides consumers' co-operative organizations, the literary co-operative societies, the hunters' co-operatives, the poultry co-operatives, the invalids' co-operatives, the producers' co-operatives, and many others were shareholders.* On October 1, 1928, consumers' co-operatives owned 61 per cent of the capital stock; agricultural co-operatives, 22 per cent; producers' co-operatives, 15 per cent; and the remainder was held by co-operative societies which were not affiliated with the three great divisions of the co-operative movement.

The Bank had about forty branches throughout the Union, but it relied upon the branches of the State Bank and of the agricultural credit system to perform a large part of its clearings, and it therefore maintained close correspondent relations with these banks. The All-Russian Co-operative Bank is the principal shareholder in the Moscow Narodny Bank, Ltd. in London, and in the Co-operative Transit Bank in Riga. The important task of financing the imports and exports for the co-operative organizations is carried on mainly through these two banks. The Moscow Narodny Bank maintains branches in Paris and Berlin, and the All-Russian Co-operative Bank maintains correspondent relations with banks in most of the important ports of the world. It also has close relations with co-operative and trade union banks in other countries.

The Bank derives its resources in the first instance from its own capital funds, subscribed by the constituent co-

* Data from the balance-sheet of the Vsekobank of July 1, 1929.

operative organizations. With the Bank are also deposited the accounts of the co-operative societies and of the trade unions. The trade unions, in return for this, are granted loans to the workers' consumers' co-operative societies associated with them. Government organizations also deposit funds to a limited extent with the Bank. The State Bank advances large sums to the Co-operative Bank, while the Commissariat for Finance advances funds which make up a sum almost as great as the total long-term loans of the Bank.

In addition to these sources, all co-operative organizations are required to deposit 10 per cent of profits in a special fund, 40 per cent of which is invested in securities, and the remainder used as a source of short-term loans to co-operative organizations. In the event of a society which has contributed to this fund having a deficit, a portion of the amount turned over to the Bank may be returned to it to cover the deficit. It has been proposed to increase the amount of this payment to 25 per cent of profits.

The Bank, until its reorganization in February, 1930, as part of the general plan for the reorganization of the credit system, extended both long- and short-term credit to co-operative organizations.¹⁰ By the new plan, however, the short-term credit business was turned over entirely to the State Bank. Its branches were liquidated, so that its clearing could take place through the State Bank and its branches. This decision of the Central Committee and of the Council of People's Commissars was the result of the general movement in the direction of placing all short-term credit in the hands of the State Bank. There had been an overlapping of the short-term credit business of the All-Russian Co-operative Bank with that of the State Bank, and the reorganization was intended to prevent this.

¹⁰ See the decree of the Central Executive Committee and of the Council of People's Commissars of the Union, to which reference is made in *Za Industrializatsiu*, Feb. 2, 1930. This decree provided for the transfer of the bank credit for goods' turnover of the consumers' co-operative societies to the State Bank.

The reorganization was also a result of the policy, described in greater detail in connection with the State Bank, of creating a vast system of clearings between all state and co-operative undertakings.

The All-Russian Co-operative Bank is managed by the general meeting of shareholders. This shareholders' meeting elects the Council of the Bank from among the representatives of the constituent co-operative societies. The Bank's affairs are under the direct management of a board of directors, which is under the authority of the Council.

There is an All-Ukrainian Co-operative Bank for the Ukraine. In accordance with the general scheme of reorganization, its short-term credit assets and liabilities were turned over to the State Bank, and its branches were liquidated.

The Agricultural Credit System

The Ninth All-Russian Congress of Soviets laid the foundations for a system of agricultural credit when it passed a resolution providing for the creation of such a system. But it was not until the establishment of the Central Agricultural Bank in 1924 that a really coherent system emerged. This Central Agricultural Bank is the capstone of the pyramid of the agricultural credit system. The next lower unit is constituted of the seven agricultural banks of the Union Republics. Next come the local agricultural banks, and at the base are found the agricultural credit unions.

The admission fee of the agricultural credit unions was set at ten rubles, and made payable in installments by the poorer peasants. The class line is rigidly drawn, and it is considered a scandal when funds are loaned to kulaki. The members of the credit unions assume an additional responsibility of ten times the membership fee, in respect to the liabilities of the credit union to which they belong. Loans are made to members for the purpose of improving pro-

duction on their farms, to permit the purchase of seed, fertilizers, machinery and other supplies. On October 1, 1928, there were 9,314 of these agricultural credit unions, with a membership of 7,265,679 persons. If each member be considered to represent one peasant household, 28.6 per cent of the peasant households of the Union were represented in the agricultural credit unions, or in the agricultural credit banks.

The agricultural credit unions are affiliated with the agricultural credit bank of their district, and through the medium of the credit union, funds are advanced to the members of the unions from the resources of the local agricultural bank, or from loans made to it by the republican banks or by the Central Agricultural Bank. Loans are also made to co-operative organizations engaged in the production or marketing of agricultural produce. Originally the local agricultural banks and the agricultural credit unions even carried on a certain amount of work in organizing co-operative marketing and production of agricultural commodities. But with the reorganization of the agricultural co-operatives into a system of co-operative "centres" constructed according to the principal commodity produced, such as the Grain Centre and the Linen Centre, the direct organization of co-operative production and marketing has wholly been relinquished by the agricultural banks and credit unions.

Practically all loans are made by the Central Agricultural Bank through the agricultural banks, which may make loans to individual peasants, to the credit unions, to co-operative agricultural organizations, or even to state organizations doing business with state farms or the villages. On October 1, 1928, the amount of such loans was 939 million rubles, distributed as follows:

Credit societies for financing agricultural production	534,400,000
Co-operative organizations	251,600,000
State organizations doing business with villages and state farms	147,800,000
Undistributed	5,200,000

Agriculture in the Soviet Union is also financed by the co-operative banks and by the State Bank. Of all agricultural financing, the agricultural credit system provided for 53 per cent, the State Bank for 42 per cent, and the co-operative banks for 5 per cent. The agricultural credit system took care of the majority of long term productive credit, and 80 per cent of the credit needs of the agricultural co-operatives. The State Bank financed about 80 per cent of the marketing processes. These ratios have been greatly changed by the recent reorganization of the banking system.

The agricultural credit system provides a means for carrying out the large volume of payments which have to be made between the cities and the agricultural districts. At first there was some overlapping of functions between the branches of the State Bank and the agricultural banks. But it is intended that as soon as possible the credit unions are to act as correspondents for the State Bank in effecting clearings between the city and the country, and that all such work in the villages will be done by the credit unions.

The seven Republican Agricultural Banks perform functions laid down for them by the governments of the Republics. In general, they oversee the activities of the credit societies and banks affiliated with them and draw up reports of their activities. They also draw up plans for the agricultural credit systems of their respective Republics.

The Central Agricultural Bank regulates, plans, and controls the entire agricultural credit system within its legal limits, and acts as the distributor of funds appropriated by the Soviet Government for investment through the agricultural credit system. The Central Agricultural Bank receives reports from the Republican Agricultural Banks and compiles them into reports for the Union Government. It also represents the agricultural credit system of the entire Union before the various commissariats. The balance-sheet of the Central Agricultural Bank

amounted on September 1, 1929, to 631,990,000 rubles.¹¹

By a decision of the Central Executive Committee and of the Council of People's Commissars in connection with the general reorganization of the credit system, provision was made for the complete transformation of the agricultural credit system. This was necessitated by the wholesale socialization of agriculture which had begun to assume large proportions in 1929 and was sweeping forward at a tremendous rate in 1930. By the provisions of the new decision for reorganization, the Central Agricultural Bank was reorganized into the Agricultural-Co-operative-Kolkhoz Bank. Its branches in the districts were liquidated. The agricultural credit unions are to obtain funds for financing their productive needs by means of agreements made with the branches of the State Bank. The credit unions are to conduct and control the loans made according to the financial circumstances of the borrower, the proper utilization of the loan, the social direction, etc. According to the new plan, a kolkhoz, an agricultural productive organization, a regional agricultural productive union, or any other co-operative organization, a committee of peasant aid, or an individual bedniak or ceredniak can belong to a credit union.¹²

The Municipal Credit System of the U. S. S. R.

At the head of the municipal credit system of the Soviet Union stands the Central Municipal and Housing Bank. This bank serves as the depository of funds appropriated by the central government for financing housing schemes in all parts of the Union, as well as for appropriations from the social insurance funds, from the profits of all state and co-operative trading and credit organizations, and from republican and local budgets for housing pur-

¹¹ Statistical data on the agricultural credit system are from *Economic Survey, op. cit.*, Vol. IV, No. 33, Sept. 14, 1929.

¹² *Za Industrializatsiiu*, Feb. 2, 1930.

poses. In addition to these funds all state industrial organizations are legally required to create their own housing funds by an appropriation for this purpose amounting to 7.5 per cent of their net profits.

With the exception of the funds appropriated by the central government, the funds mentioned above may likewise be deposited with the Regional Municipal Bank which is closely connected with the Central Municipal and Housing Bank. These regional municipal banks, by a law passed in 1929, replaced the purely local municipal banks which existed prior to the coming into force of the act. Thus the Moscow Municipal Bank became the central bank for the municipal banks of the Moscow oblast, and the Municipal Banks of the oblast which had formerly been independent, were reconstituted as branches of the Moscow Regional Bank. Similar regional banks were created by the reorganization of existing municipal banks, or by the creation of entirely new Regional Banks for the Volga oblast, the Lower Volga oblast, the North Caucasus oblast, the Central Black Earth oblast, and others.

The Central Municipal and Housing Bank, the regional banks and their branches, together, constitute a credit system for the accumulation, creation, and distribution of bank credit to the municipal and local economy of the Soviet Union. This municipal credit system has for its sphere of operation all municipal and local economy, with the exception of agriculture and the co-operative organizations, which have their own system of credit. Its sphere of operations is divided from that of the State Bank and the Bank for Industry and Electrification by the provision that these two banks shall furnish the credit requirements of industries and electrification projects of All-Union and Republican significance, while the municipal credit system shall provide for local industry and electrification. There is, of course, some overlapping in the clientele served by the three sectors of the banking system. In the first place, their respective spheres of activity

have only recently been defined as sharply as at present, and there continues to be a considerable overlapping of service rendered in the advancement of short-term credit to local industries by the State Bank and by the regional banks. Furthermore, the regional banks may serve in some instances as depositories for current funds of industries of all-Union or republican significance, if the State Bank does not happen to have an agency or branch in the city or town in which such an industry is located.

The funds which serve as the basis for the loans of the regional banks are obtained from a variety of sources. Twenty-two and a half per cent of such funds in October 1929 were obtained from compulsory appropriations from the profits of industries of local importance. In addition to this, all appropriations in local budgets for the construction of local industrial enterprises must be deposited with the regional banks. To these must be added the funds which are appropriated for municipal enterprises, for the construction of schools, restaurants, central kitchens, theatres, and health resorts, as well as the funds which must be appropriated by all industries for housing purposes, and which may be deposited either with the Central Municipal and Housing Bank or with the regional banks and their branches. These funds make up what might be called the long-term deposits of the banks. In addition to these long-term deposits, they receive a large proportion of the temporary balances of local budgets and the current deposits of industries of local importance. The Regional Municipal Banks also receive loans from the Central Municipal and Housing Bank.

The funds which the regional banks have at their disposal are loaned to industries of local importance both for long- and short-term purposes, and for the financing of municipal undertakings such as electric-power plants, gas works, and tramways. In most cases the Central Municipal and Housing Bank finances the larger municipal under-

takings of a long-term nature, while the minor and short term municipal enterprises are financed by the regional banks. Schools, hospitals, health resorts, cinemas, and all sorts of similar enterprises are also financed.

The regional banks are required to advance funds to be used for housing purposes at very low rates, for the construction of apartment houses for workers by co-operative building associations, for the building of houses by workers themselves, or for the construction of apartment houses by industries of all degrees of significance situated in the region.

The regional banks, the Moscow Regional Bank in particular, are carrying on activities designed to rationalize and render more efficient the utilization of bank credit in their sphere of operations, just as the State Bank is doing in its sphere. Special trucks are sent out to the trading organizations of the city by the Bank or its branch in order to gather up every day with the smallest possible delay all funds received by these undertakings. Experiments are being conducted with paying the employees of industries their wages directly by the Bank while they are at work in the factory, and with making payments and receiving payments for industries of local importance, with a view to reducing the amount of actual money which is necessary in industry and commerce, by increasing the velocity of circulation of such cash as it is found necessary to use.

The balance-sheet for all the regional banks for the end of the fiscal year 1928-29 has been estimated to be approximately 1,400 million rubles. By including with this amount the balance-sheet of the Central Municipal and Housing Bank, after allowance for duplication of loans, a total of approximately 2,200 million rubles is obtained. This is expected to increase during the 1929-30 economic year to over 3 billion rubles.¹³ The establishment of this co-ordinated system of municipal and local

¹³ *Economic Survey, op. cit.*, Vol. IV, No. 35, Oct. 15, 1929.

credit supply strengthened a previously weak link in the chain of Soviet economy. It is one of the most admirable features of that economy that not all dependence is placed upon the central government for the organization and guidance of the national economy. In the aggregate, the total value of products and services rendered by local and municipal enterprises and undertakings is enormous. But it had been a real problem as to how they were to be financed. The co-ordination of the system of municipal and local credit has gone a long way to solve that problem. By means of this system the diffused resources of the municipal and local enterprises have been mobilized and made to go as far as possible in meeting local and municipal needs. The long-term deposits which the special funds established by law provide are utilized as the basis for loans through the operation of the familiar process of the pyramiding of bank credit through the creation of secondary deposits. Through the medium of this system, important additions to the available capital resources of the country have been made possible of utilization. It is probable that the present reorganization of the banking system must result in a transfer of the short-term credit operations of the regional banking system to the State Bank.

The Bank for Foreign Trade

In addition to the financing of foreign trade which is carried on by the State Bank, there is a special Bank for Foreign Trade which carried on during the fiscal year 1928-29 about 16 per cent of the financing of foreign trade which is done by banks.¹⁴ The financing of foreign trade by both the State Bank and the Bank for Foreign Trade consists mainly of financing of imports, since state and co-operative organizations which buy goods abroad are expected to arrange for financing with the foreign companies from which the goods are bought. The State Bank

¹⁴ *Economic Survey, op. cit.*, Vol. V, No. 1, Jan. 15, 1930.

furnishes the foreign valuta for making payments when the date of settlement arrives. The State Bank thus acts as the central bank for international settlements of the Union.

Savings Banks

It is the policy of the Soviet Government to encourage the growth of the system of savings banks. It has been the hope that the population could be induced to deposit their savings and in this way assist in building up the capital funds of the country in such a way as to cut down emissions of currency, and to remove from the market a part of the funds which operate to cause a greater demand for commodities than can be met. With this purpose in mind, the experiment was made of paying the labourers in some factories with deposit accounts in the savings banks. It was hoped that if all the wages of the labourer were deposited to begin with in the bank, some residue would remain after current expenses had been paid. Previous to this there had been numerous instances where resolutions had been passed at general meetings held in some of the factories, providing for a general deduction from wages to be deposited in the savings banks.¹⁵ This policy of compulsory deduction from wages for deposits and the system of payment of wages through the savings banks were very unpopular, but it is possible that in this way the Russian worker may become accustomed to the use of bank credit instead of currency, and it may therefore be possible to dispense in large measure with the use of currency even for the payment of wages.

¹⁵ The reports for the first quartile of the economic year 1929-30 showed that the planned increase in savings deposits in the R. S. F. S. R. had been fulfilled only to the extent of 27 per cent.—*Izvestia*, Jan. 30, 1930. There followed a press campaign to encourage the deposit of funds in the savings banks. See, for example, *Za Industrializatsiu*, Feb. 1, 1930. The reaction to this was that savings were made practically compulsory by action of the trade unions in some factories. See *Komsomolskaia Pravda*, March 21, 1930. The next step was the payment of wages through the savings banks. See the order of the Supreme Economic Council, No. 1096, March 27, 1930.

Private Banks

After the adoption of the New Economic Policy there grew up a limited number of private banks which served the credit needs of private merchants. Since private trade has practically disappeared, these banks are no longer of any consequence.

CHAPTER VIII

MONEY

THE two principal kinds of money in use in the Soviet Union are the notes of the State Bank, known as chervontsi, and the Treasury Notes issued by the Commissariat of Finance. In addition to these two forms of money there are silver, bronze, and copper coins which are used for fractional currency. On July 1, 1930, there were in actual circulation 1,843,200,000 rubles in notes of the State Bank, 1,349,300,000 rubles in notes of the treasury, and 262,100,000 rubles in silver, copper, and bronze coin.¹ According to Soviet statisticians the amount in circulation was considerably less in proportion to the price level than in pre-revolutionary times. This was due to a distrust in the stability of the currency which had been inculcated by the experience of the War and the Revolution, and which effectually had cured the peasantry of hoarding paper money. It may have been to some extent due to the increased use of the banking mechanism rather than the use of actual currency in settling indebtedness. It probably reflected also the inaccuracy of Soviet statistics of the price level. Soviet statisticians of necessity must be conservative in their estimates of the rise in prices which has occurred in recent years.

The chervonetz has a nominal gold value of 78.24 dolyas of pure gold, which is the equivalent in value of the old Tsarist ten rouble piece.² A minimum reserve of 25 per cent of gold, other precious metals, stable foreign

¹ *Economic Survey, op. cit.*, Vol. V, Nos. 12-13, July, 1930.

² At parity, one American dollar is worth 1.943 rubles, and one pound sterling is worth 9.458 rubles.

currencies, or bills of exchange drawn in terms of stable foreign currencies is required to cover the issue of chervontsi. It was originally intended that the chervonetz would some day be freely convertible into gold coin upon demand, but it is no longer a possibility. The needs of a rapidly expanding economy soon resulted in reducing the firm cover of the chervonetz to a point where the legal ratio is barely maintained.

It had been originally provided that Treasury Notes might be issued in an amount not greater than one-half the issue of chervontsi. The State Bank has always followed the practice of exchanging chervontsi for treasury notes at the ratio of one chervonetz to ten rubles in treasury notes. The Treasury Notes have no firm cover at all. As the need for capital grew ever more pressing with the adoption and exploitation of the Five Year Plan, the law was amended to permit the issue of Treasury Notes in an amount not greater than three-fourths of the bank-note issue. It is quite certain now that the three-fourths' limit will be exceeded whenever conditions render it desirable.

It can be definitely stated that the Soviet Union has entirely abandoned any thought of returning to the gold standard in the near future. Under the influence of the bankers and economists inherited from Tsarist days, the reorganization of the currency after the introduction of the New Economic Policy followed the familiar lines of such reorganization in other countries. These economists and bankers of the old school could not visualize the rehabilitation of the currency and the stabilization of the price level except in terms of the gold standard. The Soviet Government at that time was willing to introduce still another capitalistic device, and the gold standard was temporarily and partially tolerated.

Two circumstances were mainly responsible, in the beginning, for the failure to complete the re-establishment of the gold standard, and these same circumstances were later to be of great importance in causing the abandon-

ment of the partial gold standard which had been adopted. The first of these was the failure to revive the pre-war exports of grain. This made it extremely difficult to build up the necessary balances of foreign valuta which could be used to provide a gold reserve. The second circumstance, which was the necessity for paying for large amounts of machinery imported from abroad, had a like effect. The leaders of the Party felt that when the Soviet Union had to export food which the population needed desperately for its own uses, it could not afford the luxury of a gold reserve large enough to provide firm cover for the necessary emissions of paper currency.

The Five Year Plan had provided for a total reserve of gold, other precious metals and drafts in foreign currency of about one billion rubles by the end of the five year period. The reserve amounted on October 1, 1928, at the beginning of the period, to 279,520,000 rubles. On July 16, 1930, it amounted to 518,546,290 rubles.³ If about the same percentage increase were maintained for the rest of the five year period, it would be possible to fulfil the plan. The emissions of paper currency have, however, been constantly larger than were provided for in the Five Year Plan. An official of Gosplan attempted to explain this slightly embarrassing fact to the writer by saying that the Plan and the Control Figures both always purposely understated the possibilities and that in practice it was always found possible to issue more paper currency than had been planned!

It may be questioned why any gold reserve is maintained at all, since the currency is not redeemable in gold, and it is not planned that this shall ever be done. Soviet officials explain this by saying that the gold reserve acts as a fund for manœuvre, so that they may use it to pay for urgently needed imports whenever it is found impossible to obtain enough credits abroad to offset a temporary deficiency in their international trade balance. At

³ *Economic Survey, op. cit.*, Vol. V, Nos. 12-13, July, 1930.

more favourable times it can be built up by means of realizing net balances from trade, or from credits which have been arranged. It is undoubtedly true that a gold reserve is necessary for this reason if for no other, although it serves a somewhat different purpose than is usually true of reserve in other countries.

TABLE NO. V

CURRENCY IN ACTUAL CIRCULATION; LOANS AND DISCOUNTS, DEPOSITS AND CURRENT ACCOUNTS, OF THE FIVE PRINCIPAL BANKS,⁴ BY YEARS, OCTOBER 1, 1924, TO OCTOBER 1, 1929. THEREAFTER BY MONTHS

			<i>Currency in Actual Circulation</i> ⁵	<i>Loans and Discounts</i>	<i>Deposits and Cur- rent Accounts</i>
			(In millions of rubles)		
1924	Oct.	I	627.2	926.7	512.0
1925	Oct.	I	1,142.9	2,088.4	1,168.9
1926	Oct.	I	1,356.9	2,567.5	1,280.7
1927	Oct.	I	1,628.3	3,441.4	1,391.0
1928	Oct.	I	1,970.8	5,114.6	1,558.8
1929	Oct.	I	2,642.2 (Sept. 1)	6,579.6 (Sept. 1)	2,075.9
	Nov.	I	2,833.6		
	Dec.	I	2,872.6		
1930	Jan.	I	2,773.0		
	Feb.	I	2,686.8		
	March	I	2,803.8	Data not available	
	April	I	2,876.1		
	May	I	3,048.5		
	June	I	3,155.9		
	July	I	3,454.6		

As can be seen from Table No. V, total currency in actual circulation increased from October 1, 1928, to October 1, 1929, by 34 per cent. From September 1, 1928, to September 1, 1929, deposits and current accounts of the five principal banks increased by 33.2 per cent while their loans and discounts increased by 28.6 per cent. The total returns of the clearing departments of the State

⁴ The five banks are: State Bank, Bank of Foreign Trade, Long-Term Credit Bank for Industry and Electrification, All Russian Co-operative Bank, and the Moscow City Bank. Data are from the Statistical Department of the State Bank up to Sept. 1, 1929. Thereafter from the *Economic Survey, op. cit.*

⁵ "Currency in actual circulation" is composed of the total issue minus cash reserves of the State Bank and its branches. Such cash reserves amounted to 37,593,000 rubles on July 1, 1930.

TABLE NO. VI

WHOLESALE AND RETAIL PRICE LEVELS, BY YEARS, OCT. 1, 1924, TO OCT. 1, 1929. THEREAFTER BY MONTHS. (WHOLESALE PRICE LEVEL OF 1913 EQUALS 1.000, RETAIL PRICE LEVEL OF 1913 EQUALS 1.00.)⁶

			Wholesale Prices	Retail Prices
1924	Oct.	I	1.643	2.03
1925	Oct.	I	1.742	2.01
1926	Oct.	I	1.788	2.06
1927	Oct.	I	1.700	1.93
1928	Oct.	I	1.761	1.99
1929	Oct.	I	1.817	2.15
	Nov.	I	1.814	2.16
	Dec.	I	1.819	2.17
1930	Jan.	I	1.823	2.19
	Feb.	I	1.853	2.30
	March	I	1.868	2.29
	April	I	1.870	2.15
	May	I	1.875	2.15
	June	I	1.872	2.16
	July	I	1.887	2.18

Bank were 38.7 per cent larger during the year from October 1, 1928, to October 1, 1929, than they had been during the year preceding.⁷ Wholesale prices increased from 1.761 on October 1, 1928, to 1.817 on October 1, 1929, while retail prices increased from 1.99 to 2.15. During the same period industrial production increased by 16.8 per cent, while agricultural production was practically stationary.

Here is direct evidence of inflation. It is true that the percentage of firm cover to bank-note issue declined only from 25.6 to 25.2. But the issue of wholly uncovered Treasury Notes continued along with the expansion of bank credit indicated by the data. It is interesting to observe that prices did not rise as much as might have been expected even after taking into account the increased

⁶ Prior to Oct. 1925, retail index number computed on the basis of prices ruling in private trade. Since that time, weighted retail index number computed on the basis of two price groups, socialized and private. The socialized group is made up of prices in state and co-operative trade. Data furnished by the Statistical Department of the State Bank, to Oct. 1, 1929, *Economic Survey, op. cit.*, thereafter.

⁷ The data on clearings are from the *Economic Survey, op. cit.*, Vol. V, Nos. 12-13, July, 1930. They serve to represent the increase in velocity of bank deposits.

needs for currency and bank credit due to the increase in production.

This brings up the problem of why the price level did not rise in proportion to the increase in the quantity of money and bank credit. The answer is that the price level in the Soviet Union is not affected by changes in the quantity or velocity of money or bank credit in the same degree as in capitalistic countries. Most prices are set by governmental fiat, and all prices are in some degree regulated by the government. The regulation of prices is effective as it never could be in our present capitalistic system, since not only the regulative mechanism is operated by the government, but the production and distribution of commodities are carried on by organs of government. As a consequence, it is possible for the Soviet Government to inflate the currency without suffering the immediate results of proportionately increased prices. If an order of the Supreme Economic Council and the Commissariat of Trade sets a price on a ton of pig-iron, that price is the price at which a ton of pig-iron will be sold, regardless of what the monetary policy of the government is at the moment. This is not to say that prices in Soviet Russia are wholly unaffected by changes in the quantity and velocity of money and bank credit; but the effects are indirect and are not immediate. To the quantity theorist this situation savours somewhat of the irresistible force striking the immovable object, but the force of the increase in money and bank credit make themselves felt in a different way from what one is accustomed to in a capitalistic economy. Although prices on the state market cannot be affected directly by monetary inflation, the number of persons who will take a commodity at a given price can be affected, and the number of articles that will be taken at a given price can be also. An increase in emissions of money or of bank credit means an increase in nominal purchasing power, just as it does in capitalistic countries. But in capitalistic countries prices rise and thus the quantity which buyers

stand willing to take becomes equated to the amount sellers stand willing to offer. In the Soviet economy this cannot immediately occur. Prices do not rise, and there is consequently a greater quantity wanted at the fixed governmental price than can be provided.

As a result, there comes into existence that peculiarly Soviet institution, the queue, and people wait in line for hours to buy the limited amount of commodities available. Often after waiting in line the supplies of commodities are exhausted and the would-be purchaser must return another day to try his fortune. Along with the queue developed the system of rationing. Rationing was first caused by the food shortage. It is, therefore, difficult to say whether the queue is the mother or the daughter of the rationing system. Probably the queue antedated the rationing system. It was hoped that rationing would prevent the formation of queues by assuring everyone of a limited supply of commodities, while preventing anyone from buying any more than a specified amount. Rationing has, instead, added to the number and length of the queues, since as soon as any commodity is put on the ration list, the struggle for the limited supply becomes intensified. Every person who is entitled to buy any of the rationed commodity does so whether he needs it or not, and either hoards it or trades it off for some other rationed goods.

During the hysteria which accompanied the great sweep toward collectivization and the liquidation of the kulaki and the Nepmen, an attempt was made to prevent this hoarding by the widespread institution of what was known as "trunk week." In many provincial cities and villages, workers' brigades went from house to house searching through the trunks and chests of the inhabitants. Where hoarded cloth, extra clothing, blankets, or anything of the sort were found, they were promptly confiscated, and usually turned over to the nearest kolkhoz. If the stocks of hoarded commodities were of any considerable size, the owners were sometimes arrested as illegal traders.

Such searches took place not merely in the homes of former bourgeois, but in the homes of workers and ordinary peasants. The writer knew of a case in which a Russian woman whose husband was a common labourer brought a number of articles to a foreign resident of Moscow due to her fear of the inauguration of "trunk week" in Moscow. The article of Stalin, "Dizziness From Success,"⁸ which considerably lessened the general hysteria, put a stop to these "trunk weeks," at least temporarily.

No other people would endure the inconveniences and hardships of the system of rationing. The Russian people, however, have had to accustom themselves to it, and it has now become so much a part of everyday life that it is possible that it will be continued indefinitely, even if the shortage of food which originally gave rise to it should be successfully liquidated. Communists have always disliked a money economy. They accepted it unwillingly at the time of the introduction of Nep. Necessity compelled the introduction of the rationing system, but dogma may have an important bearing on its retention. It is the hope of the Communist theorists that the use of money can largely be eliminated by the further development of the system of rationing, which is the only alternative to a money economy.

The recent reform of the banking system has brought the goal of a moneyless economy within striking distance. It is the purpose of this reform to mediate all exchanges between governmental and so-called co-operative institutions with bank credit instead of money.⁹ If the Automotive Combination buys steel from the Black Metals Combination it pays for it not with money but by transferring the appropriate amount from its account in the State Bank to that of the Black Metals Combination. A flour mill operated by Centrosoyuz, the wholesale organization of the consumers' co-operative societies, will pay a kolkhoz

⁸ See the chapter on Agriculture, p. 110.

⁹ See the chapter on Banking, p. 180.

for the rye out of which it grinds flour by transferring the proper amount of bank credit to the account of the kol-khoz in a branch of the State Bank. It is the hope of the Party that when the reorganization is completed there will remain only wages and retail transactions to be mediated with actual currency.

Furthermore, the movement now on foot to pay workers through savings banks is seriously discussed as a means to still further reduce the use of money. It is hoped that the worker will become accustomed to paying all his important items of cost of living by cheque. The development of communal living, by which everyone is eventually to live in large houses, with common kitchens and dining-halls, will also operate to lessen the need for money. It will be possible for the worker to give one order to the savings bank which will cover all his expenditures for food, shelter, light, and heat. Or it is possible that in factory communities these may be included in the wage, so that no additional mechanism of payment will be necessary.

It is certainly true that Soviet money does not have the full attributes of money in the capitalistic world. In the case of a vast number of commodities, the possession of Soviet money is not enough to enable the would-be consumer to purchase them. For some of the commodities he must have also a ration book, and for others a book which evidences his membership in one of the consumers' co-operative societies. To purchase some commodities he must have both. In any event, he cannot keep on buying as long as he has the nominal purchasing power and the desire. Quantities which can be taken off the market are sharply limited even to the possessor of Soviet money, a ration book, and a co-operative membership book.

The writer has frequently heard the complaint that it is very difficult to spend money in Moscow. This seems ridiculous, and of course is hardly literally true. But it is a fact that among the limited group of persons who are without a family to support and who also receive the rela-

tively higher incomes, it is difficult to spend even the amount which they receive in such a way as to feel that any reasonable return for the amount spent has been received. In capitalistic countries a considerable fraction of the income of such persons is spent for expensive dinners at restaurants, in the purchase of clothes of the latest style, in buying wholly unnecessary but expensive trifles and miscellaneous articles. Unquestionably the mere act of purchasing these luxuries and unnecessaries is a source of considerable pleasure to the buyer. All this is impossible in the Soviet Union. One has to be really hungry before the prospect of eating in a Moscow restaurant would give one the slightest pleasure. This is as true for Russians themselves as it is for foreigners, for the Russian cuisine was formerly unexcelled. Of luxuries, cheap and powerful perfumes, a limited variety of poor quality candy, a watery beer, mediocre wines, and an effective variety of vodka can be purchased at very high prices. The theatre, the ballet, and the opera, which are still excellent, offer a real opportunity to spend money and receive value.

Travel is cheap, everyone has a vacation, and this furnishes one means of obtaining satisfaction for money spent. The unexpectedly large returns from the railroads in the last year indicate that Russians are turning purchasing power more and more into the few remaining channels where money is able to perform its former functions. Indeed, the officials of the Commissariat for Transportation have been rendered desperate by the great increase in passenger traffic which necessitated the use of traffic facilities needed for freight transportation. During the summer and autumn of 1930 two successive increases of 25 per cent in passenger fares were instituted, in the hope of reducing the growing tendency toward nomadism.

As a result of this shrinkage in the functions of money, there has come about a curious change in the attitude of the population toward money. People no longer desire money itself with the almost unreasoning intensity which

is frequently characteristic of a bourgeois society, where money has so long been a medium of exchange and a standard of value that it has taken on a sort of independent value. In the sadly diminished bazaars of Bokhara and Samarkand this was as noticeable as in Moscow. Native merchants were almost indifferent as to whether they sold their silks and rugs or not. They seemed to feel that whatever the amount of money which they received it was certain to be worth less than the commodities themselves.

Although prices are authoritatively regulated, the redundancy of money is a factor in causing the general price level to rise. It is always a constant temptation to raise the prices of the few luxury products higher and higher.¹⁰ Funds badly needed by the national economy can be obtained in this way without much protest. The more poorly paid workers cannot buy these products anyhow. Persons who can purchase them may dislike to see prices raised, but they have some slight compensation, in that they no longer have their attention called so sharply to the inability to find anything for which they can spend their money. The writer believes that the Soviet Government strives to create means by which surplus funds can be taken out of the hands of the population. Not that the majority of the population thinks that it possesses surplus funds. Such funds are large only because the supply of consumable commodities is so small. The Soviet Government dimly realizes, however, that if the amount of redundant money could be reduced, the long lines of people waiting for goods would be reduced. This is one of the less important reasons for the constant issues of bonds, subscription to which is practically compulsory. The withdrawal of funds from the purchase of consumable goods which is occasioned thereby lessens the assaults on the inadequate supply of commodities which is caused in part by the over-issue of money.

¹⁰ See the chapter on Labour, p. 256.

The greater convenience of money for retail transactions will probably prevent the complete elimination of money, but so strong is the power of dogma that in order to be able to say that the use of money has been entirely abolished, it is possible that some form of bank cheque may eventually be evolved so that the use of money may entirely disappear.

In spite of the fact that every effort is being made to reduce the use of money with the hope of eventually abolishing it, at the present time the emission of currency goes on at a rapid pace. The great program of capital construction set forth in the Five Year Plan and in the Control Figures for successive years is mainly responsible for the necessity for continuous emissions. The rapid sweep of collectivization in agriculture has been another factor which has not only directly necessitated increased emissions but has stimulated the capital-construction program on account of the necessity of providing machinery for the new large-scale methods in agriculture, and so given another fillip to the currency emissions.

It has become part of the Party creed that the continued emissions cannot affect prices since they are authoritatively regulated. This belief did not cause the currency emissions, but it has nerved the Party to go ahead with its program in the face of inability to find necessary funds in any other way than by expanding currency and bank credit. It has now become the orthodox thing to say that Soviet money is not money in the capitalistic sense at all, since it does not obey the same rules and laws. In a capitalistic economy, increased emissions must mean higher prices, but this is not so in the Soviet economy for the reasons stated above. Consequently, Soviet currency is not money but is simply "labour tickets" which entitle the holders to a certain amount of commodities—if they are to be had.¹¹

¹¹ See the discussion of this theory in the article by B. Berkovski, *K Voprosu O Prirode Deneg S. S. S. R.* in *Vestnik Finansov*, Feb., 1930. He discusses a previous article published in the August, 1929, issue of *Planovoe Khoziaistvo* by G. Kozlov, which deals with the same question.

The huge sums which are necessary for capital investment in industry and in collectivized agriculture are not provided primarily by means of grants from the budget. Although large grants of this sort are made, the principal monetary resources are obtained by means of increasing the quantity and velocity of bank credit. It is the belief of the Party theorists¹² that so long as funds can be provided by means of increasing the quantity and velocity of bank credit, the evils of inflation are avoided. It is true that an increase in the quantity of bank credit has usually necessitated further emissions of Bank Notes or Treasury Notes. The reorganization of the banking system, however, is counted on to lower appreciably the proportion of currency to bank credit. Furthermore, the new scheme is expected to materially increase the velocity of circulation of bank deposits so that a given quantity of bank credit will do more money work. This raises an interesting question for the money and banking theorists. Will an increase in the quantity of bank credit or an increase in its velocity have a different effect upon the price level or upon the monetary demand for commodities than would be true if a quantity of paper currency sufficient to perform the same amount of money work were issued? The answer to this question is of as much interest to the capitalistic world as to the socialistic world.

The procedure for providing funds for the needs of agriculture, commerce, and industry at the present time is for the banks to loan all the money that they can, and then to call upon the Commissariat of Finance for additional grants to industry when their available funds are exhausted. When the Commissariat has made an additional grant through the device of issuing more Treasury Notes, the banks can then extend much more credit than the

¹² By "Party theorists" the writer does not mean theorists who are in every instance members of the Party. The reference is to those economists who develop ingenious theories which justify the policies of the Party. They correspond rather closely to the group in capitalistic countries who develop the "harmonies" of the capitalistic system.

amount of the new issue by use of the process of the pyramiding of bank credit upon reserves.

The net addition to the amount of capital construction which can be paid for is measured not only by the additional quantity of currency and bank credit, however. It is dependent upon the velocity as well as upon the amount of bank credit. This is not to suggest, of course, that the amount of concrete capital, goods, labourers, and natural resources can be increased without limit by increases in the quantity of money, of bank credit, or by increases in the velocity of either. At times, however, the amount of media of exchange is a limiting factor upon the quantity of the productive forces which can be set in motion. As additional quantities of circulating media are issued or as their velocity increases, a point is reached where successive issues have a smaller stimulating effect upon production per unit of currency or bank credit issued. The Soviet Union has undoubtedly carried the issue of currency, the expansion of bank credit, and the stimulation of the velocity of both, beyond this point. It is likely that the degree of control over all the factors of the economy make it possible for the Soviet Government to carry this process farther than it has ever been carried before setting up reactions which bring about a business crisis followed by depression.

The Party is determined that monetary considerations shall not operate to limit the program of industrialization and socialization to which it is committed. That business cycles, panics, and credit stringencies are diseases which afflict a capitalistic economy, but against which a socialistic economy has been effectively inoculated, is the Communist faith. Consequently the Party can recognize only physical limits to the possibilities of its program. Iron and coal lie far apart in the Soviet Union. Therefore, it is necessary to burn peat in some plants. This necessitates a high cost of production. This is a physical limitation, and cannot be remedied except by physical means. It is absolutely

unallowable, however, that the program shall be hampered by lack of money. Consequently, the planning organs are now supposed to proceed upon the assumption that the necessary money will be provided for any project, if the physical factors essential to its success can be provided by the Soviet economy.

Communists are quite aware that inflation in the past has always been accompanied by economic disaster. Not only is this true of capitalistic economies, but it was also true of Soviet economy in the period before the monetary stabilization which was completed in 1924. They believe, however, that conditions are basically different now. The currency system had already been wrecked in the pre-Nep period by the War, the Revolution, and the Civil War. The industrial apparatus was almost a ruin in those days. Now the new issues of money can be used for productive purposes instead of being used to balance the budget. There can be no over-issue of money, the Communist says, if new issues of money are used to set otherwise unemployed labour in motion, and if tools and machinery and natural resources can be found with which these labourers can work.

This represents a new theory of a managed currency. The issue of currency and the expansion of bank credit is not to be managed with any regard for the gold reserve. Neither is it to be regulated by indices of annual increases in production or in volume of trade. It is to be regulated simply by the productive needs of the economy for money. Whatever these needs are, they must be met.

Nevertheless, the Party theorists retain a hearty respect for the power of money. Money has so long been the servant of Capitalism that it does not relish working for Communism and seeks every opportunity to strike at its new master. Communism will discard this unwilling servant as soon as it is expedient, but in the meantime its power for evil must be taken account of. Therefore, the issues of new money are kept as low as possible, and bank

credit is substituted for it whenever it is feasible. New issues of money are not resorted to as a substitute for any funds which can possibly be obtained by means of either social or quasi-private saving. Prices are kept high so that the profits of the national economy can be used for capital expansion. New bond issues are constantly imposed upon an unwilling but helpless population. When the resale and hypothecation of these bonds become so great as to absorb a large part of new issues of currency, the sale and hypothecation of these bonds are forbidden.

It must be admitted that Soviet economy has demonstrated its ability to operate without the use of the gold standard and with increasing expansion of the currency and bank credit in a way which it would be difficult for a capitalistic economy to duplicate. Prices have not risen in proportion to this monetary and credit inflation. The Soviet ruble still serves with reasonable efficiency as a book-keeping standard of value. Capital construction has gone forward much farther than would have been possible if the advice of the old economists and bankers had been heeded. It is doubtful, however, whether inflation has not now been carried to such extremes that serious harm to the economic system will result before it can be checked.

There is no free legal exchange market for the ruble, and the illegal market is of negligible importance. Ruble exchange can be purchased only from organs of the Soviet state. The export and import of Soviet currency is forbidden. The ruble is kept at a fixed ratio to the American dollar, and the State Bank or other governmental organs buy and sell rubles only at this fixed and unchanging rate. Other currencies are bought and sold at a rate depending upon their fluctuations in terms of dollar exchange. Stringent regulations govern the importation and exportation of foreign currencies or of other valuta. Foreigners who reside more than one month in the Soviet Union cannot take out any foreign currency without a special permit.

This permit is granted only upon documentary evidence that a like amount has been brought into the country. Furthermore, a deduction of ten rubles per day from the amount brought in is made in computing the amount which can be taken out. This sum is supposed to cover the amount necessary to live in the Soviet Union during the period when the foreigner was in residence.

Soviet citizens are forbidden to have foreign currency or other valuta in their possession. They are also not allowed to have balances abroad. Soviet citizens who obtain permission to go abroad or who are sent abroad on governmental missions are permitted to exchange only a very limited amount of Soviet money into foreign currency. The Soviet Government provides persons sent abroad from time to time with the amount of foreign currency or exchange necessary for their living expenses. Any balance of foreign currency which such persons may have must be exchanged for Soviet currency immediately upon their return to the Soviet Union.

The monopoly of foreign trade which the Soviet Government maintains makes it possible for it to prevent the expansion of currency or bank credit from affecting foreign trade adversely. Practically speaking, both buying and selling on the foreign market are carried on in terms of foreign valuta. The Soviet Government is compelled by this system to regulate its purchases abroad so that the supplies of foreign valuta which it receives from the sale of commodities in foreign markets is always adequate to pay for current purchases or to meet obligations which fall due on account of goods which have been bought on short-term credit. There cannot, therefore, be any question of the expansion of the currency in itself, preventing exporters from obtaining payment in stable currencies for goods sold to Soviet Russia. Furthermore, since the Soviet ruble has been entirely divorced from the international exchange market and from the value of gold, the internal credit and currency policy is not ham-

pered by the necessity for protecting the foreign exchange value of the ruble.

The decision to divorce the ruble from any relation to the international exchange market or to the value of gold was taken when emissions of ruble currency had reduced the foreign exchange value of the ruble to a point very materially below its nominal gold value. The Soviet Government came to this decision for a number of reasons. In the first place, it felt that its prestige was involved. The stabilization was being undone, and the public opinion of the financial world was adversely affected. If the policy of continual increases in emissions was followed, it was obvious that Soviet currency in increasing amounts would find its way abroad. This currency would be offered in the foreign exchange markets at Berlin, Riga, Constantinople, and elsewhere and would drive the exchange value of the ruble lower and lower. Since the internal price level was kept from rising by governmental fixation of prices, the result would also have been that foreigners would have been able to purchase goods and services at low prices in Russia. During the period before the Soviet Government completely destroyed the free foreign exchange market, foreign concessionaires used to buy rubles in Berlin and send them to Moscow for paying the wages of their workmen.

The Soviet Government had always preferred a closed economy, in which all the elements and factors of economic life would be subject to authoritative regulation. This had been impossible during the first years of Nep, when private merchants carried on such a large proportion of the commerce of the country. Even during this early period the monopoly of foreign trade by the state had been maintained. Strengthening of the pressure of state trade against private commerce coincided with the decision to destroy any semblance of a free exchange market for the ruble. The ability of the Soviet Government to carry out its policy of currency and bank credit expansion without

completely disrupting the economic organization of the country is principally due to the existence of an almost completely closed economy.

A comparison of data on wholesale prices in the Soviet Union in March, 1930, with those of Great Britain shows that the wholesale price level in the Soviet Union was about 24 per cent higher.¹³ A comparison of the retail price level of the Soviet Union with that of the United States shows that retail prices in Soviet Russia were about 61 per cent higher than in the United States.¹⁴ It is certain that the estimate of the difference in prices on the internal and external market is too conservative. Foreigners resident in Moscow always consider that retail prices are more than double those on the international retail markets. However, it is very difficult to compare adequately the internal and external price levels. A very large number of commodities which are represented in estimates of the price level in foreign countries are sold in negligible quantities or not at all in the Soviet Union. This circumstance militates particularly against comparing retail price levels.

The difference in the internal and external price levels affects the buying and selling of commodities abroad in an interesting manner. The textile industry, in effect, receives a subsidy due to the fact that it pays the State Bank for the raw material which it buys abroad in rubles while the State Bank must settle this indebtedness abroad in foreign valuta. On the other hand, the oil industry sells its products abroad and receives payment from the State Bank in rubles, while the State Bank adds to its valuta balance the sums paid in foreign valuta for Soviet oil. Nevertheless, this circumstance does not cause very great concern, since the oil industry is one of the most prosperous industries and the textile industry is compelled to pay excise duties to the state on textiles which it produces. More important

¹³ See the chapter on Labour, p. 249.

¹⁴ See the chapter on Labour, p. 251.

still, both industries are creatures of the state, and the profits of both accrue mainly to the state. The difference between the internal and external price levels also raises problems in connection with the general export and import policy of the Soviet Government. Since the ruble is actually worth considerably less in terms of gold than its nominal gold value, goods can be sold abroad at a price considerably below the nominal cost of production without entailing any economic loss. This is true because the nominal ruble value of the foreign valuta received is less than its real value. Conversely, a commodity purchased abroad is actually more costly than its nominal ruble cost. This principle would be of more importance if it were not for the fact that the Soviet Government habitually sells goods abroad below the point of cost of production and far below the price which could be obtained for the goods on the domestic market, even after allowance has been made for the difference between the nominal and the real value of the ruble. Likewise, in so far as possible, goods are produced internally, even though they could be purchased abroad at a price low enough to more than offset the difference in the internal and external price levels. This is due to the inability of the Soviet Government to obtain foreign credits sufficient to cover any large part of the cost of importing capital equipment and technical aid for the Five Year Plan. The result is that extraordinary value is placed on foreign valuta, which has little connection with the theoretical parity of the ruble and foreign currencies as they would be measured in terms of the price levels of the Soviet Union and foreign countries.¹⁵

The difference between the internal and external price levels and the constant emissions of currency is a consider-

¹⁵ See the chapter on Foreign Trade, p. 161-163. The problems raised by the difference between the internal and external price levels and the divorce of the ruble from the gold reserve is frequently discussed by Soviet economists. See the article *Ob Osnovnykh Liniaakh Valutnoi Politiki*, by S. Vinokur in *Finansovye Problemy Planovogo Khoziaistva*, No. 3, 1930, p. 24.

able incentive to smuggling Soviet currency into the country. It is possible in Riga and Berlin to purchase Soviet currency at a rate varying from one-half to one-fourth of its nominal value. In cities near the Soviet-Persian frontier, rubles are bought and sold at one-fifth of their nominal value. The risk is so great, however, that little currency is actually dealt in illegally. Where offenders are caught the death penalty is frequently inflicted. Since the Soviet Government encourages tourists to visit the country, it is almost impossible to subject them to the same searching examination as that to which Soviet citizens are subjected at the frontiers. Some currency is, consequently, smuggled in in this way. The Soviet Government protects itself against this in a curious way. Oriental rugs, jewels, paintings, antiques, and *objets d'art* in general, which the tourists buy from government commission shops, must be paid for in foreign valuta. Rubles are positively not acceptable. Thus we find the curious spectacle of a government refusing its own currency in shops operated by its own agencies.

In spite of the high degree of control over all the factors and elements of the economy which the Soviet state maintains, it is evident that it will be difficult to increase the expansion of the monetary and credit system at an increasing rate. It will be possible, no doubt, to continue to expand it somewhat. But the rate of increase cannot rise very much higher without seriously hampering production and distribution. The difficulties connected with rationing have already been mentioned. As long as the present rate of expansion of money and bank credit continues, the hoarding of commodities which results will make it almost impossible to alleviate the goods famine which exists. Another sign that the limit upon the expansion of the currency issue and of bank credit is being approached is the shortage of labour which is beginning to appear, and the tremendous labour turnover which is now causing so much anxiety. For the first time industries are finding it necessary to bid against each other for the avail-

able labour supply. Although the general wage rates in industry are established by the planning organs, it is still possible to promote labourers more rapidly into positions paying higher rates of wages, and to increase labour costs in this indirect fashion. This also has its effect in preventing the much desired lowering of costs of production.

The repressive measures which are now being taken against hoarders of silver fractional currency and against persons who spread reports about the instability of value of Soviet money shows how gravely the confidence of the population in the monetary system has been shaken.¹⁶

Nevertheless, it is unlikely that the present inflationary process will result in any economic crisis of a catastrophic nature. The Soviet Government can intervene in order to prevent such results in a way which is impossible for present capitalistic governments. The basic safeguard, however, is the fact that Soviet economy, even at the present time, is not a money economy in the sense that capitalistic economies are, and that as a consequence monetary considerations are not liable to determine its eventual success or failure.

¹⁶ In August 1930, ten persons were shot for hoarding metallic currency and for spreading reports about the unsoundness of Soviet currency.

CHAPTER IX

THE CO-OPERATIVES

THE co-operative movement in the Soviet Union differs in essence from the co-operative movement in all other countries. In the capitalistic world, co-operative organizations may be said to have one or both of two principal purposes. A dairy co-operative in the United States, for example, has for its essential purpose the marketing of the products of the co-operative organization so as to obtain the largest possible return to its members. It may have the additional purpose of developing the general co-operative movement, on account of the belief of its directors that the co-operative form of organization constitutes a basic and general means of economic and social reform. The second purpose is frequently entirely lacking, and it may be said that the typical co-operative outside of the Soviet Union is operated almost wholly for the immediate benefit of its membership.

In the U. S. S. R., however, we find that the immediate economic advantage of the membership of the co-operatives is entirely subordinate to other considerations. The dominating purpose of the co-operatives is to aid in the construction of a socialistic society based upon the plans and principles of the Russian Communist Party. It is essential that this difference between the co-operatives of the capitalistic world and of the U. S. S. R. should be kept in mind. The difference is so great, in fact, that it seems doubtful whether or not the term "co-operative" should be applied to two such radically different sorts of organizations. The co-operative organizations of the Soviet Union must be considered rather a part of the system of

Russian Socialism, than as a part of the world co-operative movement.

The present co-operatives have only the faintest of connections with those of pre-revolutionary days. During the Revolution and the period of War Communism the old co-operatives practically disappeared. The present co-operative movement was established under almost entirely new leadership. The leaders of the old co-operative movement had been out of harmony with the Revolution as it finally developed, and the Communist Party recognized the necessity of seizing control of the co-operatives and adapting them to their policy of constructing a socialistic system. This was done, and at the present time the co-operatives are guided and directed by the Communist Party along lines of development which are intended to harmonize with the general scheme for the economic and social development of the country.

There are three main groups into which the co-operatives are divided. They are the consumers' co-operatives, the producers' co-operatives, and the agricultural producers' co-operatives. In addition to these three main groups there are a large number of miscellaneous co-operative organizations which cannot be grouped under any of the three main types. Among them are the hunters' and trappers', the invalids', the barbers', the housing, the literary, and the fishermen's co-operatives. The Soviet Government and the Communist Party have made it their policy to encourage in every possible way the formation of co-operatives among the groups of the population which would not otherwise be brought within the compass of socialized economy. The number of workers employed in industries operated by the state in the Soviet Union is necessarily very small in proportion to the total population of a country so largely rural in character. It is upon the co-operatives, therefore, that the chief responsibility has had to be placed for bringing the wide masses of the population in touch with socialized production. The

degree of success attained by the co-operatives has been one of the most important factors in determining how long the "retreat to capitalism" which distinguished the New Economic Policy need last. If the construction of socialism had to wait until socialism could be founded directly upon large scale state-operated industry alone, then the New Economic Policy might be expected to last indefinitely. Lenin said, "With co-operation and electrification we can construct Socialism." He said also, "A system of enlightened co-operators, with public ownership in the means of production, and the class victory of the proletariat over the bourgeoisie is a Socialist system."¹ Upon the basis of these declarations of Lenin in regard to co-operation, the Party has counted upon it to aid in the maximum curtailment of the life of the New Economic Policy. Through the three great systems of co-operatives, and by means of organizing a large number of miscellaneous co-operatives in fields not covered by these three systems, the Party has succeeded in shortening the period of Nep to an extent which hardly any observer, either Party or non-Party, Russian or non-Russian, had thought possible.

Most important of all the three types are the consumers' co-operatives, the membership of which in the economic year 1928-29 amounted to 32,758,000, with a planned increase to a membership of 40,258,000 in 1929-30. Of the total membership, 19,905,000 belonged to the rural societies and 12,852,000 to the urban societies.² A much larger proportion of the urban than of the rural population belongs to the consumers' co-operative societies. Membership is voluntary in theory, but as is true in the case of the trade unions, the disadvantages and disabilities of the non-member are so great that there is a growing tendency for everyone who is eligible to

¹ Lenin *On Co-operation*, quoted, p. 3, *The Consumers' Co-operative Movement in the Soviet Union*, by Nekrassov.

² *Kontroľnye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 571.

become a member. This development, however, has only come about during the last three years; that is to say, beginning in 1928, when the co-operative membership card began to take on the character primarily of a ration card. Membership is open to all citizens of the Union who have not been deprived of civil rights. This means that the whole population of the Union, with the exception of some eight million persons, are eligible for membership. It is the eventual goal of the consumers' co-operatives to have universal membership among the eligible population.

The cost of shares in the consumers' co-operative societies has undergone a considerable change since they first were reorganized at the beginning of Nep. Originally it was customary to charge a fixed price to each individual who purchased a share. This amount was quite small, and was fixed by law in 1924 at 5 rubles. But a new policy came into existence by which the amount charged for membership was made dependent upon the amount of the salary of the individual who purchased a membership share. Eventually the general policy came to be that of charging one month's salary, payable, however, in installments. This was to be retroactive so that persons who had formerly joined were to be charged an additional amount great enough to make the total amount paid equal one month's salary, but the difficulties of administering such a policy lead one to doubt whether this will actually be done. On account of the policy of increasing the amount charged for shares, and by making it possible to obtain a large category of scarce goods only through the possession of co-operative cards, the consumers' co-operative societies were able to add 200,000,000 rubles to their share capital during the economic year 1928-29. This amount exceeded the whole sum of their share capital accumulated up to that year.³

Dividends are not usually paid upon share capital, since the practice is for one individual to own only one share,

³ *Economic Survey, op. cit.*, Vol. V, No. 2, Jan. 31, 1930.

and it is therefore considered unnecessary to add to the book-keeping required by disbursing small dividend payments. Neither are dividends paid upon purchases. It is considered that in this way prices can be made lower than if dividends upon share capital or upon the amount of purchases were paid, and the result to the consumer-member is different only by the amount of the saving in overhead costs which the policy entails. While it is true that, except for certain commodities, anyone is free to buy in a shop which is operated by one of the societies, the opportunity to obtain these restricted commodities at the co-operative price is a sufficient inducement to membership. When it is considered that people who are not eligible to membership in the co-operatives are frequently glad to buy these commodities by paying double the price which is charged to co-operative members, the monetary advantages of membership are apparent. Others of this restricted list of commodities can be obtained without co-operative membership cards only in the private market, if at all. If obtainable in the private market the price is frequently three or four times as great.

The consumers' co-operative societies are divided into three main branches: the rural consumers' co-operatives, the urban workers consumers' co-operatives, and the transport workers consumers' co-operatives. In 1928 the total number of societies in all three branches was 27,709, operating 87,863 stores.⁴ It is the policy of the consumers' co-operatives to develop along the lines of the American chain stores, and in consequence it is expected that the number of stores will increase much more rapidly than the number of societies. The individual societies are grouped into unions, and these unions maintain warehouses for which goods are shipped out to the stores of the individual societies. For the purpose of wholesale buying, all the consumers' co-operative societies are members of a central purchasing association known as Cen-

⁴ Data furnished by Centrosoyuz as of Oct., 1928.

trosoyuz. In the large cities there are wholesale purchasing organizations for the city and for the surrounding territory.⁵ Both Centrosoyuz and the wholesale buying agencies for the city co-operative societies carry on very large scale operations. They represent the consumers' co-operative organizations in dealing with the great state Trusts and Combinations. In many cases the warehouses of the Trusts and Combinations have been turned over to Centrosoyuz and the other wholesale consumers' organizations, and goods are sent directly from the factories to these warehouses, or even directly to the stores. Centrosoyuz exercises general leadership over the consumers' co-operative societies, maintains exhibits of the latest methods of retailing, arranges for the distribution of trained personnel among the societies, organizes accounting systems for them, and carries on similar functions.

Centrosoyuz also maintains some manufacturing plants engaged in flour milling, in tea-packing, in vegetable, fruit, and meat canning, and in candy-making, as well as in the production of soap, tallow, and oil. The large wholesale organizations in the cities also have bakeries which supply the bread used by the city population. These organizations have even established enormous dairy farms, some of which have thousands of head of cattle.⁶ The wholesale organizations maintain cold-storage plants for the purpose of conserving the meat, fish, and other perishable products which they handle. In Moscow, Centrosoyuz and M. O. S. P. O. co-operated in building such a plant and both organizations use it. However, the storage facilities of the consumers' co-operative organizations are wholly inadequate, and a very large amount of food is lost due to spoilage.

Centrosoyuz carries on a great import trade through the government trading monopoly. One of the most

⁵ The wholesale organization for the city of Moscow is known as M. O. S. P. O.

⁶ M. O. S. P. O. plans to have 15,000 cows on its dairy sovkhos near Moscow, during the year 1930.

important items in this trade is tea. Centrosoyuz and the consumers' co-operative organizations have a monopoly on the tea trade of the Union. Centrosoyuz maintains close trade relations with the British Wholesale Co-operative Society, which is of great benefit to the Soviet consumers' co-operative societies in view of the control over a considerable part of the supply by the British organization, and their thorough knowledge of the entire market. The importation of consumption goods is almost entirely in the hands of Centrosoyuz, but the amount of such import is of less importance than might be thought on account of the policy of the Soviet Government to reduce the importation of such goods to the absolute minimum in order to conserve the supply of valuta for purchasing capital equipment from abroad.

Centrosoyuz gives financial aid to some of its weaker member societies. This is particularly true in the case of the societies which are being developed in regions sparsely settled, or inhabited by national minorities. The socializing work of the consumers' societies in these regions is considered a justification for what amounts to a partial subsidy. Centrosoyuz partially finances its own operations as well as those of the other parts of the consumers' co-operative system through the All-Russian Co-operative Bank. Centrosoyuz is the largest stockholder in this bank. In the past large credits have also been obtained from the State Bank. Prior to 1929 the financing of the consumers' co-operative organizations depended mainly upon bank credit and upon accumulations from profits, on account of the relatively small fee charged for membership. But with the change in policy already described, less reliance has had to be placed upon the share of bank credit in financing the organizations. As a consequence, the amount of the advances of the State Bank to the consumers' co-operative organizations was considerably less during 1929 than had been planned.

The consumers' co-operative stores sell almost every

kind of consumption goods which are for sale in the Soviet Union. The most important part of their business is the retailing of groceries and meat. They also handle fresh fruits and vegetables, although this part of their business has been little developed. In addition to groceries, however, there are stores which sell textiles, hardware, clothing, and many other lines of goods.

An analysis of the selling costs of the consumers' co-operatives affords some measure of their operating efficiency.

TABLE NO. VII
ANALYSIS OF SELLING COSTS OF CONSUMERS' CO-OPERATIVES ⁷

	In percentages of the net sales	
	1926-27	1927-28
A. Trading expenses:		
1. Overhead costs	5.84	5.76
2. General trading expenses	11.32	10.55
Of these:		
(a) Personnel	4.53	3.86
(b) Lease of offices	1.22	1.11
(c) Taxes	2.61	2.87
(d) Interest (saldo)	1.01	0.90
3. Losses	1.44	1.15
Total (1, 2, and 3)	18.60	17.46
B. Surplus	1.27	2.11
Whole price margin (A and B)	19.87	19.57

The societies and the wholesale organizations have a very important part in public feeding. Co-operative restaurants and "cooking factories" are operated by them. In Moscow, M. O. S. P. O. operates many of the small public restaurants. The feeding of the workers in the factories is generally carried on by the workers' co-operative societies of the different factories. The importance of public feeding is constantly increasing, and it is intended that in the city of the future, cooking and eating in private will have practically disappeared. In the new apartment houses

⁷ Data furnished by *Centrosoyuz*.

which are being built there is no provision for cooking by separate families. The number of public restaurants and communal kitchens has been very rapidly increasing of late.

At one time the consumers' co-operative societies were an important factor in buying up grain and other agricultural products in the villages. In the great grain-growing regions this part of their activities has almost entirely ceased, and it has been considerably curtailed everywhere, as this function tends to be performed by the agricultural co-operative organizations. A considerable number of furs are purchased directly from the population in the sparsely settled districts of Siberia, where it has proved undesirable to maintain two sets of co-operative organizations.

A large amount of cultural and propaganda work is done by the consumers' co-operative organizations. Special training courses are given to their personnel, and extension work of general educational value is also given. Moving-picture apparatus of a portable nature is maintained, and special co-operative films are shown as the outfits are moved from place to place.

The most important executives of the consumers' co-operative system are Party members and the system is entirely dominated by the Party. The fiction of democratic control by the membership is not very seriously kept up. In so far as the administrative personnel is elected, it is done through the device of the Party slate, drawn up by the Party fraction. The degree of state control over the consumers' co-operatives is somewhat less than in the case of state industry, but the degree of Party control is fully as great.

The Producers' Co-operatives

The producers' co-operatives represent an attempt to bring small-scale industry within the orbit of Socialism. Russia before the Revolution presented the picture of a country which was just beginning to become industrialized.

Industrialization had developed in the Western world before its introduction into Russia, and as a result such mechanized industries as were established in Russia were usually on a large scale, highly mechanized and producing a large volume of products per industrial unit. It was comparatively easy to socialize these large-scale industries, from the standpoint both of technical organization and of the psychology of the proletarian workers employed in these industries; but quite another problem was presented by the handicraft workers. The number of these workers was increased by the break-down of production in the great industries during the War, and by the flight to the country upon the part of the urban population which was the result of the hunger years of 1918-19 in the cities. These handicraft workers represented an element which, if not petty bourgeois in their point of view and in their psychology, were always liable to become so. If the handicraftsman were to be permitted to develop his individual production and trade, it was possible that with the growth of industry and commerce he would prosper to such an extent that he would develop into an element inimical to the socialistic development of the country. Since the danger of a similar development among the peasantry was always present, the Soviet Government and the Party recognized the necessity of organizing these artisans in such a way as to insure that their ideology would become proletarian rather than bourgeois.

In addition to the desire to bring the artisan within the sphere of socialistic reconstruction of the country, the producers' co-operatives were considered important for two other reasons. First, by means of the establishment of small artels which produced a wide variety of products, it was possible to partially alleviate the pressing problem of unemployment; and second, the total amount of production from these artels of artisans was an important element in liquidating the ever-present goods famine. Indeed these artels not only produced goods for the domestic

market, which must otherwise have been imported or done without, but they also produced an important quantity of goods for export. It is true that some of these goods would have been produced even if the artisans had been unorganized, but a much larger proportion of goods were available for the urban markets and for export than if the Party-dominated organizations had not existed. The state was also able to obtain them at a lower price than if the artisans had been unorganized, since the co-operatives are required to sell their product to state or co-operative organizations in preference to private trade. All these reasons induced the Party and the State to encourage the growth of the artels and of the unions of artels, and to guide and direct them, not along the lines of co-operative organizations in bourgeois countries but along lines which would contribute to the policy of the complete socialization of the country.

✓ The basic unit in the producers' co-operative organizations is the artel, which may have only five or six members, or may have as many as several thousand in rare cases. The artel is under the direction of a committee, usually of three persons, who are elected by the members of the artel. One of these is usually appointed the chief director. The directors have general charge of the administration of the artel, of working discipline, of arranging for the marketing of the product, and of all matters which concern the relations of the artel with other economic organizations. They appoint a book-keeper, or in the case of the larger artels, an accounting staff, and have charge of the distribution of profits and of capital improvements. The directors are not considered, however, as having interests apart from the members of the artel, but in theory, at least, are the representatives of the workers of the artel. This is an important theoretical difference from state industry, where the management is appointed by the state, and is not directly responsible to, or under the control of, the workers of a given factory. In the vil-

lages, the artisans may work in their own homes and simply receive a certain amount per unit of product from the producers' co-operative organization. In this case the co-operative association is mainly an organization for marketing, and for providing raw material to the members. However, such associations must sell their products only to state and co-operative organizations. The member of an association must market his product through his own co-operative association.

The members of the urban artels ordinarily receive a regular weekly or monthly wage, or the payment is by piece-work as in any other factory. The amount of the wage does not depend directly upon the profits of the artel. There is no reckoning up of profits at the end of a given period and distributing them among the members. It is true that the profitability of the enterprise determines to some extent the piece-rate wage, or the weekly wage of the members of the artel. But the amount which can be received by each member is limited. In the first place, there is an absolute limit, in that no member is permitted to receive more than five hundred rubles per month. In the second place, the customary rate of pay for similar work in state enterprises sets a limit above which compensation is not permitted to rise far. Nevertheless, by means of defining the type of work so as to permit the workers to receive the higher rates, the compensation frequently is higher in a successful artel than in a similar state institution. When profits and wages tend to run too high, they are limited through the practical device of sending more labourers from the labour exchange to be employed by the artel, and thus the members of the artel are forced to share their opportunity with the less fortunate. Wages have been reduced in the metal workers' artels in Moscow in several instances by this method.

The profits of the artel are used for capital improvements and extensions, which also have the general result of increasing the number of workers who can find employ-

ment. A part of the profits are used for the purpose of providing club-rooms for the labourers and for improving general working conditions. Twenty-five per cent must be turned over to the All-Russian Co-operative Bank to be added to its special capital funds for the purpose of loans to co-operative undertakings. Ten per cent of profits must be paid to the state as an income tax, as in the case of state industry.

The urban artels are financed by loans from banks, by entrance payments of members, and by loans from members. Formerly loans were obtained from both the State Bank and the All-Russian Co-operative Bank, but at the present time most of the bank loans are received from the latter bank only. When an artel is first created, those of its members who have extra funds may loan considerable sums to the artel, in cases where large amounts of machinery are needed. The members are then repaid out of profits, and interest of 8 or 10 per cent on the amount is paid also. Members who do not have the minimum amount required to pay for a share in the artel may pay part of the sum by means of a deduction from the weekly wage, of from 5 per cent to 15 per cent depending on the amount of the wage. All members must pay for a share in the artel, either at once, or in the manner described.

Many of these industrial producers' artels have been highly successful. They have been aided by the universal goods famine in a country which is straining every nerve to increase its industrial production. The co-operatives have not, therefore, been confronted by serious marketing difficulties. State or co-operative organizations are always ready to take their product. An astonishing variety of products are manufactured by these artels. Tea-kettles, mechanical saws, electric bread-cutting machines, parts for machine lathes, leather-working machinery are some of the things produced by the artels in Moscow alone. The workers in the factories operated by the artels do not belong to trade unions, except as they may previously have

belonged and still retain their membership. In such cases their trade-union membership is lost after two years, although they may be reinstated if they obtain work in a state factory.

The growth of some of the artels has been very great. One small artel of the Metal Workers' Co-operative Union, which had begun work with only 5 members, after having been in existence one year was prospering and had 25 members. This increase in numbers had come about mainly through the sending of men to the artel by the labour exchange to find employment. It was expected that 10,000 rubles' profit would be earned for the year, although the influx of new labourers had reduced wages. Another artel which had begun in 1918 with 20 workers, in the fall of 1929 had 200 workers, and had made 100,000 rubles' profit during the previous year. Of 11 artels in the city of Moscow visited by the author, every one was planning to extend its business, new buildings were being erected, and all were prospering. The Metal Workers' Co-operative Union of the Moscow district had 315 artels with 12,000 members. Their production in 1928-29 amounted to 40 million rubles, and it was planned to increase this amount to 52 million rubles in 1929-30.⁸ In Moscow there are three large unions comprising the artels in the textile, metal, and leather industries. There are, however, considerable numbers of artels producing other kinds of products which are not organized into unions. A union of artels for the workers in wood of the Moscow district was being organized in 1929.

All the industrial producers' artels of the U. S. S. R. are affiliated either directly or through their district unions with the council of producers' co-operatives for the Union Republic in which they are located. There is finally an All-Union Council of Producers' Co-operative Unions, which is the planning and guiding body of the whole system. There is also a closely affiliated organization known

⁸ Data from the Metkopromsyuz.

as the All-Russian Union of Producers' Co-operative Associations which carries on operative functions for the constituent producers' co-operative unions. It provides raw materials, arranges for bank credit, and assists in marketing the products of the unions. About 180 different crafts are represented in the system. There are about 200 unions affiliated with the All-Union Council. It is the purpose of the Party, as announced in a decision of the Central Committee,⁹ that the unions of producers' co-operatives shall embrace all artels which are engaged in any sort of industrial production, and to organize all artisans into these artels, so that eventually there will be no independent artisans, nor any independent artels.

The problem has arisen of how to correlate and integrate the work of the industrial co-operatives which are under the direction of the All-Union Council of Producers' Co-operatives with the work of the large-scale industries under the control of the Supreme Economic Council. With the constant expansion of the industrial artels they have in some cases reached a size which compares with that of the state industries. The expansion of these co-operative industries has sometimes led to friction between state industries and the co-operative industries over the supply of raw material. There have been cases in which the local governments have tried to force the mechanized co-operative industries to become state industries under their control. This happened in Northern Caucasus, Siberia, and other districts.¹⁰ The Council has been instructed by the Party, on the advice of its co-operative section, to direct its membership to concentrate their activities on the working up of goods for which there is an ample supply of raw material in the locality in which the artels are located, in order to avoid competition with state industry for raw materials which are insufficient in

⁹ *Pravda*, March 2, 1930.

¹⁰ See the statement of the Director of the Council in *Izvestia*, Feb. 2, 1930.

amount. At the same time instructions were given to arrange with the Supreme Economic Council so as to avoid duplication in the construction of new industries and in the extension of existing plants. Attention is called to the inadvisability of the co-operative industries attempting to carry on all the steps in the manufacture of products in one plant, when partly fabricated material can be purchased much more cheaply from state industry, while the co-operative industries can specialize on finishing work.¹¹

Coincident with the disappearance of private trade and industry which accompanied the decline of the New Economic Policy, many Nepmen sought economic salvation in the formation of small co-operative artels in which they and their families found employment. This was almost their only hope, since all persons who have been engaged in private trade or industry are deprived of electoral rights and consequently cannot be employed in state industry.¹² It was charged that these former Nepmen made very large profits, which were distributed among the small membership of the artel. This was held to violate one of the basic principles of the Soviet co-operatives, which prevents the members of a successful artel from realizing monetary profit from this success. Wherever former Nepmen or other members of the "deprived" classes are found in artels they are rigorously cleaned out, regardless of whether or not they adhere scrupulously to the principles of the Soviet co-operative system. Since the inauguration of the policy of the "liquidation of the kulaki as a class," great numbers of them have also attempted to enter the producers' co-operative artels. The necessity for eradicating the kulaki from the artels has recently been stressed.¹³

¹¹ See *Pravda*, March 2, 1930.

¹² Since March, 1930, there has been at least a temporary improvement in the formerly intolerable position of persons who are deprived of electoral rights. See the decree of the Central Executive Committee of the Union, March 22, 1930, in *Izvestia* of March 23, 1930.

¹³ See the article by D. Beka, Director of the All-Union Council, in *Izvestia*, Feb. 2, 1930.

In the organizations of the producers' co-operative societies, there were on October 1, 1929, 1,460,000 members. From 1926-27 to 1928-29 the number of members more than trebled. This great growth was accelerated by pressure upon the independent artisan, and the difficulty which he experienced in obtaining raw material and in selling his product. A decree issued in January 1930 forbade state or co-operative organizations to supply material to, or purchase the products of artisans who were not members of co-operatives. This will, no doubt, still further stimulate the growth of membership. The total value of the production of the producers' co-operatives in the economic year of 1928-29 was 2,424 million rubles, an increase of $5\frac{1}{2}$ times over the value of the product in 1926-27. The share capital of the system in October 1929 amounted to 58.9 millions of rubles. Profits for 1928-29 amounted to 82.9 million rubles. The social status of the rural members of the producers' co-operatives is indicated by the fact that 32.8 per cent of the co-operative members had no horses, 62 per cent had only one horse, 18 per cent had no cow, 69.4 per cent had only one cow, 26.3 per cent were free from the payment of the agricultural tax, and 52.9 per cent paid an agricultural tax of 25 rubles or less.¹⁴

Agricultural Co-operatives

The system of agricultural co-operation in the Soviet Union is going through a period of tremendous upheaval. It is difficult to describe any institution in Soviet Russia from a static point of view, for every economic institution is in a chronic state of reorganization. In the case of the agricultural co-operative organizations this is particularly true. The agricultural co-operatives had begun to be reorganized on a new basis in 1926, and this system had not been fully organized when the kolkhoz movement

¹⁴ From the statement of the Director of the Council, D. Beka, *Izvestia*, Feb. 4, 1930.

got under way with such force as to necessitate a complete resurvey and reorganization of agricultural co-operation. The reorganization, in 1926, of the agricultural co-operatives was on the basis of the so-called "Centre." There are two main groups of these Centres, one group comprising the agricultural Centres and the other the animal husbandry Centres. Included in the group of agricultural Centres are Grain Centre, Linen Centre, Vegetable, Fruit, and Wine Centre, Sugar Beet Centre, Tobacco Centre, Potato Centre, Cotton Centre, and Selected Seeds Centre. In the animal husbandry group are comprised Cattle Centre, Sheep, Hog, and Goat Centre, Horse Centre, Butter Centre, Poultry Centre, and one or two other of minor importance.

Each one of these Centres is organized according to the political and economic structure of the country, so that there is first the village organization, then the rayon, the okrug, the oblast (or krai, or autonomous republic), and finally the organization for the Union Republics. However, it is by no means true that each one of the Centres is represented in each one of these steps. Ordinarily not more than one Centre is represented in a village, and perhaps in an entire oblast, although occasionally more than one Centre has a representative in a village. The Centres try to get villages to specialize in producing one principal crop or product, and then the appropriate Centre has its organization in the village. Since there will inevitably be some products produced other than the ones which are primarily handled by the special Centre for that village, this Centre usually arranges to purchase any surplus products, even if they are not regularly handled by the Centre, and these products are then disposed of to the appropriate Centre, through the rayon, okrug, or oblast organization of that Centre. Thus the Butter Centre might buy chickens or eggs if a small surplus was produced in a village in which Butter Centre had set up an organization, but the poultry products would be disposed of to Poultry

Centre at its most convenient collecting point. These Centres are affiliated through a Union of Centres in each oblast, and there is finally a Union of Unions for each of the Union Republics. It was intended to create a Union of Unions of these Centres for the U. S. S. R., but at present the Union of Unions for the R. S. F. S. R. serves a dual purpose and takes the place of the proposed All-Union organization. A central purchasing agency is maintained, which is known as Selskosoyuz. There are also a co-operative insurance union and a co-operative publishing union.

These Centres originally carried on chiefly marketing functions, arranging for the purchase and sale of the products of their members. But the system developed so that productive activity is now also emphasized by the Centres. There has been a great development of the system of "contractation," which is a scheme for planning production and purchase in advance. Grain Centre, for example, developed a system of contractation by which an agreement is entered into between the Centre and a village or individual peasants, providing for the furnishing of certain supplies and services by Grain Centre, and in return for them, the village or individual peasant undertakes to pay for them after the harvest, and to sell all his grain to Grain Centre. Although the scheme originally provided for contracts with individual peasants as well as villages, after the harvest of 1929 no more contracts were to be made with individuals, but only with villages or kolkhozi. Such a contract may run for from one to nine years. By the terms of the contract, Grain Centre agrees to furnish fertilizer, seed, and perhaps even to plough the ground of the village with its tractor columns. The village agrees to give up the "strip" system of farming if a contract to have the land ploughed is entered into, and to plough the land deeply and well, if the village is to do its own ploughing. If the village is to furnish its own seed, it agrees to clean the seed carefully before sowing it. The contracts have many variants, in some cases amounting

to little more than an agreement to sell the grain of the village to Grain Centre. The grain is sold to Grain Centre at a much lower price than could be obtained by the peasants from private dealers, when it was still possible to sell grain on the market. A great campaign of contractation was carried on in 1929, and about 75 per cent of the grain was contracted for in that year. It was intended that practically all the grain should be contracted for by Grain Centre for the harvest of 1930, but the development of the kolkhoz movement has changed the situation so that it is likely that a very large percentage of the grain may be handled through Kolkhoz Centre instead of through Grain Centre. It is probable that some agreement will be made between Kolkhoz Centre and Grain Centre to cover the new situation.

Grain Centre developed the system of "tractor columns" and "machine-tractor stations." In 1929 there were 59 of these columns, each one of which ploughed an average of about 10,000 hectares. These tractor columns, consisting of from 10 to 40 tractors, move from village to village according to contract and plough the land for the village. It is considered advantageous to organize the tractor columns, since in this way it is possible to have skilled repairmen, and repair parts available in case of difficulty, whereas this would hardly be possible if the village owned one or more tractors itself. These mobile columns are based on a machine-tractor station, where supplies of all sorts are kept, and at which repair work is carried on during the slack seasons. The stations also furnish "com-bines" for use in harvesting the grain. The number of such stations and columns is to increase greatly in 1930, and onwards. It was intended in the summer of 1929 to increase the number of columns to one hundred for the agricultural season of 1930, but this plan has been largely extended.

Linen Centre does for the production and the marketing of linen and linseed what Grain Centre does in the

case of the bread grains. The same system of contraction is followed, although the tractor columns and the machine-tractor stations have not been developed. Special efforts are being made to arrange for the working up of the raw fibre by the peasants in workshops organized by the Linen Centre. In the economic year 1928-29 Linen Centre contracted for about 35 per cent of the total planted area of flax. It is intended to contract for 75 per cent during the year 1929-30.

Butter Centre cannot contract for butter on the basis of area, of course, as is done in the case of grains and of flax, but contracts for a certain percentage of production are made with individual peasants. It is intended to place contraction on a village basis, and to encourage the erection of communal barns and communal ownership of breeding stock. Contracts are entered into for sowing definite acreages of forage crops, for furnishing feed, and for building barns.

The work of the Co-operative Centres is financed by loans from the Co-operative Bank, by the agricultural co-operative credit system, by loans from the State Bank, and by governmental appropriations. Villages are encouraged to build up communal funds out of any sums of money which they may receive from the Centres after deduction has been made for supplies furnished and services rendered by the Centres.

The activity of every Centre is organized around the central motive of accustoming the peasants to act communally and thus to prepare the way for the organization of a kolkhoz. It was said by one of the officials of Grain Centre that they estimated that after the second year of a contract for the services of a tractor column, a village would automatically become a kolkhoz. An official of the Union of Unions of Co-operative Agricultural Societies said that the purpose of the Union and of all its branches was to hasten the time when there would not be any of the separate product Centres, but only the Kolkhoz

Centre. When he was asked how long it would probably be until that time would come, and as a result the existing complex and wide-spread system would have to be liquidated, he smiled and said, "Perhaps ten years." But so rapidly do events move in the Soviet Union, that within less than six months after he made this remark the process of liquidation had begun and special instructions in regard to it had to be issued.¹⁵

The kolkhoz is, of course, the most important type of agricultural co-operation in the Soviet Union. On account of its great importance and its relation to the whole agricultural situation in the Union the kolkhoz is discussed in the chapter on Agriculture. The agricultural banking and credit system is described in the chapter on Banking.

The position of officers and salaried personnel of the co-operative organizations does not differ in any important respect from the position of those of state institutions. Their first loyalty is to the Party, as is true of officers and employees of state organizations. The profit or advantage of the membership of their particular co-operative organization is of small importance to them. The economic program which has been sanctioned by the Party is of vital importance. Consequently, the co-operative officers do not hesitate to exploit relentlessly their own membership if such a policy of exploitation is desirable in furthering the larger aims of the whole Soviet economy. The great growth of the so-called co-operative movement in Soviet Russia must be considered, therefore, not as a triumph of the co-operative idea, but as an example of the utilization of co-operative organizational forms for the creation and operation of a socialistic economic system.

¹⁵ The People's Commissariat of Agriculture of the Union found it necessary to forbid the liquidation of the Centres or their merging with the kolkhoz except by permission of the Union of Unions of Agricultural Co-operative Societies and of Kolkhoz Centre. *Kooperativnaia Zhizn*, Feb. 1, 1930.

CHAPTER X

LABOUR

THE total number of workers for hire for the economic year 1928-29 amounted to 9,609,300, which was an increase of 7.4 per cent over the number for the previous year. According to plan this number is to increase by 11.4 per cent during the year 1929-30. For the calendar year 1929 the increase in the number of persons of working age, from 16 to 59 years of age, was 2.7 per cent, while the planned increase from 1929 to 1930 was to be 2.9 per cent.¹ The difference in the rate of increase of the number of workers for hire and the rate of increase in the population of working age is due to the cityward drift of the population. The increase in the proletarian element in the population is eagerly desired by the Party, although the migration has gone forward even more rapidly than has been desired, owing to the difficulty in finding employment for such large additions to the population of the cities. The urban migration has been due to the superior economic and social status of the urban proletariat as compared to that of the peasantry. This movement will no doubt be profoundly influenced by the development of the collectivization movement in agriculture, but it is too soon to tell whether the movement will be stimulated or retarded by the course of events. Since the total number of persons of working age in the Soviet Union in 1929 amounted to 84,451,000, it will be seen that the proletarian element comprises only about 11 per cent of the total.²

¹ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, pp. 154-155.

² *Ibid.*

The number of workers in industries included in the census returns in 1928-29 was 3,269,500, of whom 2,846,000 were labourers and the remainder office workers and others. This gives a percentage of labourers of about 87 per cent, and of all others of 13 per cent, which is of some interest in connection with the question of whether in a socialistic economy the proportion of administrative and office personnel is unduly large.³

The standard working day at present is eight hours. Industry is, however, as rapidly as possible changing over to the seven-hour day. By the end of the economic year 1929-30 more than one million workers will be working only seven hours per day. In other words, 45.5 per cent of all workers employed in industry under the jurisdiction of the Supreme Economic Council will be working on this basis. Two railroads, the Murmansk and the Donetz, are likewise to be placed on this basis by the end of this year. By the end of the economic year 1930-31, 80 per cent of industrial workers will be working seven hours per day and ten of the railroads will be on the same basis. The governmental commission for the inauguration of the seven-hour day in industry decided during the spring of 1930 to have the change from the eight- to the seven-hour day completed by the end of the economic year 1931-32 instead of by the end of 1932-33.⁴

During the autumn of 1929 the change to the uninterrupted working week got under way. According to this system the basic week becomes five days instead of seven. Everyone works four days and has the fifth day free. One fifth of the working population has one day free, the next day another fifth has a free day, and so on. The principal purpose of inaugurating the uninterrupted working week was to make possible the maximum utilization of capital equipment. At the same time it was expected that the new

³ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, pp. 154-155.

⁴ *Za Industrializatsiiu*, March 18, 1930.

system would strike a powerful blow at religion, since only one fifth of the workers would ever be free on Sunday. The system was also introduced into the schools, banks, Commissariats, Trusts, and other institutions. The plan has worked fairly well in industry, but has been difficult to apply in transportation and also in non-industrial institutions. Men who held positions on two or more committees or in several institutions found under the new system that they had no free day at all. Since the old calendar had to be retained pending the working out of a new one, it was almost impossible to know when anyone's free day came. This is illustrated in the current saying in Moscow, "For four days I try to find everyone else and on the fifth day everyone tries to find me." Since the probabilities are that members of the same family will not have the same free day, the uninterrupted working week has also been a factor in accelerating the break-up of the family.

The table on p. 250 shows an average of 69.63 rubles, or at the nominal exchange value of the ruble, of \$35.89 per month for the year 1928-29 in all branches of industry. It is impossible, however, to compare wages in the Soviet Union with those in other countries on the basis of the nominal gold value of the ruble. It is, moreover, almost impossible to express statistically the purchasing power of the ruble as compared with that of any other monetary unit. The Commissar of Finance of the Union, Mr. Brukhanov, told the writer that he estimated that the actual purchasing power of the ruble would have to be increased about 20 per cent in order to reach that of its theoretical gold parity. An official of the Commissariat of Trade estimated that the difference between the actual purchasing power of the ruble and its theoretical gold equivalent was about 30 per cent.

The all-commodities index number of the State Bank computes the level of wholesale prices in the Soviet Union

TABLE No. VIII
AVERAGE YEARLY WAGE BY BRANCHES OF INDUSTRY⁵

	Wages in rubles			In percentages of the preceding year	
	1927-28	1928-29	1929-30	1928-29	1929-30
GROUP A.					
Coal	689.0	749.6	843.3	108.8	112.5
Metals	931.1	1,039.7	1,137.4	111.8	109.4
Electro-Technical	1,218.0	1,328.0	1,405.0	109.0	105.8
Construction materials ..	686.0	734.0	786.8	107.0	107.2
Chemicals	947.8	1,004.6	1,067.8	106.0	106.3
Average Group A	821.3	903.2	989.1	109.9	109.5
GROUP B.					
Textiles	611.0	661.7	718.6	108.3	108.6
Clothing	1,010.0	1,110.0	1,132.0	110.0	102.0
Knit wear	788.0	848.0	897.0	107.6	105.7
Leather	996.0	1,051.0	1,093.0	105.5	104.0
Paper	714.0	821.1	868.7	115.0	105.8
Printing	958.0	1,034.6	1,076.0	108.0	104.0
Chemicals	957.0	1,024.0	1,061.8	107.0	103.7
Food	787.0	834.2	862.5	106.0	103.4
Salt	628.0	690.8	739.1	110.0	107.0
Average Group B	698.4	767.6	826.0	109.9	107.6
Average for all of indus- try	759.7	835.6	911.6	110.5	109.0

as 1.819 times wholesale prices of 1913.⁶ In the United Kingdom, at the same time wholesale prices were 1.461 times those of 1913.⁷ If it be assumed that prices were

⁵ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, p. 170. In the averages for all industries given in the table, some industries are included which are not listed separately in it. The data do not exactly tally with those given in the Statistical Year Book, which makes the average wage for the first quartile of the year 1928-29 for all industry 71.28 rubles per month. Since wages increased in the latter part of the year, the discrepancy is somewhat greater than that indicated. The same discrepancy is noted in the averages for the different industries. The Statistical Year Book gives an average monthly wage in the paper industry of 62.85 rubles for the year 1927-28, while the Control Figures For Labour cited above gives an average wage for that year of 59.50 rubles. Similar discrepancies exist for average wages in the other industries. See *Statisticheskii Spravochnik S. S. S. R. Za 1928 God*, p. 546.

⁶ *Economic Survey*, issued by State Bank of the U. S. S. R., Vol. V, Nos. 8-9, May 1930.

⁷ *Monthly Labour Review*, Vol. 30, No. 3, March 1930, p. 203. Index number of Board of Trade.

at parity in the two countries in 1913, it may be said that wholesale prices in the Soviet Union are over 24 per cent higher than those in the United Kingdom, where the price level may be taken roughly to represent the international price level. If allowance is made for quality of product, this percentage would certainly be more than doubled. The level of retail prices of food products in the United States was, on March 1, 1930, 1.501 times that of 1913,⁸ while the retail prices of agricultural produce in the Soviet Union at the same date were 2.42 times those of 1913.⁹ If parity of prices for 1913 be again assumed, it will be seen that the retail-price level in the Soviet Union is about 61 per cent higher than that in the United States. Once again a correction has to be made on account of the poor quality of the food products for sale in the Soviet Union, although this factor is not of such great importance as in the case of manufactured goods. Foreigners resident in the Soviet Union always reckon that prices are more than double those on the international market.

A further factor in the wages of labour is the practically compulsory deduction which is made for the purchase of government bonds, membership fees in and contributions to the Soviet Red Cross, the Association for Aviation and Chemical Warfare, the Association for the Relief of Political Prisoners in Capitalist Lands, labour-union dues, and so forth. A stenographer who received 85 rubles per month stated that deductions of this sort amounted to 20 rubles per month. It was customary for the local of a union to vote to subscribe an amount equal to one month's wages as successive "Industrialization Loans" were brought out by the Commissariat of Finance. The subscription was paid, of course, in installments, but represented a very heavy burden. Of course no one dared to oppose a resolution in a union meeting which would

⁸ *Monthly Labour Review*, Vol. 30, No. 5, p. 213.

⁹ *Economic Survey*, *op. cit.*

propose a blanket subscription to a new loan. As successive new loans were issued, the workers protected themselves by hypothecating or selling the bonds which they had formerly purchased. In order to maintain the value of government loans it was necessary for the banks and other financial institutions to buy the bonds or to accept them as security at a price not less than the issuing price. As a consequence, the proceeds of new bond issues were swallowed up in large part by the necessity of providing funds to support the market for the old ones. The Soviet Government solved the problem in a characteristic fashion. It decreed that all the old bond issues were to be consolidated in one new one, and that the new bonds were not to be left in the possession of the purchasers but were to be deposited for safe-keeping. They could not be sold without permission of a special committee, which would grant such permission only in case it could be proved that some serious need such as sickness necessitated such action.¹⁰ This came dangerously close to repudiation, although interest on the old obligations and on the new consolidated loan continued to be paid. This final step, however, made it apparent that these forced bond issues actually lowered real wages by a corresponding amount. Even though the principal may eventually be paid, it would be a matter of indifference to the labourers whether nominal wages were lowered now by a corresponding amount and higher wages paid later.

These involuntary deductions from wages became so scandalous, that, taking advantage of the temporary turn to the Right in March 1930, the Central Council of Trade Unions issued an order forbidding the deduction of more than one-half month's wage per year for subscription to loans, and ordered that collective subscriptions by local

¹⁰ See the decree of the Central Executive Committee and of the Council of People's Commissars of the Soviet Union published in *Za Industrializatsiiu*, Feb. 23, 1930.

unions should take place only if a majority of the union really favoured such action.¹¹

The nominal increase in wages in large-scale industry during 1928-29 was 9.7 per cent, but on account of the rise in prices the real increase was estimated to be only 2 per cent or 3 per cent.¹² Undoubtedly real wages actually declined, however. By the year 1929-30 certain events had rendered it impossible to measure the real wages of the Russian worker in monetary units. Most important was the wide development of the system of rationing, by which the quantities of food and of clothing were limited to an amount specified by decree, and were obtainable in the government shops and co-operative shops only on presentation of ration books or co-operative membership books, and in some instances only on presentation of both. The amount of the monetary wage thus became of less importance than the amount of the monthly ration. The monthly ration, however, was constantly changing to a greater or less degree. Herewith is the ration of food:

TABLE No. IX
FOOD RATION FOR THE MONTH OF APRIL 1930

	Manual workers	Non-manual workers
Bread	800 grams per day	400 grams per day
Meat	4,400 grams per month	2,200 grams per month
Sugar	1,500 grams per month	1,200 grams per month
Tea	25 grams per month	25 grams per month
Butter	300 grams per month	300 grams per month
Herring	1,200 grams per month	800 grams per month

The amount of tea obtainable was doubled if the holder of a ration card was also a member of a consumers' co-operative society. The same thing was true of butter. However, some of the items listed were not obtainable for

¹¹ *Izvestia*, April 9, 1930. The writer discussed this matter with a representative of the Central Council of Trade Unions who had been sent out to investigate these abuses. He related almost incredible instances of deductions from wages. He stated that the Central Council was determined to curb these abuses.

¹² *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, p. 12.

weeks at a time, and none without waiting in line sometimes for hours. Milk was supposed to be given out to children only, twenty-five times during the month, one-half liter at a time. Actually it was obtainable only irregularly. Macaroni, kasha, and some other items could be obtained only on presentation of co-operative membership cards.

This ration was supplemented by buying at private shops until the drive against the Nepmen closed such shops. A great deal of food was also obtained from peasant pedlars, except during the months of January and February, when this was forbidden. Many miscellaneous products could be bought in the state and co-operative shops without any formal rationing. This was true of vegetables, fruit, conserves, and some other items. It was not always possible to find such products, by any means, but when they could be found they could be purchased in indefinite quantities. Frequently an informal ration would be set up until the available stock in a given shop had been sold.

The effect of the rationing system was, of course, to remove to a considerable degree the differences in wages which existed between employees in different industries, and between the skilled and unskilled workers, since all manual labourers received the same ration. Indeed, since manual labourers received a larger ration than did "white collar workers," the effect in levelling the rate of compensation received by these two groups was intensified. It was possible in some cases to buy larger amounts of the rationed goods, by purchasing on the private market, at prices sometimes double and more, those of the socialized shops. But the difference in wages was minimized, nevertheless, since each ruble available to purchase more than the minimum ration had a purchasing power which must have been considerably less than half as much as every ruble spent in purchasing rationed goods in the socialized shops. It is true that the person who received the higher wages could spend them on other things which were not

rationed. Perfumes, candy, and wines could be purchased, but the prices of such goods were very high even in the socialized sector, so that the same qualifications as to the purchasing power of the ruble apply to them likewise. The value of the ration schedule given above as an indicator of the exact standard of living is minimized by several circumstances, one of which is that the workers commonly ate one or more meals at their factory, and so received the food on the ration card in addition to what they received at the factory. The same thing was true of anyone who ate at one of the public restaurants. He could get the food on his ration card in addition.

In comparing the wage of workmen in the Soviet Union with wages of workmen in other countries, an allowance has to be made for the fact that rents are very much cheaper than in other countries. This is true of the houses which were confiscated at the time of the Revolution, where rents are proportional not only to the amount of space occupied, but also to the wage of the tenant. The total amount of rent charged on buildings of this category is only just barely sufficient to pay for the necessary repairs and other expenses in connection with maintenance. The municipality does not receive a net income from them. New apartment houses built for workers are rented on the same basis, plus amortization charges, and a very low interest charge upon the funds invested. There is an extreme shortage of housing space, however.

In addition to the advantages of low rent must be added the cultural advantages of the workers' clubs mentioned above, the cheap food served in the factory restaurants, the advantages of a factory laundry, and, in many cases, of a community kitchen, the nurseries for caring for the children of workers, and lastly the advantages of the various forms of social insurance which will be described in another chapter. However, these advantages or others are also part of the compensation of workers in capitalistic countries. The Control Figures for 1930 provide for an

increase of real wages of 13 per cent, which is to be brought about in part through a 3.7 per cent decrease in prices of goods entering into the workers' cost of living budget.¹³ Steps have been taken in this direction by means of a decree lowering the price of shoes, clothing, and some other goods by 8 per cent to 10 per cent. On the other hand, the price of tobacco and cigarettes was raised somewhat, while the price of wines, liquors, and cosmetics was increased in some cases by as much as 100 per cent.¹⁴

Since the productivity of labour did not increase according to plan in 1928-29, the cost of production of goods also did not decrease as had been planned. For 1929-30 the productivity of labour is expected to increase at a rate much faster than that of real wages. The productivity of labour is to increase by 25 per cent, which is supposed to cause a lowering of cost of production on this account of 3.7 per cent, even after allowing for the increase in real wages of 13 per cent.¹⁵ The results of the first half of the economic year of 1929-30 showed, however, that while wages were being increased according to plan, the productivity of labour was not increasing as had been contemplated. As a result, costs of production were not being reduced according to the planned program laid down in the Control Figures for the year.¹⁶

The Communist ideal of, "From each according to his ability, to each according to his needs," has not been attained as far as wages are concerned. The differences in wages between skilled and unskilled workers and between persons in responsible positions and other workers, however, is not nearly so great as in capitalistic countries. Members of the Party cannot accept a salary higher than

¹³ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, p. 20.

¹⁴ It was the expressed hope that these increased prices would be borne entirely by the Nepmen and kulaki. See *Ekonomicheskaiia Zhizn*, Jan. 30, 1930.

¹⁵ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, p. 20.

¹⁶ *Za Industrializatsiiu*, Jan. 28, 1930.

225 rubles a month. This is nominally equivalent to about \$116. Workers in responsible positions receive other perquisites in the shape of better living quarters, the use of an automobile, and so on, and Party members who write articles or books are permitted to keep a large part of what they earn in this way, but this concession does not serve to modify very appreciably the attempt of the Party to enforce simplicity of living conditions among its workers. Even for non-Party members it is rare to find any manager or engineer receiving more than 500 rubles per month, which is a sort of informal maximum. Of course most receive far less.

The trend of events in the Soviet Union is distinctly in the direction of greater equality in wages. This movement is brought about by forces from several different directions. In the first place, when the Control Figures for each year are drawn up, increases in wages in the various industries are granted with the purpose of bringing about something like eventual parity in wages in all industries. In general, the policy is to increase the wages of the more poorly paid workers. The practice is followed, also, of seeing to it that workers do not unduly increase their wages by means of "speeding up" while engaged in piece-work. If a worker earns more than a certain norm, it is customary to change the category of labour in which he is engaged in order to prevent this. An American engineer employed on a technical-aid contract attempted to induce Russian workers to increase the amount of work done. Some of them did so, and afterwards complained to him because the piece-work rate had been cut. The American engineer protested to the engineer who represented the Soviet Government on the job, and was told that it was a definite policy to prevent the wages of workers from rising above a certain norm.

During the latter part of 1929 and early part of 1930, there was a great wave of enthusiasm for establishing "workers' communes," in sections of factories, or even in

whole factories. The workers sometimes pooled all their wages and then divided them equally, or, in extreme cases, paid the necessary living expenses of the members of the commune out of the pool.¹⁷ It was necessary for the trade-union councils to pass resolutions condemning this practice, which threatened during this hysterical period to sweep over the entire Soviet Union. They did so on the ground that it would cause a lowering in the productivity of the better paid workers who would have their wages reduced by this arrangement. Nevertheless, it seems probable that within another decade, the principle of approximate equality in wages of workers will be re-established.

The labour laws of the Soviet Union are designed to give to women the fullest measure of equality with men. Work is a universal obligation without distinction of sex. Non-workers are deprived of electoral rights. Women who are housekeepers are not deprived of electoral rights if there are dependents or if they take care of the home for those who are regularly employed. But it is not the policy of Communism that women shall normally be housekeepers. As rapidly as possible the economic and social system is being changed so that the place of woman will no more be in the home. This is being made possible by the rapid dissolution of the family, which is considered a desirable end in itself by many Communists. As soon as possible it is intended that all children will be taken care of in *crèches* until school age. Likewise public feeding is being developed as rapidly as possible, so that the preparation of food will no longer be carried on in the individual family. In the same way it is intended that all other work which formerly had to be done by women in the home will be done communally.

Both men and women can get married and receive a divorce immediately thereafter, if they wish, without the

¹⁷ See *Pravda*, Feb. 16, 1930, for an account of the commune formed in a section of the factory Voroshilov, in Zlatoyust.

assignment of any reason for such action. There is practically no cost for either marriage or divorce. If there are children and divorce is obtained, the man must pay a part of his wage to help support them. If either the man or the woman are unable to work or are unemployed the other may be required to pay alimony.

There is no difference in the rate of pay for men and women for the same kind of work. More and more women are finding employment in the higher positions. Women hold positions on the directorate of many of the Trusts and Combinations. There are women members of the executive committees of the different Republics. For example, the vice-president of the Central Executive Committee of Uzbekistan is a woman. Women are also employed in the roughest sort of work. The writer has frequently seen women employed as ditch-diggers. In such cases the foreman is usually a man. Most street-car conductors are women.

On the Communist International Women's Day, March 8, newspapers carried large posters of a woman driving a tractor over cooking-utensils, dishes, powder-puffs, and other feminine accoutrements and appliances. This poster was headed "The New Life!" This illustrates the philosophy of Communism in respect to the status of women. Women in the new life will have jobs and will work just as do men.

The present labour unions in the Soviet Union date, almost in their entirety, from the period of the Revolution. The Tsarist Government had crushed the labour movement whenever it succeeded momentarily in becoming active, and at the time of the February Revolution there existed only single organizations, most of which were illegal, and whose membership was very small. At the second Trade Union Congress, in January 1919, the labour unions committed themselves to the industrial union basis of organization, and the former craft union structure was entirely abolished. It is significant that the

labour-union movement in the Soviet Union was created by the Revolution. As a consequence, the relations between the labour unions on the one hand and the Soviet Government and the Communist Party on the other, have been quite otherwise than they would have been if there had been a strong labour union movement prior to the Revolution. This circumstance explains why it is that the labour unions have been content to assume their present rôle, and have not tried to either dominate the government or to consider themselves the representatives of the workers in bargaining with it. Instead, the point of view is that it is purely a workers' government, and that the workers do not need to bargain with their own government. The government is not thought of simply as representing the workers, but it is the organ of the dictatorship of the workers, which, therefore, always has in view only the interests of the labourers and does not represent any other class. Since the Communist Party constitutes the leadership of the dictatorship of the proletariat, it is considered logical that it should also guide and dominate the labour unions. The labour unions, on the other hand, are one of the institutions upon which the Party relies to maintain its contact with the proletariat, and we thus find a system of interlocking relationships between the labour unions, the Soviets, and the Party which is unique in its closely knit quality.

Nevertheless, there have been three distinct policies in regard to the functions of the labour unions. Trotsky favoured the use of the labour union as an organ for furthering discipline and increasing production. He considered it necessary for the purposes of increasing productive efficiency to introduce a considerable degree of disciplinary control by the economic organs of the state. He considered that the unions as they then existed were a hindrance to the development of this policy. On the other extreme stood Tomsky, who represented the policy of permitting a large measure of independence and autonomy

on the part of the labour unions. He considered it desirable that the unions should continue to have an existence which was separate from the structure of the state, in order that the workers would always have this special means of protecting their interests, lest at any time the government might fall into the hands of a group which did not completely represent the interests of the workers, or which, while they might claim to represent the interests of the workers, had so lost touch with them that they did not, in point of fact, do so. Trotsky's attempt to convert the unions into state organs having a quasi-military form, and whose mission should be to maintain working discipline, was a failure, but Tomsky's triumph was only of short duration. With his removal from a position of dominance in the labour movement, the policy which was actually followed resembled in many respects that of Trotsky. Nevertheless, there were important differences between the final "General Line of the Party" in regard to the rôle of the labour unions in the social economy of the country and the policies of either Trotsky or Tomsky. The labour unions did not become subordinate to the state apparatus as Trotsky had desired them to be. They passed more completely under the control of the Party, so that instead of the Party controlling the state apparatus, and the state in turn controlling the unions as Trotsky had desired, we find that the Party controlled both directly, while the element of state control of the unions was not increased. On the other hand, the unions did come to have as their main function the maintenance of labour discipline and the mobilization of all the energies of the labouring class for the successful consummation of the productive program of the economic organs of the state. Contrary to the policy of Tomsky and in accordance with the previously expressed ideas of Trotsky, the unions were not given the mission of protecting the workers against exploitation, for exploitation by a dictatorship of the proletariat was considered a contradiction in terms.

The unions completely lost control over the management of industry. While, in theory, the unions were to be consulted in the appointment of the management of factories and Trusts, practically this meant nothing, and appointment was independent of the unions. This loss of control had been gradual, since from as early as 1918 it had not proved feasible to have direct control over the management of industry by the unions. But after the fall from power of Tomsky, the policy of the control of industry without the interference of the unions came to be almost absolute. In coming to this decision, the Party, under the leadership of Stalin, attempted to create offsets and counterweights to this apparent decline in industrial democracy. If the unions were not to have the right to control the appointment of industrial management, they were to be compensated for it by the substitution of a policy by which the administrative personnel for industry came habitually to be drawn from the ranks of labour-union leaders. Thus, labour-union leadership came to be considered the acceptable apprenticeship for industrial managers. The connection with the Party was assured by the policy of electing to leadership in the labour unions men who were also active in the Party, and again when administrative positions in industry were to be filled, seeing to it that the union leaders selected had a suitable history of successful Party work.

In addition to the policy of staffing of industry with trade-union leaders, an attempt was made to secure a wide measure of worker participation in industry, so that the workers would not feel that they were considered of little importance in the conduct of industrial affairs. If the position of the management of industry was strengthened so that the management could maintain more effective labour discipline, there was developed a reciprocal policy of control over the administrative and technical staff, not by the unions, but by the workers as distinct from the unions. This was accomplished by the development and expansion

of the institution known as the chistka, or "cleaning." Periodically the technical and administrative staffs of industry are required to face the cleaning commission. This cleaning commission is under the administrative control of a Commissariat known as the People's Commissariat of Workers' and Peasants' Inspection. This Commissariat is at one and the same time an organ of the Soviet Government and of the Party. When hearings are held before the cleaning commission, all the workers of the industry are invited and expected to be present. As a matter of fact anyone can be present, and anyone can ask questions of the person who is being "cleaned." The process is not a pleasant one for the person "at the bar," for every possible criticism which can be raked up is usually fired at his unlucky head. Every questionable act which he may have done, any indiscreet conversation, any part of his private life may be hauled out into the pitiless light of publicity. The janitor may accuse the director of the Trust of having a bourgeois taste in neckties or of not providing proper safeguards for workmen in dangerous occupations. The ancestry of the victim is particularly examined into, and happy is he who can answer that his mother "came from the wooden plough," and his father "came from the loom," and thrice damned is he whose ancestry includes either kulak, bourgeois, or landlord. The cleaning of Party members is, however, conducted by the Party Cell, and on account of this a director who is a member of the Party does not usually have to fear accusations against him on the ground of too hard driving of labour, since the Party is committed to a program of the most intensive productive efforts. Nevertheless, this institution gives a sense of power even to the individual workman, and it does serve to lessen any tendency on the part of the administrative personnel to be tyrannical in any special personal cases, lest the victim attain his revenge at the next chistka. Its psychological importance is very great, and it undoubtedly serves as a safety-valve for any

possible disgruntled feelings on the part of labourers, who, if they find that their real wage has not increased as fast as they would like, may find a spiritual remedy in baiting an engineer inherited from the old régime.

No effort is spared to make the working masses feel that they are an important factor in industry. Workers' brigades are organized for the purpose of visiting all governmental departments, economic organs, and villages, and direct action is taken against anything that is considered bureaucratism. These workers' brigades descend without warning upon, let us say, an office of the State Bank. They look over anything which is of interest to them, may ask and require an explanation of the way in which the bank functions; they may ask the workers in the bank whether there have been instances of bureaucratism or other faults in the management, and if so, these are reported to the Commissariat of Workers' and Peasants' Inspection. As may be imagined, the visits of these workers' brigades are extremely unpleasant to bureaucrats or to anyone who has been accustomed to the old bourgeois methods of carrying on business activities. Groups of workers from a factory may be called upon to assist in the *chistka* of some governmental department or of some Trust or Combination. The workers are supposed to possess an instinct for ferreting out bureaucrats and bourgeois elements, which remains fully developed only among workers who are actually engaged in manual labour.

As a variant from the workers' brigades are found the squadrons of "light cavalry," which are made up of the Communist Youth. These also, as their name implies, swoop down upon unsuspecting bureaucrats and put them to rout and confusion. The fullest degree of "self-criticism" is encouraged, which means that the workers are to have the right of criticizing the methods and practices of their superiors. One form which this takes is the "wall newspaper," which contains criticisms and often satirical

cartoons, and which is posted on the walls of the institution or factory. These are sometimes quite elaborate. During the "cleaning" of the apparatus of the State Bank in Moscow, in February of 1930, might be seen a whole series of large-size cartoons satirizing persons who were prominent in the staff of the Bank, even including the general manager. Though the wall newspapers of the factories usually are somewhat more primitive, yet the criticisms are often of the sharpest kind. All these elements of workers' control are certainly calculated to cure anyone of being excessively thin-skinned, for not only is the criticism frequently exceedingly sharp and merciless, but the recipient of the barbs of satire also has the comforting thought that upon the basis of these criticisms he may very likely be dismissed from his position.

Another device for securing workers' participation in the control over production, while theoretically not interfering with labour discipline, is the system of patronage societies. A certain factory may assume patronage over a village or a collective farm, or the railway workers may assume patronage over the Commissariat of Finance, or a factory may assume patronage over a regiment of the Red Army, or a regiment of the Red Army may assume patronage over a collective farm. The institution in the rôle of patron assumes important responsibilities toward the organization or institution which is patronized. The patron must be represented when a cleaning is held. Frequent visits must be made to see that bureaucratism does not develop. The patron may suggest changes in the organization of the patronized institution.¹⁸

Finally, groups of labourers are given short courses dealing with the work into which they are to be introduced, and then these groups of labourers are pushed bodily into the apparatus of Commissariats, Trusts, Com-

¹⁸ See *Ekonomicheskaja Zhizn*, March 6, 1930, for the text of the "treaty" of patronage drawn up between the Commissariat of Trade on the one hand and the factories "Red Proletariat" and "Vladimir Ilych" on the other.

binations, and banks.¹⁹ In this way any tendency for a permanent group of clerical workers, who might be out of touch with the manual labourers, to monopolize the apparatus of the government or of the economy is prevented. These workers are also part of a system to insure loyalty and efficiency upon the part of the administrative personnel. The loyalty of these *vydvizhentsy* to the program and policy of the Party is one of the great sources of its strength.

All the newspapers have *rabkor*, or workers' correspondents, and these are encouraged to report to newspapers, such as *Izvestia* and *Pravda*, any improper acts which they observe. These reports are published in the newspapers, and the staff cartoonists frequently illustrate the complaints which are received. There is usually a page in *Pravda* mostly taken up with this correspondence, which is printed under the head of, "Under the control of the masses." The bureaucrat is the favourite butt of the cartoonists, and of the complaints of the worker correspondents.

The Party, in its effort to increase the productivity of labour, has used the labour unions as a means to this end, with the purpose of removing from the shoulders of the management a part of the burden of unpopularity which such efforts would otherwise cause. The labour unions have become principally organizations for furthering production, instead of organizations for the defense of labour.²⁰ The labour unions co-operate in setting up

¹⁹ On Jan. 27, 1930, the Supreme Economic Council ordered all Trusts and Combinations to choose 5,100 qualified workers for utilization in administrative positions. This was to be done within a period of one month.—*Pravda*, Feb. 2, 1930. See *Za Industrializatsiiu*, Feb. 21, 1930, for references to special courses for *vydvizhentsy*, or "pushed up" labourers.

²⁰ The press accounts of the fourth plenum of the Central Council of Trade Unions show how preoccupied with the problem of increasing productivity the Council is. See *Izvestia* of May 20, 1930. Trade-union leaders are sometimes dismissed from their posts on account of the failure of the factory with which their union is connected to fulfil the planned programs of production. See, for example, *Ekonomicheskaiia Zhizn*, Feb. 2, 1930.

“socialistic competition” between different Trusts, factories, and sections of factories. “Shock brigades” take the place of the “speeders up” of the capitalistic factory.²¹ All these devices are fostered by the labor unions in order to carry out the mandate of the Party for increased productivity of labour.

The transformation of the unions into organizations for stimulating the productivity of labour has had the inevitable effect of causing the workers to lose interest in them. It is difficult to get them to attend union meetings where they are compelled to hear long-winded speeches bristling with statistics of the Five Year Plan and filled with exhortations to support the factory in its socialistic competition with some other one. In the usual union meeting the main desire of the members is to get it over as soon as possible.²² It is often found necessary to call the roll of members and to take disciplinary action against absentees. Sometimes it is necessary to lock the doors in order to keep the members in the meeting. In Moscow, during 1930, it became customary to call the roll twice, in order to prevent members from slipping out after answering to their names.

The workers have the theoretical right to strike, and there have been isolated cases of small strikes even in state factories. With the disappearance of even small-scale private industry, and the dwindling away of industry operated by foreign concessions, accompanied by the increasingly rigid control of the Party over the unions, the number of strikes has approached zero. With the almost

²¹ The members of the “shock brigades” are not much more popular with the workers of the Soviet Union than are the “speeders up” in capitalistic countries. See *Za Industrializatsiiu*, Jan. 28, 1930, for reference to persecution by other workers of those who took part in “socialistic competition.” Attempts were even made to assassinate members of the “shock brigades” in some cases. At the first congress of the “shock brigades” held in Moscow in the fall of 1929, some members complained that as they increased production the piece-rate was cut by the management in true capitalistic style.

²² See *Trud*, Jan. 28, 1930, for an account of a union meeting. The heading given to the account is “Shame!”

complete elimination of former bourgeoisie from posts as managers of factories, the Party considers it absolutely unallowable that a situation should arise which would justify a strike. Consequently, it would be almost impossible for a strike to occur which would have the support of the responsible leaders of the unions. The activities of G. P. U. agents and the influence of the Communists and Young Communists in the unions are an effective bar to the development of any strike movement among the workers. If, under these circumstances, any individual worker should attempt to organize a strike, there would be no hesitancy about arresting him for counter-revolutionary activity.

In Moscow, during the winter of 1930, when the food situation was extremely bad, and when the workers were very much dissatisfied with the handling of the agricultural situation, the writer discussed with a friend, long resident in Moscow, the question of what action the Soviet authorities would take if a group of workers should parade before the Kremlin with banners, seeking an interview with Stalin and asking for better living conditions. This would have been an almost exact repetition of the situation which confronted the Tsarist officials on Bloody Sunday, January 22, 1905, when the workers, led by the priest, Gapon, tried to present a petition to the Tsar in St. Petersburg, and were massacred by the military. The reply was "The situation could never arise, because the workers would never be allowed to organize for the march to the Kremlin. The Communists among the workers would use their influence to prevent its organization, and if that were not possible, the authorities would be warned by them in time to break up the movement before it ever got really under way." This illustrates how much more intimate and effective the control of the Soviet Government over the masses of the population is than was the control of the Tsarist régime.

Labour discipline remains a serious problem, in spite of

the efforts made by the labour unions to assist the management of the factory in its maintenance. Complaints in the press on this score are frequent. A correspondent writing of conditions in the mines of the Artemovski Coal Trust says that during one month absences without reasonable cause doubled, the productivity per labourer declined, cost of production was higher than provided for in the plan, some of the members of the mine committee opposed mechanization of the mine, workers who took part in "socialistic competition" were persecuted, while the Party and Communist Youth organizations, the technical personnel, and the labour union did nothing to check the havoc.²³

There is little hesitancy, however, in taking whatever measures are necessary in order to maintain discipline. Of thirteen cases of discipline conflicts in one Trust in Moscow, which the fabkom appealed against the action of the factory administration, twelve were decided against the workers and in favour of the administration.²⁴ In Sverdlovsk, in March, four workers were accused of vreditelstvo, which took the form of general hooliganism and wilful spoilage of machinery and materials. One of the workers was sentenced to death, another to five years' imprisonment, with strict isolation, and the other two to two years' "deprivation of freedom."

On the other hand, the unions do serve to protect the tenure of the job for the worker. The manual labourer in the Soviet Union does not have to fear that through no fault of his he may find himself discharged. The process of dismissal is a rather long-drawn-out affair, and the worker has the right of appeal, of which he almost always takes advantage. Specific charges have to be preferred against a worker, and the offense with which he is charged must have been repeated several times before he can be discharged. Foreign engineers who were em-

²³ *Za Industrializatsiiu*, Jan. 28, 1930.

²⁴ *Ibid.*

ployed by the Soviet Government in connection with technical-aid contracts, have complained to the writer of the difficulty of getting workers discharged who were unsatisfactory.

The trade union is not merely recognized by law; it is as much an integral part of Soviet economy as the Trust or Combination. The basic unit in the trade-union structure is the enterprise, which may be a factory, a workshop, an office, or other place of employment of workers. The workers at a general meeting elect a delegate corps which in turn elects a factory committee. The delegate corps holds periodical meetings and discusses and passes upon the reports of the factory committee. The factory committee is variously known also as the works' or group committee, depending upon the sort of enterprise in which it is established. If the enterprise is a large one, it is customary to have a representative of the factory committee in each department of the factory. The factory committee appoints a number of committees, among them a cultural educational committee, a production committee, and a protection of labour committee. The factory committee is ordinarily elected for a period of one year. In small enterprises, the members of the factory committee are freed of part of their ordinary duties as labourers, and are paid for their work on the factory committee out of a fund which the enterprise must provide for this purpose. In enterprises of any size, the factory committee devotes all of its time to trade-union work.

Above the factory committee there are the rayon committee, the okrug committee, the oblast committee, the committee of the Union Republics, and finally the All-Union Central Committee. This may be called the vertical structure and is typical of the trade unions of the U. S. S. R. The organizational form is slightly different in some unions, and each link in the organizational structure does not always exist. The All-Union Central Committee is the supreme authority for each trade union.

The horizontal structure of the trade-union organization is based upon the same politico-economic divisions of the country. Each one of these divisions mentioned above holds a Congress of trade unions. The local Congresses are held every year or every eighteen months, while the All-Union Congress of Trade Unions meets once every two years. Each local, Republican, and Union Congress elects a Trade-Union Council. Each council represents the interests of the unions before any governmental body, and appoints the representatives of the trade unions on any governmental commission, committee, or other organ whenever such representation is provided for. The highest authority is the All-Union Central Council of Trade Unions. This Central Council does not act in the capacity of a trade union. It does not make collective agreements. It does not deal with conflicts between the unions and the state or co-operative organizations. It looks after the general interests of the trade unions, and co-ordinates the work and activities of the separate unions.

In general it may be said that the organization of the trade unions in the Soviet Union is highly centralized, and resembles in this respect the organization of the Soviet Government, and of the Party.

There are 23 trade unions, each of which is organized on the industrial basis. They are as follows: Land and Forest workers, Paper workers, Miners, Wood workers, Leather workers, Metal workers, Printers, Food workers, Clothing workers, Sugar workers, Textile workers, Chemical workers, Building workers, Water Transport workers, Railway workers, Local Transport workers, Postal, Telegraph, and Telephone workers, Art workers, Public Health workers, Educational workers, Soviet, Public, and Commercial employees, Municipal workers, and Hotel and Restaurant workers.

Of the total union membership of over 11,000,000, women comprise 26.7 per cent. Of those employed in industry, more than half work in the textile industry.

Many others find employment in office work, in transport, and in public-health service.

Membership in the trade unions is theoretically non-compulsory. In a sense this is true. It is difficult to imagine anyone who would not desire trade-union membership. Trade-union membership is practically the equivalent of citizenship. Of course, peasants are not ordinarily members of trade unions, although they are nevertheless citizens. Likewise women who are simply housewives are citizens without being trade-union members. If any question arises as to citizenship, the possession of a union card is *prima facie* evidence of the possession of civil rights. If an individual is deprived of civil rights he is also deprived of his union card, and incidentally in almost every case of his job also. An individual might lose his civil rights, his union membership, or his position, in the order mentioned or in the reverse order, but the one almost always involves the other. Former gendarmes, Tsarist officials, priests, kulaki, merchants, and others are deprived of civil rights and of the right to belong to unions also. Since the possession of civil rights includes the right to a ration book and to co-operative membership, as well as the right to work, very few persons are liable to refuse membership in a union. Instead, it is regarded as the most precious right, to be conserved at all costs. The administrative-clerical staff of a factory or other undertaking are admitted to trade-union membership on the same basis as the manual workers, and belong to the same union as they.

The Communist Party dominates the trade unions just as it dominates the Soviet Government. The Communist faction in any union meeting prepares a list of candidates for which all Party members are required to vote. As a matter of fact, it is exceedingly rare for there to be any conflict between the Party elements and the non-Party elements in union meetings. It is very unusual for there to be any dissent from the Party list of candidates. No

one dares to oppose the Party in any way. Nevertheless such a list consists by no means exclusively of Party members. Non-Party members are frequently elected to office, although almost all important officials of the unions are Communists.

The union dues amount in most cases to two per cent of the wage of the union member. At first, collection of these dues was through the factory offices, but in 1922 this was changed, and is now forbidden. At present they are collected by men appointed by the factory committee who serve without pay. The funds collected are entirely within the disposal of the Central Committee of the Union. The lower organizations are required to submit estimates of their expenses, and a fixed amount is then appropriated for their work. However, only about fifty per cent of trade-union funds are spent upon organizational expenses. The remainder is spent for financial aid to members, for unemployment funds, and for cultural and educational purposes. The state and co-operative institutions are required to pay one per cent of their total pay-roll as a contribution to educational work.

The cultural and educational work carried on by the trade unions is very important. A great part of this work consists, of course, in propaganda work which has for its purpose the development of the communistic and revolutionary ideals and conduct among trade-union members. Special attention is devoted to anti-religious propaganda, since it is felt that religion is, as it formerly was, one of the bitterest enemies of the working class. But in addition to this a considerable amount of other cultural and educational work is carried on. Special courses for workers are arranged in connection with the universities; the work of the rabfac, or workers' faculty, deserving special mention. Moving pictures are used both for entertainment and for educational and cultural purposes.

Most of the educational and cultural activities of the trade unions centre around the workers' clubs. It is the

ambition of the workers of every undertaking to have a club-house, and although this is not possible in every case, all efforts are made to make temporary arrangements for the workers of undertakings which do not yet have club-houses of their own. The workers of more than one factory frequently use the same club-house. Churches which have been closed are often used for this purpose. This is one of the most potent forces in bringing about the closing of churches. The workers often demand that the churches be closed so that they may have a club-house. Some of the club-houses are quite new and very well equipped. The Red Rubber Club in Moscow, composed of workers in the Moscow factory of the Rubber Trust, for example, has a new building, in which there is a theatre, with seating capacity for several hundred persons, a gymnasium, a restaurant, and committee rooms. Indeed, the general arrangements remind one very much of similar buildings occupied by the Y. M. C. A. in an American city, or by the students' union in an American university. In the theatres of such club-houses amateur performances are frequently given by the workers. These amateur performances are about as bad as amateur performances are in all lands, but the monotony is relieved by acts or plays given by troupes or by individual actors from the regular theatres. Sometimes concerts are given by artists from the Workers' Conservatory of Music, for example, and these are often very good, indeed. In the gymnasiums instruction is frequently given by teachers of athletics, games are taught, and every effort is made to stimulate interest in sports. Field days are sometimes held in which teams from various factories and offices compete in the various events. An interesting device which is employed wherever possible is to build a large club-building where it will serve both university students and workers. In this way the connection between the university trained specialist with the workers is maintained even during the period of training of the technical personnel.

These clubs are used as community centres, and various organizations hold their meetings there, such as the Communist Youth groups. After an evening of moving pictures, games are often played, of the same type which are employed in the United States when large numbers of people are brought together and it is required that they enjoy themselves. In general, it may be said that these clubs constitute one of the real gains of the Revolution for the worker. The social life of the urban worker before the Revolution was extremely barren and indeed almost non-existent. The worker depended upon vodka for any sort of release from the monotony of life. The Russian worker has by no means given up the peculiar delights of vodka. He still seems to crave the complete unconsciousness which only vodka can satisfactorily produce. The workers' club is the most effective competitor which vodka has, and the Russian worker is distinctly appreciative of it.

Collective agreements are entered into by the unions and the Trusts. These collective agreements are provided for in the Labour Code, and the agreements entered into must not transgress the provisions of this code. In particular, it is provided by law that the regulations in respect to working conditions provided for in the Labour Code are minimum conditions, and that part of a collective agreement which reduces these minimum conditions is invalid. The collective agreements must be registered so that it is possible for the inspectors of the Commissariat of Labour easily to ascertain whether or not any collective agreement violates the Code of Labour. Collective bargaining in the coal, metal, and oil industries is carried on by the central unions of the respective industries, but the agreements are made with the separate Trusts and not with the Combination. It seems likely that this condition may change so as to provide for agreements between the central union and the Combination. It has not yet occurred probably on account of the fact that the Combination is a

recent development in Soviet industry. In the other industries, collective bargaining is carried on between the Trust and the local unions. The right to bargain collectively is guaranteed by the Code of Labour, and all employees, whether members of a trade union or not, have their wages, hours of work, and other conditions of labour determined by the collective agreement between the union for their industry and the undertaking by which they are employed. Collective agreements are even entered into between the unions and the government Commissariats which employ labour. This is also true in regard to the consumers' co-operative organizations in their capacity as employers of labour. It is customary for the union to negotiate a tentative agreement with the Trust, and then refer the agreement to general meetings of the labourers in the several factories. There the workers have the right to propose changes in the agreement, and the union may attempt to get the Trust to agree to these changes. In many cases, however, the approval by the general meeting is of a purely formal character, the agreement often being referred to a committee with power to act.

The terms of the collective agreement which a union may make with any Trust or other state or co-operative organization must not depart from the limits upon wages and hours of labour which are specified in the planned Control Figures for the given branch of industry or trade. The unions do try to induce the management to advance wages as rapidly as possible and the management would not feel that it could resist such a demand on its own responsibility. But the Control Figures must be rigidly adhered to, and the management is thus able to avoid the responsibility of denying an increase in wages by pointing to the data set out in these figures. The limitation upon the bargaining power of the union goes even farther than this. If the Control Figures provide that the productivity of labour is to increase by a certain amount during a given year or part of a year and that wages are to increase by

a certain percentage, the increase in wages is made dependent upon the increase in productivity of labour. In cases where the increase in productivity has not been realized and wages have nevertheless been advanced, sharp reprimands have been given to those responsible.²⁵ The Control Figures for every year invariably provide for an increase in wages, even though a rising price level or the rationing of commodities may make this increase only nominal. The Control Figures carefully specify the percentage increase for each industry.²⁶ Under such circumstances the field for collective bargaining by the separate labour unions with industry is somewhat restricted, to say the least. On the other hand it must be said that the labour unions are represented on the various planning organs and are consulted in respect to changes in wages in the various industries.

The Code of Labour provides an elaborate scheme for conciliation in case of conflicts between workers and the management of factories or other undertakings. Conflicts and disagreements between the labour unions and employing institutions or enterprises are ordinarily referred to the Conflict Commission, generally referred to by its initials as R. K. K. The R. K. K. is composed of equal numbers of representatives of the employing organization and of the workers or employees of the undertaking, organization, or department of an undertaking. In the R. K. K., conflicts can be decided only by agreement between the two parties. R. K. K. cannot give a decision which changes, adds to, or over-rules provisions of the collective agreement unless such a right is conferred by the agreement itself. This commission is a standing one in all factories, and almost all conflicts or disputes are referred to it in the first instance. Certain subjects are placed within the obligatory jurisdiction of this commis-

²⁵ *Za Industrializatsiiu*, Jan. 28, 1930. See the order of the Supreme Economic Council.

²⁶ *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, p. 93.

sion. If the workers so desire, all other conflicts arising in the given organization or undertaking in connection with the application of the law, collective agreements or working agreements, and the rules of internal discipline may also be dealt with by the R. K. K.

In addition to this primary commission for dealing with conflicts, there are also arbitrational chambers, three party boards, and special sessions for labour affairs of the Peoples' Court. In case there is no special session of the Peoples' Court for labour affairs, conflicts may be dealt with by the regular session of the Peoples' Court.

All conflicts arising in regard to concluding, changing, adding to, or interpretation of collective agreements, and conflicts arising on account of the establishment of new conditions of labour concerning which agreement is not reached in the R. K. K., are referred to the arbitrational chambers or the three party boards. Arbitrational chambers and three party boards are organized in connection with the Peoples' Commissariat of Labour of the Union Republics, or in connection with the local organs of labour. The arbitrational chambers and the three party boards are organized anew for every conflict. In both cases they are composed of representatives of the employing organization and of the corresponding trade union. One representative is appointed by each side. In the case of the arbitrational chamber the president is appointed by the corresponding organ of labour, while the president of the three party board is elected by the two opposing parties or is appointed by the organ of labour at the request of the two parties, or by the request of one of the parties in the case of compulsory three party boards. The decisions of the arbitrational chambers are arrived at exclusively by agreement between the opposing parties. In the three party boards the decision is reached by agreement between the sides, or by decision of the president of the board when the opposing sides cannot agree. For deciding conflicts between trade unions and state undertak-

ings, a three party board may be organized by the organ of labour on the demand of one of the parties. In such cases the acceptance of the jurisdiction of the three party boards is obligatory upon the other side. Obligatory three party boards may not be organized for the decision of conflicts arising out of changing or over-ruling the conditions of the collective agreement before its expiration.

Decisions of the R. K. K., the arbitral chambers, and the three party courts are determinate, and re-examination of the facts in the case is not allowed. These decisions may be over-ruled only by the competent organs of labour in the course of their inspection according to special statutory provisions. The decisions are enforced, in case of non-fulfilment, according to the rules established by the Peoples' Commissariats of Labour and of Justice, of the Union Republics.

Conflicts connected with the enforcement of the laws of labour and the rules of internal discipline, the application of the proper punishments for infractions of them, and the fulfilment of collective agreements are dealt with by the special sessions for labour affairs of the Peoples' Court. Those cases which are within the obligatory jurisdiction of R. K. K. can be dealt with only in case a decision was not reached in R. K. K., or if the decision of R. K. K. was over-ruled by the inspector from the organ of labour. All cases of infringement of the law of labour or of collective agreements which involve criminal prosecution are dealt with by the special session for labour affairs of the Peoples' Court.²⁷

The Peoples' Commissariat of Labour occupies an important place in the general scheme for the protection of labour and the improvement of working conditions. It administers the Code of Labour through a system of labour inspectors. This Code of Labour is a sort of Magna Carta for the Soviet worker. Regulations as to over-time, maximum hours of labour, the conditions of

²⁷ *Kodeks Zakonov O Trude*, pp. 168-174.

labour for women and children, and so forth are laid down in it. There are also special sections of the code for construction workers, forestry workers, and seasonal workers. The Commissariat of Labour has sometimes interfered to protect the rights of the worker at times when the unions have been remiss in so doing. Thus in the early part of the year 1930, when the first quarterly reports of the economic year had shown that the Control Figures for the year had not been fulfilled, and when the feverish propaganda of the press and the Party had pressed upon the unions to increase the productivity of labour, there ensued an intensification of socialistic competition, a dismissal of unsuccessful directors from their positions, and even the dismissal of trade-union officials. As a result of this strenuous campaign for increasing production, factories began, in many cases, to work longer hours and to show a rather general inclination to disregard any part of the Labour Code which impeded productivity. The Commissariat of Labour was forced to issue an order, sternly forbidding such practices.²⁸

It may seem strange that the unions had not prevented these infringements of the collective agreements. The answer seems to be that the propaganda was so strong to increase production, both through the press and through the Party organizations, that the unions were induced to place more emphasis on increased productivity than on the protection of labour. As a matter of fact, union officials were held morally responsible for the fulfilment of the planned problem of industry, almost to the same extent as the management. Also the policy of appointing union officials habitually to positions of management in undertakings, after having served periods of apprenticeship as labor leaders, had borne the fruit of developing the

²⁸ At one time the workers of the electro-mechanical department of Dnieprostroy worked for 2 days so continuously that they did not leave the factory, sleep, or smoke a single cigarette during the time.—*Izvestia*, Feb. 9, 1930. See the decree of the Commissariat of Labour of Feb. 27, 1930, in *Pravda*, Feb. 28, 1930, against such practices.

psychology of the manager even among the labour leaders who had not yet become managers.

The Party has no more use for industrial democracy than has the capitalist. The Party has decided that industrial democracy and labour discipline are incompatible. Furthermore, the unions must always be completely subservient to the Party, which is the true head and fountain of the dictatorship of the proletariat. Individual freedom and democracy have no place in the Soviet labour union. But the Party declares that although industry is not controlled directly by the labourers it is directed solely in the interests of the proletariat by the Party. They maintain that in capitalistic countries there is no industrial democracy, while industry is operated for the benefit of the capitalist, not for the benefit of the labourer. That there is some truth in this contention must be admitted. The Party arrogates to itself the right to determine what is good for the proletariat, but sincerely attempts to serve the proletariat in its program and policy. The evidence as to whether the proletariat can expect to be materially better off under the system which is operated by the capitalist for himself or under the system which is operated by the Party for the proletariat is still inconclusive.

CHAPTER XI

SOCIAL INSURANCE

SOCIAL Insurance in the Soviet Union is of peculiar interest, in that it represents an important aspect of the attempt of the Party to put into practice the socialistic principle of, "From each according to his ability, to each according to his need." It is significant, however, that the system of social insurance falls far short of putting this principle into practice. In no other European country are the evidences of extreme poverty and misery more obtrusive than in the Soviet Union. In no other European country are the beggars so poorly clad or so hopelessly miserable in appearance. In few countries are there so many of them. Yet the U. S. S. R. is very proud of its system of social insurance, and counts that system one of the greatest of the workers' gains from the October Revolution. How is it possible to explain this anomaly?

In the first place, the system of social insurance is a *class* system of insurance. The full significance of this is not realized upon first consideration. There are a very large number of persons in the Soviet Union who are deprived of civil rights. Exactly how many it is impossible to say. But including the dependents of those who are deprived and who are thus effectively deprived also, the number is probably about eight million persons, although this estimate should really be stated as plus or minus one million, in order to allow for a wide margin of error. These deprived persons are the former landlords, bourgeoisie, nobles, Tsarist officials, merchants, kulaki, priests, and army officers and their children. Not

all such persons are actually deprived, however. The deprivation of constitutional rights consists not merely in the loss of the ordinary rights of citizenship, but also of the right to have a ration card, to have a co-operative card, to be employed by any state or co-operative organization, to attend any school above the school of the "second step," to be registered on the unemployment lists, and finally to be included in the system of social insurance.¹

The social-insurance system does not include the peasantry, who, of course, comprise the vast majority of the population. It is true that some effort is made to provide for the poorer peasants in various ways. About thirty-five per cent of the poorest peasants are freed from paying the agricultural tax. There is, in connection with every village Soviet, a Committee of the Poor, who have the responsibility of helping the poorer peasants. But the number of poor peasants is so vast, and the standard of living even of the richest of the peasants is so low, that there are quite sharp limitations on what can be done to alleviate economic distress.

The peasantry are not included in the formal system of social insurance by the state, except in so far as that system affects the seasonal worker, who is usually a peasant. The peasants are excluded from the system of social insurance, first, because the peasant is not considered a proletarian, and the system is constructed to provide relief only for proletarians. Second, the peasants are excluded because their inclusion in the system, at the present stage of economic development of the Union, would inevitably swamp the entire system, as the financial strain could not be borne. With the great growth of the collectivization movement, the position of the peasant will doubtless un-

¹ By a series of decrees issued during March 1930, the position of those persons deprived of civil rights was somewhat ameliorated. Up until that time their lot had grown steadily worse to such an extent that to be deprived of civil rights almost meant to be deprived of the right to live. In consequence, a portion of the beggars and poverty-stricken people who are so much in evidence in Russia belong to this great deprived class.

dergo a great change. In the collectives, the distinction between peasant classes disappears, and all members of the collective are raised or reduced to a common level. No consideration has been given as yet to the provision of a system of social insurance for the kolkhoz. It is possible that in the future the peasants in the kolkhoz may be included in the general system of social insurance. It is not likely that this will happen, however, in less than four or five years, if then, since the financial burden, aside from other considerations, would almost certainly prevent such action.

Social insurance in the Soviet Union provides the following categories of relief for economic distress:

1. Illness insurance; 2. Insurance against permanent incapacity for work in varying degrees; 3. Insurance against occupational accidents and diseases; 4. Maternity benefits; 5. Funeral benefits; 6. Unemployment insurance; 7. Payments to dependents of incapacitated workers, and to dependents of deceased workers; 8. Medical treatment; 9. Old-age pensions.

Illness Insurance

Employed persons receive illness benefits if the incapacity occurs during the period of employment. Benefits are paid from the first day of illness until the time of recovery or permanent incapacity. Seasonal and casual workers, however, receive benefits not longer than during the period which the employment would have lasted had the insured not become ill. Thereafter the rate paid is that payable to unemployed persons. The full amount of the wage is paid during the period of illness. It is worthy of note that, according to the officials of the system, the payment of the full wage has not resulted in malingering. The average number of days lost on account of illness is said to be no larger than the experience record of Western European countries. The amount of the wage which is paid as sickness benefit is computed on the basis of the

average wage of the last three months preceding the illness. This average includes all payments, whether in the nature of over-time pay, bonuses, or payments in kind. There is a maximum payment, however, which depends upon the zone in which the worker lives. The country is divided into six zones, and the maximum payment in 1929 ranged from 150 to 120 rubles according to zone. The same payment is made to workers who are absent from work on account of quarantine, or on account of the necessity of caring for members of the family who are ill, as in the case of persons who are themselves ill. Medical service for persons who are ill is provided by the public-health department, but the control over the granting of leaves to be absent from employment on account of illness is in the hands of the insurance locals.

Medical Treatment

Although medical treatment of insured persons is a part of the social-insurance system, and is paid for partially out of social-insurance funds, it is not administered by the social-insurance system, but by the Republican Commissariats of Health and by the local Boards of Health. Medical and preventative treatment and drugs must be provided to insured persons free of charge. Dependents of insured persons, unemployed persons, invalid workers, students, and trade unionists are entitled to the same free medical service as the insured. The "deprived" are not, of course, included in the scheme of free medical service. Sanatoria, Health Resorts, and Rest Homes are also provided as a part of the system. Part of these institutions are maintained by the social insurance locals, and part by the Public Health authorities. The rest homes are maintained by the trade unions. 80 per cent of all beds in health resorts, and 75 per cent of the beds in local sanatoria and rest homes are reserved for industrial and transport workers. The remainder are available for salaried workers and for the families of the insured.

Funds for free medical service are provided by appropriations from local funds, by a levy on local funds by the Republican authorities of not less than 10 per cent, and by a levy of 3 per cent on local funds by the Union authorities. The Republican and Union funds are used to increase the resources of districts which are financially weak. In addition to these budgetary grants by governmental authorities, the social-insurance funds contribute an important share of the funds necessary for the free public-health service. With the abolition of private clinics, and with the abolition of private medical practice altogether in some cities and its impending abolition in the entire Union, the public-health service must be extended to an even greater extent. At the present time large numbers of doctors are being mobilized for service in the kolkhoz, so that the process of extending service to the village is already well under way. The great problem of the service is the vast number of people who must be provided for with limited funds, equipment, and personnel. At the present time the over-crowding is terrific.

Insurance against Incapacity for Work

Every employed person is entitled to a pension in case of total or partial invalidity due to an industrial accident, to an occupational disease, or to a general disease. The pension is granted in case the incapacity occurs within the period of employment, or after the receipt of temporary disablement compensation. All employees are entitled to a pension in case of incapacity, regardless of the duration of employment, except that in the case of persons over fifty years of age the pension is granted only if the disabled person has been employed for at least eight years prior to incapacitation.

The amount of the pension paid to disabled persons depends upon the degree of incapacity. Incapacitated persons are divided into six categories, as follows:

1. Totally incapacitated and needing attendance; 2.

Incapacitated, with resulting loss of earning capacity of from 65 to 100 per cent, but needing no attendance; 3. Incapacitated to such an extent as to be unable to perform regular work, but able to perform light or casual work. Loss of earning capacity of from 45 to 65 per cent; 4. Incapacitated to perform previous work, so that work paying a lower rate must be taken, or able to perform previous work with considerably lowered efficiency. Loss of earning capacity of from 30 to 45 per cent; 5. Invalids who are able to continue their former work but with some loss of efficiency, or forced to accept lower paid work. Loss of earning power of from 15 to 30 per cent; 6. Invalids with a slightly lowered earning power, amounting to not more than 15 per cent.

If the incapacity is caused by a general disease, only the first three classes receive pensions.

Invalids whose incapacity is due to a general disease are compensated as follows:

To invalids of the first category, two-thirds of their earnings; to invalids of the second category, four-ninths of their earnings; to invalids of the third category, one-third of their earnings.

The maximum pension paid is from 50 rubles to 120 rubles, depending upon the zone in which the incapacitated person lives. On the other hand, there are several minimum provisions. If a worker received not more than 40 rubles per month, he receives his full wage, for invalids of the first category, and a proportionate share of the full wages in the case of the second and third categories. Also the minimum for the first two categories and for families of three or more persons of the first three categories is computed on the basis of 150 per cent of the state minimum wage.

The rate of compensation is more liberal in case of incapacity for work due to an industrial accident or to an occupational disease, and the compensation paid to the dependants in case of death due to an industrial accident,

or to an occupational disease, is also more liberal than in the case of death or incapacity due to a general disease. The conception of what constitutes an industrial accident or an occupational disease is more liberally interpreted than in the United States, for example. All six of the categories of invalids enumerated above receive compensation if the incapacity is due to an industrial accident or to an occupational disease.

Dependents of employed persons, or of invalids who have been receiving social-insurance payments, or of unemployed persons who have been receiving unemployment-insurance payments, receive a pension in case of the death from an industrial accident, an occupational disease, or a general disease. A pension is paid also in case of the absence, for unknown cause, of the chief support of a family. As in the case of incapacity, a higher rate of compensation is paid in case death is due to an industrial accident or an occupational disease. In the case of persons receiving pensions on account of a general disease, or in the case of dependents of persons who have died from a general disease, or the dependents of a worker who is absent from an unknown cause, the payment of the pension is dependent upon the income received from other sources, and may be discontinued if such income is sufficient to provide a minimum subsistence. In the case of pensions paid on account of an industrial accident or an occupational disease, the payment of the pension is mandatory, unless the recipient shall engage in private trade, or shall employ labour for pecuniary gain. In such cases the pension is discontinued.

In lieu of a pension, an incapacitated person may elect to receive maintenance in an asylum. He also may join an invalids' co-operative, in which case he may receive an advance of as much as six months of his pension to pay for his share of stock in the co-operative. Instead of the pension an invalid may also elect to receive a license for

petty retail trade, such as selling candy, newspapers, or cigarettes from small booths or on the streets.

Maternity Benefits

Women who are employed at manual labour are freed from work for a period of eight weeks before confinement and eight weeks following confinement. For women who are not classed as manual workers the period is shortened to six weeks before and six after confinement. The full wages are paid during this period, the costs falling upon the social-insurance system. A lump sum is paid for the purchase of infants' clothing, and a monthly payment for a period of nine months is paid as a nursing benefit. Both employed and unemployed women receive these payments, as well as the wives of employed or unemployed workers. However, unemployed persons who do not receive unemployment insurance are not eligible for maternity benefits. The marriage of the mother is not a necessary qualification for the receipt of maternity benefits.

Closely connected with maternity benefits provided by the social-insurance system is the great system of nursing homes for infants and children, which have been developed in the Soviet Union. These nursing homes are operated either in connection with factories, or with co-operative apartment houses, or sometimes in connection with a small section of the city or town. In some cases there are nursing homes for children and infants in the villages and in the kolkhozi. It is probable that in the future there will be the same development of the nursery for children in the kolkhoz which is now found in the factory. To these nurseries the working mothers bring their children ranging in age from six months to five years. They are fed and taken care of by the personnel of the nursery until the time when the mothers go home. A great attempt is made to introduce the latest methods in the care of children in these nurseries. Mothers are allowed to leave

their work at regular intervals during the day for the purpose of nursing the children. These public nurseries are of the greatest significance in the training of children for the communistic order of life. Children who are brought up in them have scarcely any private home life at all. It is natural that they should grow up to regard themselves as units in a communal society, and that they should have little concept of the private home as an organism apart from the state. These public nurseries are not a component part of the system of social insurance, and their maintenance and administration are not directly under the authority of the system.

There is no gainsaying the fact that this system of maternity benefits and of public nurseries is an enormous step in the direction of the establishment of real economic equality of women with men. The Communistic system in the Soviet Union has almost completely destroyed the old bourgeois system of morality or of immorality, as the Communists consider it to have been. The sheltered status of the bourgeois woman has disappeared. It seems at least a strong possibility that the home will also disappear. These developments may be regretted, but on the other hand it must be recognized that the Soviet Government has taken a more realistic point of view toward the problem of the status of women in the modern industrial and urban world than has any other country. The Soviet Government has almost completely accepted the working principle that women shall have the same rights and obligations as men, and since biological considerations offer serious obstacles to the operation of this principle, the Soviet Government, through the system of maternity benefits and of public nurseries, has made a real effort to overcome these obstacles.

Funeral Expenses

In case of the death of an employed person, or of a person in receipt of a pension or of unemployment pay,

a payment for funeral expenses is made by the social-insurance system. A like payment is made in the case of the death of dependents of the above-mentioned persons. This payment ranges from 21 rubles to 45 rubles according to geographical zone. In the case of dependents under ten years of age the amount of the payment is 50 per cent of the basic amount.

Unemployment Insurance

Unemployment compensation is paid to persons who have previously been employed and who have registered at the labour exchange, or at the trade-union local, if there is no labour exchange in the town. Previous period of employment is required, in general, in order to be eligible for compensation. However, certain classifications of persons are exempt from this qualification. These include trained workers, specialists, persons under eighteen years of age, demobilized Red Army soldiers, and some others. The period of employment immediately preceding unemployment which is required in other cases ranges from six to thirty-six months.

Destitution is a general requirement for the payment of unemployment compensation. Therefore if casual earning in any month exceeds 150 per cent of the basic compensation, or if earnings are of a regular sort, no compensation is paid for the month. No compensation is paid if the casual earnings plus the compensation for unemployment together reach more than 75 per cent of the average monthly earnings of the recipient when employed. No compensation is paid in case any member of the family receives some unearned income, or in case the joint earnings of the other members of the family amount to more than 180 rubles in the first zone, with a proportionate lowering of this amount for the other five geographical zones. The amount of the compensation varies according to three categories, and in accordance with the number of dependents of the unemployed persons. The maximum

unemployment compensation for one worker without dependents is 27 rubles 50 kopecks. Fifteen per cent of the basic compensation is paid in case the unemployed person has one dependent, 25 per cent in case of two dependents, and 35 per cent in case of three or more dependents. If the dependents receive any independent income, no additional compensation is paid on their account. If the wife or husband of the unemployed person has any income, no payment is made to the dependents.

No more than nine months unemployment compensation is paid during any one year to trained workers, nor more than six months compensation in one year to untrained workers. No more than eighteen months of unemployment compensation during one period of unemployment is paid to trained workers and not more than twelve months compensation is paid during one period of unemployment to untrained workers.

During the latter part of the year 1929 a great effort was made to reduce the number of people receiving unemployment compensation in order to lessen the strain upon the funds available for making the payments. At that time a "cleaning" of the labour exchanges was held and a great many people who had been deprived of civil rights and who had managed in some way or other to become registered on the exchange were excluded. Other persons were excluded upon the basis of information received by the labour exchange at the time of the "cleaning." A large number of other persons were also excluded on evidence that other members of the family received some income.

The number of unemployed had continued to mount with considerable rapidity up to the end of 1929. With the beginning of 1930, however, unemployment began to decline. This was due in part to the collectivization movement which resulted in considerable unrest among the urban workers who were still closely connected with the village. They left work in many instances in order to pro-

tect their interests in the village during the period of collectivization. The great program of capital construction planned for the summer of 1930 also began to have its effect, and there was an actual shortage of this type of labour even in the early spring of that year. This caused a marked decline in unemployment. The figures on unemployment in the Soviet Union compare extremely favourably with those of capitalistic countries. However, this is due in part to certain special circumstances.

Until the spring of 1930, persons who were deprived of civil rights were not permitted to register on the unemployment exchanges. During March of that year a limited right of registration was extended in some cases to these persons. The great majority of such persons are not registered as unemployed, however, although a large part of them actually are unemployed. Since the class of deprived persons includes the kulaki who have been expropriated and sent into exile by the thousands, unemployment statistics of the Soviet Union do not by any means present a comprehensive picture of the real situation. Such unemployment is, however, rather punitive in character, and does not represent persons who are unemployed simply because the economic system cannot employ them.

On account of the high degree of direct control over the economic system which is exercised by central authority it seems probable that the Soviet Government will succeed in keeping unemployment at the low figure which was attained during 1930. This represents one of the greatest advantages which the Soviet system is able to claim over the capitalistic system. The reduction in unemployment which has taken place, although it indicates that this claim has validity, is of too recent a date to demonstrate with finality that this critical problem has been solved.

Great emphasis is placed upon the retraining of unemployed persons in order that they may find work for which they were previously unfitted. Thus in the economic year

1929-30 the amount appropriated for aiding the unemployed in the R. S. F. S. R. was increased almost 100 per cent over the previous year, but the amount to be spent on retraining unemployed persons increased about five times. A large part of the expenses of unemployment relief is also accounted for by aid given to unemployed in joining collectives and artels. Of the total planned expenditure for 1929-30 in the R. S. F. S. R., amounting to 46,200,000 rubles, 28,400,000 rubles were to be spent for the retraining of unemployed workers, and 12,000,000 rubles were to be expended in aid to unemployed persons joining collectives and artels. It was planned to retrain 175,000 unemployed workers during the year. As in the case of invalids, unemployed persons are sometimes given the right to sell candy, cigarettes, etc., in lieu of other relief.

By a decision of the Commissariat of Labour published in *Izvestia*, October 11, 1930, a change in the system was made, which was of such far-reaching importance as to amount to the temporary abolition of unemployment insurance. An acute shortage of labour had developed, but there continued to be thousands of persons registered as unemployed and receiving unemployment aid. They were able to do this by claiming that they could not receive work of the sort for which they were trained. The new order provided that no more unemployment aid was to be given to these persons. Furthermore, persons who refused work of any sort were to have their names removed from the list of unemployed at the labour exchanges. No excuse was to be valid for refusal to accept employment of any sort, except when accompanied by a written certificate of disability from a physician.

This order meant that an unemployed lawyer or actor might be required to accept a job as a construction labourer. There is little doubt that unemployment payments will be resumed when and if net unemployment reappears. It is probable, however, that payments would be made only when no work of any kind could be obtained.

The change is of the greatest importance, since it parallels a general movement in the direction of limiting the right of the individual to choose the type of work which he prefers and to leave such work when he likes.

Old-Age Insurance

It is intended to introduce a comprehensive system of old-age pensions as soon as possible. The lack of funds prevented this for a long time. However, a beginning has already been made. A scheme of old-age pensions has been applied to the textile industry. It is intended to gradually extend the system of old-age insurance over the whole of industry.

The cost of the entire system of social insurance is paid for by the employers of labor; state, co-operative, private, or concessionaire. The only exception to this is in the case of medical treatment, where part of the costs is covered from other sources, as has been indicated above. Included in the costs of the social-insurance system which must be paid by the employer, are the compulsory contributions to the workers' housing funds. Industries are divided into categories according to the degree of danger to life and health of the worker, and the proportion of the pay-roll which the employer must pay is contingent upon this. Certain industries, however, pay at a reduced rate, on account of financial weakness. This is particularly true of the heavy industries.

The social-insurance system is intended to entirely replace the charitable relief of capitalistic countries. The right to receive relief is firmly associated with the duty of labour. While this principle is admirable in many ways, it nevertheless results in a situation where considerable numbers of people do not receive necessary relief. Included in this number are the peasants who have drifted to the city, and who are sometimes incapacitated before their arrival in the city. Unless they succeed in getting themselves integrated into industry before the necessity

for aid arises, their case is often very serious. Together with the other classes to whom aid is denied, for reasons which have already been explained, these people who slip between the wide meshes of the net of social insurance in the Soviet Union constitute a great flaw in the system which is at once evident to any visitor in the Soviet Union.

TABLE No. X
TABULAR DATA ON SOCIAL INSURANCE ²

	1927-28	1928-29	1929-30 (by plan)
Average number of insured persons for the year (in thousands)....	9,673.8	10,468.5	11,528.4
Average monthly wage of insured persons (in rubles)	63.99	69.29	74.76
Average payment for cost of social insurance (in percentages of the wage of the insured)	12.73	12.54	12.37
Average number of days of temporary sickness relief (per 100 insured persons)	987.6	1,012.5	970.0
Average daily relief paid on account of temporary illness (in rubles)	2.54	2.75	2.86
Average number in the year of pensioned persons (in thousands) ..	849.1	1,006.4	1,112.9
Average yearly number of persons receiving unemployment relief (in thousands)	657.9	854.3	541.6
Average monthly payment for unemployment relief (in rubles)	14.13	14.84	15.01
Average yearly number of old-age pensioners (in thousands) .....	....	5.9	21.9
Average yearly pension for old age (in rubles) .....	....	....	521.29
Average expense for medical aid per insured person paid into the fund for medical aid (in rubles) .....	....	24.75	27.10

Within the limits of the classes to which the system of social insurance applies, it represents an important contribution to social welfare. The worker in Soviet industry, while his earnings are less than in almost any capitalistic country, has a greater measure of security against economic hazards than in many capitalistic countries. The

² *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, pp. 174-176.

wage level in Soviet Russia compares particularly unfavourably with that in the United States, for example. But in respect to the degree of security against economic hazards, the worker in the Soviet Union has the advantage. The system of social insurance, together with other elements in the economic and social system of Soviet Russia, reduces very greatly the fierceness of the economic struggle for a living. This serves, for the manual labourer, to compensate for many other defects of the social and economic order.

TABLE No. XI
BUDGETARY COSTS OF SOCIAL INSURANCE ^a

	<i>In percentages of total costs</i>		
	1927-28	1928-29	1929-30 (by plan)
1. Relief on account of temporary illness..	24.8	25.2	24.4
2. Relief paid to insured and their families for other causes	7.0	5.8	4.6
3. Pensions paid to invalids and families who have lost their bread-winner.....	20.9	22.3	23.6
4. Unemployment aid	11.5	12.1	7.7
5. Expenses of medical aid to insured.....	25.0	22.4	23.8
6. Expenses of houses of rest and sanatoria	4.1	3.2	3.4
7. Payments to the fund for construction of homes of workers	3.5	3.5	3.4
8. Old-age pensions .....	..	0.3	0.8
9. Other expenses	3.2	2.5	2.6
(Organization expenses included in the above)	2.4	2.0	1.8
10. Reserve .....	..	2.7	5.7
Total	100%	100%	100%
Total expenses in rubles (in millions)	984.0	1,155.9	1,314.3

^a *Kontrol'nye Tsifry Po Trudu Na 1929-30 God*, pp. 174-176.

CHAPTER XII

PLANNED ECONOMY

AT the head of the system of planning in the Soviet Union stands the Council of Labour and Defence, known as Sto, which fulfils the functions at first intended for the Supreme Economic Council. The Supreme Economic Council was originally intended to be what its name implies, but developed into an institution with the more limited function of the control of industry. Sto was then created to integrate the other branches of the national economy with industry. The actual mechanism of planning is operated and presided over by the State Planning Commission, which is known as Gosplan.

Gosplan is a commission of the Council of Labour and Defence, and is the official advisor of the Council of Labour and Defence and of the Council of People's Commissars as well. Gosplan has two principal functions. The first is the function of planning, and the second, of examination of the results of the planning. Its general character is advisory rather than legislative or administrative. The recommendations of Gosplan are enforced by authority of the Council of Labour and Defence, by the Council of People's Commissars, and by the Central Executive Committee of the Union. In the actual working out of the plans, direct pressure by Party organs, by the press, and by labour unions is of great importance.

Gosplan is divided into three sectors, known as the Social Economic Sector, the Producing Sector, and the Reconstruction Sector. In addition to these sectors there is an Institute of Economic Research. The Central Statis-

tical Administration has also recently been attached to Gosplan. In the Social Economic Sector are special departments dealing with Finance and the Budget, with Labour, Co-operatives, Trade, and Cultural Development. There is also an Institute of Internal Conjuncture and an Institute for World Conjuncture. The Producing Sector has departments dealing with planning of Agriculture, Industry, Transport, and Waterways. The Reconstruction Sector has departments for planning electrical development, for planning the territorial development of industry, and for constructing homogeneous economic areas.

Gosplan is connected with the economic and cultural development of the country through a double system of contact. Directly subordinate to the Union Gosplan are the Gosplans of the seven Union Republics. Subordinate in turn to these republican Gosplans are the planning commissions of the autonomous republic, the oblast, and the krai. The planning commissions of the last three mentioned politico-economic areas are on a theoretical parity, since they are alternative forms of organization. Under the oblast, autonomous republic and krai is the okrug, which also has a planning commission, while in the rayon, which is the next unit below the okrug and immediately above the village, there is even some sort of committee which exercises limited planning functions. Within this half of the planning system there is also a double system of communication and administrative authority. In the okrug, for example, the planning committee is connected both with the executive committee of the okrug and with the planning commission of the oblast. It is directly under the authority of the executive committee of the okrug, but receives advice and direction from, and must make reports to, the oblast planning commission. In turn, the planning commission of the oblast is under the direct authority of the executive committee of the oblast, although at the same time it has a line of communication

with the planning commission of the Union Republic, and so on clear up to the Union Gosplan.

Gosplan is connected directly, in a second system of control and communication, with each of the People's Commissariats. Each of the People's Commissariats has a planning section which is connected functionally with Gosplan. Thus the Commissariats of Trade, of Transport, and the Supreme Economic Council have planning sections through which the data for planning are transmitted to Gosplan, and through which the planned programs of Gosplan are transmitted back for the guidance of Trade, Transport, and Industry respectively. Each of the three great systems of co-operatives, agricultural, producers', and consumers', has a planning section which has a representative in Gosplan, and which transmits data for the drawing up of the plans for the co-operatives and in turn oversees the working out of the planned program in the co-operative organizations. The State Bank is represented on Gosplan in a similar fashion, and has a special planning department as well. In this way every branch of the national economy is represented on Gosplan, and has a planning section which is at once connected with Gosplan, while it is under the direct authority of its own organization.

In the Supreme Economic Council, which is the commissariat for industry, the economic planning section is of great importance and has a wide range of duties. Directly under it are the planning boards of the Combinations, and in turn of the Trusts and enterprises. Even sections in a factory are supposed to have a production plan, and a committee which is responsible for the successful execution of the plan. In practice this is, of course, not always true, and the planning functions of a committee for a section are of an extremely limited nature. Data upon which the plans for industry are based are passed up the chain of links to Gosplan. Gosplan, upon the basis of all the information received from all sources, draws up a compre-

hensive plan for industry. But this plan is determined not only upon the basis of the data received from the Supreme Economic Council, which has in turn received the data from its subordinate planning organs. Gosplan has the duty of working out a plan for industry which will embody the decisions of the Soviet Government, which in essence are the decisions of the Central Committee of the Party. The data which it has received from the lower ranks of the planning organs will ordinarily contain the estimates of what these lower planning organs consider possible for their units to produce. But the Party may have decided on a policy which required a greater production than some of the lower planning organs may have envisaged. The plan which Gosplan finally sends down may therefore be considerably different from the one which the lower planning organ had expected to receive. The lower planning authority may protest through the proper authoritative channels, but after final decision has been made it will be held to responsibility for the success of the plan as officially adopted. The process of providing data for the general plan, drawing up a general plan, elaborating it for the lower productive organs, and getting a final agreement to the plan is a long and complicated process. It is necessary to start the planning process a long time ahead of the period in which production is intended to take place. Thus the so-called "Control Figures" for the 1930-31 economic year which begins October 1, 1930, were being elaborated in January of 1930. As a result, the plan, when eventually worked out, is frequently out of date before it can be formally adopted.

The higher planning organs do not, in general, attempt to plan the actual distribution, purchase, and sale of commodities. This function is carried out by the Combination, or if no Combination exists, by the Trust. Gosplan plans the number of tons of steel which should be produced in a given year, and also the number of tractors, but the actual process of delivery of the steel, with specifications as to

quality, kinds, etc., would be arranged by the Combination for the Black Metals and the Agricultural Machinery Combination. The price would also be agreed upon between the two Combinations within the limits laid down by the Supreme Economic Council and the Commissariat for Trade. The Combinations are expected, however, to draw up general agreements covering a period of as much as a year in some instances, in respect to the supply of materials from one industry to another, so that production according to plan may be insured. The Supreme Economic Council sponsors inter-industrial conferences in which the representatives of the various Combinations can consult each other in regard to common problems.

The yearly and quarterly plan which is worked out by Gosplan and given to the Supreme Economic Council for the Combination, and in turn by the Combination for the Trust, and so on to the departments within a factory, is called the "promfin plan." The promfin plan for the Combination is general in nature and concerns itself with certain important elements of the planned problem for the Combination. The main elements of the promfin plan for a Combination would consist of estimates of total output, percentage of reduction of costs of production, percentage increase of wages, percentage increase of productivity of labour, amount of raw materials and other supplies required by the operations of the Combination, the value of materials which must be purchased from abroad, the amount of product which the Combination must furnish for export, and the amount of capital construction to be carried out. The Combination must work out detailed plans so that it can be certain that its constituent Trusts will make it possible for the Combination to fulfil its responsibilities as required in the promfin plan agreed upon between the Combination and Gosplan. The Trust in turn agrees with the Combination upon a promfin plan which is more detailed than that for the Combination, and in turn makes even more detailed arrangements for the

promfin plan of the factories which are under its authority. Each subordinate unit, while it may suggest changes in the promfin plan handed to it by its superior planning body, is under obligations to fulfil the general requirements of its promfin plan, and practically is free to discuss only how the promfin plan is to be executed. The Combination is supposed to supervise to some extent the drawing up of the promfin plan of the factories, so that it is responsible not only for its instructions to the Trusts, but also for seeing that the Trusts take proper measures to make the promfin plan effective. The Combination actually does this by means of commissions which advise and guide the Trusts in their work. The Combination usually has a representative present even at the production conferences which are held between the Trust and the labour unions. The Supreme Economic Council in turn reaches down to supervise to a limited extent the working out of the promfin plan for the Trusts by the Combination. Thus between the Gosplan and the factory there are the three intermediate planning and directing bodies—the Supreme Economic Council, the Combination, and the Trust—so that the planning and directing mechanism is neither simple nor abbreviated.

The Central Statistical Administration attached to Gosplan receives quarterly reports directly from industry. Monthly reports are sent to the Statistical Section of the Supreme Economic Council and from there are sent to the Central Statistical administration. In this way contact is maintained with industry, and the degree of fulfilment of the planned program is ascertained. The press is relied upon to receive reports of the fulfilment of the plan by factories, Trusts, and Combinations, and to throw the pressure of public opinion against those which do not complete their part of the program. Newspapers such as *Pravda*, *Izvestia*, *Ekonomicheskaiia Zhizn*, and *Za Industrializatsiiu* publish from day to day the results of the efforts of economic organs to fulfil the promfin plan. In

these reports there are frequently included the results even of five-day periods of activity, so that a surprisingly close check is kept in this way upon the success or failure of the plan. A typical statement of results runs as follows:

GREAT BREAK IN BLACK METALLURGY IN THE URALS

Factories of Ural Metal Trust Fulfil the Plan for the First Five-Day Period in July: Pig-Iron, 71.5 per cent; Steel, 86.5 per cent; Rolled Steel, 85.2 per cent.

(By telegraph from Sverdlovsk)

The first five-day period of July showed a sharp unfulfilment of the plan. Pig-iron production was 9 per cent lower than in the preceding five-day period, marten 4 per cent lower, and rolled steel 18 per cent lower. For such a deep break in production of pig-iron, the Kushbinski, Nizhnesaldinski, Pashinski, and Nizhneserginski mills were responsible. . . . The best fulfilment of the problem for pig-iron was on the part of the Verkhneturinski mill, 112.3 per cent of the plan, Maikorski mill, 102.6 per cent, Verkhneufaleski 104.2 per cent, Bilimbaevski 111.4 per cent, Zlatoustovski, 105.6 per cent, Ashinski 135.4 per cent, Satkinski 99.2 per cent, Chusovski 95.2 per cent.¹

This control of the fulfilment of the promfin plan by the press is carried to great lengths. Some factories or Trusts which fulfil the promfin plan with a surplus are placed on a "red list," while those which fall particularly short are placed on a "black list," on both of which are printed the names of the director and other officials of the factory or Trust. The pictures of unfortunate officials whose plants have failed to fulfil the plan are sometimes published, with the remark, "These are they who destroy Socialistic Construction"! Or the pictures of the managers of particularly successful factories are published. The trade unions are also considered responsible for the fulfilment of the plan, and union leaders may be removed from office when there has been noticeable unfulfilment of the

¹ *Za Industrializatsiiu*, July 10, 1930.

plan.² The press constantly calls the attention of the unions to their duty in preventing the failure of the plan. Responsible officials of organizations which are not successful in fulfilling their part of the plan have not only the fear of unfavourable notoriety; frequently such officials are prosecuted before the court for criminal carelessness or for the crime peculiar to the Soviet Union known as *vreditel'stvo*, in which case they will be punished for counter-revolutionary activity.³

It is an important point in the doctrine of Soviet Communism that a socialistic system can avoid many of the wastes of capitalism by the development of planned economy. It is the hope of the Soviet Government that by this means it will be possible for the Soviet Union to make economic progress at a rate which cannot be approached in capitalistic countries. By planned economy it is thought that the Soviet Union can overcome the technical backwardness of its industry, become independent eventually of foreign manufactures, and surpass in point of economic development the countries of Western Europe, and even the United States. This belief in the efficacy of a planned economy found expression in the widely advertised Five Year Plan or *piatiletka*. Attempts at planned economy had preceded the adoption of the Five Year Plan.⁴ Indeed it was originally intended that the Five Year Plan should begin October 1, 1927, but owing to revisions in the plan which were found necessary,

² In the Bakalski Mining Trust, in the Urals, the monthly program was fulfilled only to the extent of 31.5 per cent. One of the members of the oblast committee of the metal workers' union was accused of making a "counter-revolutionary" speech at one of the meetings of the union. The director of the factory, the secretary of the Party collective, the president of the rayon committee of the miners' union were all dismissed from work upon the recommendation of a committee of investigation. *Ekonomicheskaja Zhizn*, Feb. 2, 1930.

³ See the long article in *Ekonomicheskaja Zhizn* of the same date concerning the unsatisfactory support of working discipline by the miners' union in Tula. See also the account of proposed court action against the directors of the leather factories in Novosibirsk for unfulfilment of the plan. *Izvestia*, Jan. 30, 1930.

⁴ An earlier Five Year Plan had been begun in 1922-23.

it was not officially launched until October 1, 1928. The Plan is intended to cover the five years from 1928-29 to 1932-33 inclusive. Its adoption was hailed with enthusiasm, and its success has become a religion with the Communist Party. Tons of statistical and propagandist literature have been written about it and the press is always frantically whipping up enthusiasm for it.

The Party has always felt the industrial backwardness of the country very keenly. Although the Stalin faction of the Party might argue that it was possible for Socialism to be established in Russia alone, no faction believed that Socialism could ever be established until the country had become thoroughly industrialized. The Party had also felt the difficulty in spreading the gospel of the World Revolution as long as the standard of living of the worker in the one land where capitalism had been overthrown was decidedly below that of the worker in the countries where the bourgeois exploiters still lived from the sweat and blood of the labourer. The Five Year Plan, then, is a grandiose program for the industrialization of the country, for the establishment of the foundation of a truly socialistic order, for the creation of a solid point of support for the World Revolution. On account of this the Five Year Plan has taken on an almost mystic significance, and the Party is determined that the Plan shall be accomplished without regard to the will of the people and without regard to the suffering and privation which the enormous capital investment provided for in the Plan entails.

It is true that the Five Year Plan is only one step forward in the great plan for the creation of a new order and a new civilization. There exists a Fifteen Year Plan as well, although it does not have the official status of the Five Year Plan.⁵ By the end of the Five Year Plan, how-

⁵ See *S. S. S. R. Cherez 15 Let*, by L. M. Sabsolovich. This plan is published by *Planovoe Khoziaistvo*, which is an organ of Gosplan. The plan was evolved by Sabsolovich as a result of his work on the general planning commission of Gosplan.

ever, it is hoped that the Soviet economic system will have made possible a standard of living for the workers comparable to that of Western Europe.⁶

Three volumes of the official Five Year Plan have been published, of which the second volume is published in two parts. These volumes contain more than sixteen hundred pages. In addition to this, every branch of the national economy has drawn up its five year plan. It is obviously impossible to give any adequate explanation, in a limited space, of such a vast undertaking. Some statistics are given here only as a very brief indication of the nature of the Plan.

Population

It is expected that during the *piatiletka* population will increase by 11.8 per cent.⁷ This is supposed to occur regardless of plan, and having regard for Russian fecundity it probably will. Therefore there is no variant given for this estimate. For practically all other figures there are optimum and minimum variants, which are supposed to set the limits for the plan and to provide some degree of elasticity for it. The figure for the optimum variant is given hereafter in order to save space. The urban population is to increase 24.4 per cent during the five-year period, while the rural population is to increase only 9 per cent. The number of workers for hire is to increase 38.9 per cent, reflecting not merely the increase in population but the increase of state-operated farms.

Industry

Total capital resources are to increase 82 per cent, while new capital investment is to increase 228 per cent.

⁶ Gosplan expected the real wages of Moscow workers by the end of the Five Year Plan to approximate those of the London workers at the time the Plan was put into operation. *Piatiletanii Plan Harodno-Khozi-aistvennogo Stroitel'stva S. S. S. R.*, Vol. II, Part II, p. 186.

⁷ The data quoted in regard to the Five Year Plan are taken from *Piatiletanii Plan*, *op. cit.*, or are from computations based upon data included in it. Most of the data can be found, pp. 129-164, Vol. I. Space does not permit direct citation for each item.

National income is to increase by 103 per cent. Electrification is to increase at the rate of 425 per cent over the first year of the Plan, in respect to capital resources, and 336 per cent in respect to output of electrical energy. The capital funds of industry are to increase by 221 per cent, while the gross product of industry is to increase by 136 per cent.

The proportion of the national income derived from industry is to increase from 31.6 per cent to 34.2 per cent. The percentage of total yearly capital investment which constitutes capital investment in industry is to rise from 23.7 per cent to 26.2 per cent. The production of means of production is to increase from 40.3 per cent of total production to 47.8 per cent, while the production of consumption goods is to fall from 59.7 per cent to 52.2 per cent.

The production of coal is to increase to 259.5 per cent of pre-war production, of oil to 233.3 per cent of pre-war, of peat to 1,000 per cent, of pig-iron to 238.1 per cent, of agricultural machinery to 743.3 per cent, of superphosphate to 1,785 per cent. In the production of consumption goods, cotton yarn is to increase to 228.8 per cent of pre-war, sugar to 201.6 per cent, galoshes (an extremely important article of wear in Russia) to 267.9 per cent.

Gross production of all industry is to increase from 18.3 billions of rubles in 1927-28 to 43.2 billions in 1932-33. Thus the annual value of gross production is to more than double during the life of the Plan.

Agriculture

The increases planned for agriculture are not so startling as those for industry. Capital resources are to increase by 35 per cent. Gross product is to increase by 55 per cent. The marketable portion of the product is to increase, however, by 105 per cent. The share of the socialized sector in the production of grain is to increase

by 652.4 per cent. This estimate includes the share of both the sovkhozi and kolkhozi. The share of the total production of grain produced by the kolkhozi is to increase by 1,030.0 per cent.

The total sown area is to increase from 99.1 per cent of the sown area of 1913 to 121 per cent of the pre-war area. The sown area of grain crops is to increase to only 108.5 per cent, however, while the sown area of technical crops, such as cotton, sugar beets, etc., is to increase to 214.5 per cent. The number of cattle are to increase to 133.7 per cent of the number for 1913. The production of grain is to increase to 129.5 per cent of pre-war, of cotton to 256.4 per cent, of flax to 136.5 per cent, of sugar beets to 179.8 per cent. The total value of agricultural production at pre-war prices is to increase to 161.9 per cent of pre-war production.

Co-operatives

The membership of agricultural co-operatives is to increase during the five-year period of 1927-28 to 1932-33 by 148 per cent, the membership of the industrial-handicraft societies by 324 per cent, of consumers' co-operative societies in the cities by 129 per cent, and in the rural districts by 254 per cent. The percentage of persons engaged in work in co-operative organizations is to increase from 3.2 per cent of all persons engaged in work in 1927-28 to 14.4 per cent of such persons in 1932-33. The percentage of total capital resources of the Union owned by co-operatives is to rise from 3.8 per cent in 1927-28 to 9.3 per cent for 1932-33.

Transport

The capital resources of transport are to increase by 89 per cent, while the capital resources of the railroads alone are to increase by 67 per cent. The amount of capital invested in the last year of the Five Year Plan compared with the year preceding its adoption is to in-

crease by 390 per cent for all transport and 307 per cent for the railroads alone.

Building Construction

Building construction (without peasant construction) is to increase by 383 per cent during the period.

Budget

The state budget is to increase by 100 per cent. The expenditure for administration is to increase by 41 per cent, while the expenditure on social and cultural institutions is to increase by 145 per cent.

Price Level

Prices charged for products of state industry at the end of the period are to be only 76 per cent of those of the year preceding the adoption of the Plan. Prices for goods to be used in further production are to be 70.1 per cent and those of consumers' goods 81.7 per cent of the price level of 1927-28. Wholesale prices of agricultural products are to decline to 96 per cent of the pre-piatiletka year, while wholesale prices of industrial goods are to decline to 77 per cent of the former level. Retail prices for agricultural commodities are to decline to 79.4 per cent and for industrial products to 77.1 per cent. Costs of construction are to decline to 58.7 per cent of the former level.

Labour

The productivity of labour is to increase by 110 per cent. In 1927-28 out of every 100 workers of industry, 41.3 were trained workers, 0.6 were technicians, and 0.6 were engineers. In 1932-33, 62 out of 100 will be trained workers, 1.6 will be technicians, and 1.3 will be engineers.

The index of working hours, in percentages of pre-war working hours, is to fall from 77 per cent in 1927-28 to

70.5 per cent in 1932-33. The index of real wages is to rise from 122.5 per cent of pre-war wages in 1927-28 to 208.9 per cent in 1932-33.

Culture

Literacy is to rise in the city from 78.5 per cent of persons of eight years of age and above, to 86.7 per cent, while in the rural districts literacy is to increase from 48.3 per cent to 74.6 per cent. Since theoretically all children in the city of school age are in school, there can be no increase in the number of children in school. But in the village, the percentage of children of school age who are in school is to increase from 79.3 per cent to 92.4 per cent.

Living Conditions

The area of living quarters per person of the urban population is to increase on the average from 5.70 square metres to 6.30 square metres, while for the workers in planned industry, the increase is to be from 5.60 to 7.30. The per capita consumption of food products by the city population is to change as follows: the consumption of bread is to remain the same, while the consumption of meat is to increase 27.7 per cent, of eggs 72 per cent, of milk products 55.6 per cent. For the rural population the amount of bread consumed is to increase 5.7 per cent, of meat 16.7 per cent, of eggs 45.2 per cent, and of milk products 24.7 per cent.

The structure of the workers' budget is to change as follows: the percentage of income spent for industrial goods is to decrease from 34.2 per cent to 32.5 per cent, for agricultural products from 43.2 per cent to 39 per cent; for lodging the percentage is to increase from 8.7 per cent to 9.5 per cent, while for social cultural needs the expended percentage is to increase from 5.3 per cent to 8.2 per cent, and for miscellaneous expenses and savings from 8.6 per cent to 10.8 per cent.

The results of the first year of the Five Year Plan are now known. Do the data show that the Plan was actually capable of being fulfilled or not? Let us examine first the results of the industrial portion of the plan. The growth of productivity of large-scale industry according to the Plan was to be 21.4 per cent over 1927-28. The actual results, according to data of the Soviet statisticians, showed a growth of 23.4 per cent. The growth of production of means of production was to be 25.3 per cent according to the Plan. The actual increase was 26.2 per cent. The production of consumption goods was to increase by 18.6 per cent, while the actual results showed an increase of 21 per cent. However, some important industries did not fulfil the Plan. The production of coal was to increase by 16.1 per cent, while the actual increase was 12.5 per cent. The production of pig-iron was to increase by 24.2 per cent, while the actual increase was 22.5 per cent. The production of steel was to increase by 18.4 per cent, while the actual increase was 13.5 per cent. The production of super-phosphate was to have increased by 74 per cent, and the actual increase was 21 per cent. The production of cotton yarn was to increase by 10.7; the actual increase was 9.1 per cent. The production of shoes was to increase by 82.6 per cent, while the actual increase was 66.5 per cent.⁸

Capital construction in industry, according to incomplete data, was somewhat greater than provided for in the Plan.⁹ The capital funds of industry increased by 18.7 per cent as compared with the previous year, which was about one per cent less than the plan.¹⁰

Quality of production showed deterioration even in comparison with the very low standards of the preceding

⁸ A. C. Mendelson, *Vypolnenie Plana Pervovo Goda Piatiletki*, pp. 72-73.

⁹ *Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 28.

¹⁰ *Ibid.*, p. 24, and *Piatiletanii Plan*, *op. cit.*, Vol. I, p. 130.

year. This lowering of quality occurred both in the production of consumption goods and of the means of production.¹¹ Cost of production of industrial goods which was to have been lowered by 9 per cent was actually lowered by not more than 4 per cent.¹²

The results of the agricultural year were not so favourable. The plan for the total sown area was fulfilled only to the extent of 97.4 per cent.¹³ The amount of bread grain collected from the harvest of 1929 was 103 per cent of the Plan, but this was attained only after methods of collection which were extremely severe, and which left the country swept bare of any reserves in the hands of the peasants. The collection of technical crops was very unfavourable also.¹⁴ The results of the campaign to collectivize agricultural production by means of the creation of state and collective farms, however, proceeded at a rate more rapid than anyone had expected, and entirely beyond the rate provided for in the plan.

The sown area of the sovkhozi increased in the spring of 1929 by 27.5 per cent, against a planned increase of 7.1 per cent. The sown area of the kolkhozi increased 207.1 per cent against a planned increase of 91.4 per cent. The percentage of the total harvest of bread grains produced in the sovkhozi and kolkhozi together increased from 2.6 per cent to 5.6 per cent, compared with the increase to 4.9 per cent provided for in the Plan.¹⁵

¹¹ *Kontrol'nye Tsifry, op. cit.*, p. 26.

¹² It had been originally planned to lower costs 7 per cent, but this was later raised to 9 per cent. On page 6 of *Kontrol'nye Tsifry, op. cit.*, it is claimed that a 5 per cent reduction in cost of production was achieved.

¹³ *Ibid.*, p. 118.

¹⁴ The data on collections of the 1928 harvest are included in the published results of the first year of the Plan. A change in the period for collection occurred in 1929, however, so that a considerable part of the collections of 1929 took place during the first year of the Plan. It is the results of this last year which are referred to in the text. Collections of grain for the 1928 harvest were catastrophically bad.

¹⁵ See the speech by Kalenin on "Twelve Years of Proletarian Dictatorship," *Pravda*, Nov. 13, 1929.

Wages were to increase by 5.2 per cent during the first year of the *piatiletka*. Nominal wages did increase but the failure of the collections of food during the fall of 1928 and the spring of 1929 necessitated the introduction of food rationing, so that it is likely that real wages actually fell, although officially they are supposed to have increased by 3 per cent to 4 per cent.¹⁶ The output per labourer which was supposed to have increased by 17 per cent, increased by only 15.1 per cent, which was another factor which prevented the growth of real wages.¹⁷ The number of unemployed persons continued to grow during the first year of the *piatiletka* at a rate greater than had been planned. However, during the early part of the second year of the Plan, unemployment began to decrease. The number of workers increased at a rate greater than that provided for in the Plan, largely as a result of the mass movement to the cities caused by the more favourable living conditions there.

X According to the *piatiletka* it had been intended to increase the reserve of precious metals and stable foreign currency in the State Bank by 500 million rubles during the entire five years of the Plan. During the first year of the *piatiletka* the actual increases amounted to slightly less than 90 millions of rubles. At the same time emissions were greater than had been intended in the Plan. Currency in actual circulation increased from 1,970.8 millions to 2,646.2 millions, or an increase of slightly more than 34 per cent.¹⁸ The ratio of bank-note issue to firm cover was kept at the legal ratio of 25 per cent only by the dubious expedient of increasing the legal maximum of uncovered issue of treasury notes from 50 per cent to 75 per cent of the bank-note issue. During the period when the monetary issue was thus increasing by 34 per cent, the national income increased by only 18.4 per cent.¹⁹ More-

¹⁶ *Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 6.

¹⁷ *Vypolnenie Plana Pervovo Goda Piatiletki*, *op. cit.*, p. 72.

¹⁸ *Economic Survey*, *op. cit.*, Jan. 31, 1930.

¹⁹ *Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 466.

over, this increase must be largely discounted on account of the fact that it fails to express adequately the decline in agricultural production, and is inflated by the rising price level. In the official Five Year Plan the rate of increase of the national income is stated to be one of the basic elements in regulating the issue of currency.²⁰ Thus even if it be accepted that the lack of firm cover is not necessarily an evidence of inflation, it is evident that inflation did occur in its most basic sense.

To a disinterested observer, the results of the first year of the Five Year Plan would have been considered fairly favourable. Industrially, the Plan had been reasonably successful. After allowances for deterioration in quality, it does not seem possible to say, however, that even on the industrial front the campaign for the Five Year Plan had succeeded to an extent which would warrant increasing the estimates for future years. This is not to depreciate the very real degree of success which was actually achieved. Even after small-scale industry is included in the average, we find that production increased some fifteen or sixteen per cent over the previous year. Such a rate is several times that of any capitalistic country. But there were certain elements which should have served as a warning. The production of coal, iron, and steel, as has been shown, was less than the planned estimates. The expansion of planted area in agriculture had not been as great as had been hoped. The collections of the technical agricultural crops had been considerably below expectations. These elements are the very basis of national economy. It did not appear from the results of the first year of the Plan that grain exports were going to be possible of resumption to any considerable extent during the first two years of the Plan. As a result, the importation of the requisite amount of capital equipment and of essential materials, such as cotton, would be rendered difficult.

Nevertheless, it was decided that for the second year

²⁰ *Piatiletanii Plan, op. cit.*, Vol. II, Part II, p. 366.

of the Plan the estimates should be greatly increased. The Five Year Plan had provided for the contingency of either increasing or decreasing the yearly estimates of the Plan by the device known as the "Control Figures." These Control Figures are simply the revised yearly estimates which are super-imposed upon the estimates of the original Plan. Thus the Plan had provided for an increase in the productivity of large-scale industry of 21.5 per cent for the second year of the Plan. The Control Figures revised this to 32 per cent.²¹ It had been originally intended to lower costs of production by 6.5 per cent, but partly on account of the lack of success in lowering costs of production during the first year of the Plan, it was decided to lower them by 11 per cent.²² The estimate for capital investment in state-planned industry was raised to 3,423 million rubles. According to the original Five Year Plan, such an amount of capital investment in state-planned industry would have occurred only in the *fifth* year of the *piatiletka*.²³ The productivity of labour was increased by the Control Figures to 25 per cent greater than that of the first year of the Plan. Industrial capital construction which was to increase by 52 per cent over the previous year, during the second year of the Plan was raised by the Control Figures to 91 per cent.²⁴

The gross budget of the second year of the Five Year Plan by the original Plan would have been 8,634 million rubles, while the Control Figures increased this amount to 11,260 million rubles.²⁵

The sown area of the *kolkhoz* for the second year of the Plan was increased from the original planned estimate

²¹ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit., p. 80.*

²² See the order of the Supreme Economic Council of Dec. 3, 1929. *Torgovo-Promyshlennaiia Gazeta, Dec. 5, 1929.*

²³ See the speech of Krzhizhanovsky before the Second Session of the Central Executive Committee of the Union, on the Control Figures for 1929-30, in *Izvestia, Dec. 6, 1929.*

²⁴ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit., p. 9.*

²⁵ *Piatiletnei Plan, op. cit., Vol. II, Part II, p. 395, and Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit., pp. 592-593.*

to a figure almost double that for the *last year* of the Plan, according to the original figures.²⁶

The estimate for the increase in production and purchase of tractors and agricultural machinery was increased by the Control Figures enormously beyond that originally provided for in the Plan.

The original Plan for the increase in total sown area was also raised to 8.3 per cent.²⁷ The increase was especially noteworthy in connection with the estimates for the increase in sown area and production of the technical crops, particularly cotton. The original Plan had provided for an increase in production of cotton of 44 per cent, during the five years of the Plan. This was subsequently increased to 48.7 per cent for the second year of the Plan alone.²⁸ Later administrative revisions provided for complete independence of foreign cotton by the end of the Five Year Plan.

The great changes introduced into the Plan by the Control Figures resulted in increasing the complexity of the problem of planned economy very materially. The Five Year Plan from the first had optimum and minimum variants, which were supposed to set the limits within which the economy of the country was to operate. But the Control Figures in many cases were increased far beyond the optimum variants of the Plan. In addition to the two variants of the Plan and the Control Figures, it must be added that administrative changes in the elements of the Plan are made from day to day. As a result, a considerable part of the advantage of having a Plan is lost. It may be remarked that it also renders it extremely difficult at times to compare data, since sometimes these data are from the official yearly Control Figures, and again from

²⁶ Speech by Krzhizhanovsky, *op. cit.*

²⁷ *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*, p. 139. The percentage increase was raised later by administrative decision to a 13 per cent increase for the spring sowing.

²⁸ Minimum variant. See *Piatiletanii Plan, op. cit.*, Vol. II, Part II, p. 299, and *Kontrol'nye Tsifry Narodnogo Khoziaistva, op. cit.*, p. 143.

administratively determined estimates which are often changed several times in one year.

The causes of these great changes in the planned economy for 1929-30 in the Control Figures for that year as compared with the basic estimates of the Plan are due to several different causes. The decision to introduce the uninterrupted week, by which Sundays and most holidays are utilized as working days, was expected to give an important addition to production on account of the more continuous utilization of capital equipment. The productive results of the first year of the Plan were also considered to show that the basic Plan had underestimated productive possibilities, and the increased control figures were to correct this underestimation. Most important of all, however, was the effect of the collectivization of agriculture. The greatly accelerated rate of collectivization of agriculture during the late summer and fall of 1929 swept all before it. The increase in the number and acreage of the kolkhozi was several times what had been planned. As a result, it became necessary to have a much greater amount of chemical fertilizers, of tractors, and of other agricultural machinery. This necessitated increasing the production of steel, and in turn of coal, and indeed of almost all the means of production. But since tractors could not be produced quickly enough by the industry of the U. S. S. R., they had to be imported in increased numbers from abroad. Both industrial and agricultural exports, therefore, had to be speeded up as much as possible, in order to pay for the added amount of imports. So the whole Plan had to be radically revised, and the strain upon the productive system and upon the people immeasurably increased.

The published results of the first half of the second year of the Five Year Plan indicated that the planning bodies had definitely overshot the mark in the new Control Figures. While the results obtained were impressive in comparison with previous years they did not show

that the Control Figures had been fulfilled. The degree of fulfilment of the Control Figures in respect to the more basic elements of the national economy follow:²⁹

The increase in productivity of industry controlled by the Supreme Economic Council by the Five Year Plan was to have been 21.5 per cent. The increase in productivity by the Control Figures was to have been 32 per cent. The actual increase in productivity of industry was 28.8 per cent. Heavy industry was to have increased production by 40.7 per cent. The actual increase was 35 per cent. Light industry was to have increased production by 30.8 per cent. Actual increase was 29.1 per cent. The electro-technical industry fulfilled 96.5 per cent of the plan. The output of coal was 5 per cent less than that planned. Instead of 50 per cent of the yearly plan, the pig-iron production was 44 per cent. Cost of production was lowered on the average 4.8 per cent instead of the planned 11 per cent. Quality of product was lowered in the majority of industries. Instead of 50 per cent of the yearly plan for capital construction in industry, only 30 per cent to 32 per cent had been fulfilled.

Productivity of labour increased only 9.9 per cent instead of 25.3 per cent as planned. This was true in spite of the fact that 57.2 per cent of all labourers were working on the basis of the uninterrupted week, and that 28.6 per cent of all labourers were working only seven hours per day. The number of workers increased 11.8 per cent instead of 4.7 per cent as provided in the plan. In the metallurgical industry the increase was 20.2 per cent instead of 8.6 per cent. The nominal wage was to have increased 9.1 per cent. During the month of January the increase over the previous year was only 5.6 per cent, reflecting the unfulfilment of the plan for the increase in productivity of labour.

²⁹ These data are taken from *Za Industrializatsiia*, April 13, 1930, unless otherwise indicated.

The Control Figures had planned that 11.7 per cent of all peasant farms would be collectivized by 1930. By March 1930, 55 per cent of all peasant farms had been collectivized.³⁰ The percentage shrank, however, to about 25 or 30 per cent by the summer of 1930. According to the Five Year Plan it had been intended that some five million peasant farms would have been collectivized by the end of the Five Year Period, which would be about 20 per cent of the total at that time. It will thus be seen that by the second year's operation of the Five Year Plan, collectivization had already been carried out to more than the degree planned for the entire Five Year Period. This was hailed as a great triumph of planned economy. It is doubtful if it can be so considered. If one element in economy is permitted to develop at a rate many times as great as had been intended, it is very likely that other elements in the plan will be thrown into confusion as a result. It is, of course, the very essence of planned economy that the development of the various factors in the plan shall be proportional. Such was not the case, however, since the collectivization program has completely outstripped all the plans for provision of tractors, agricultural machinery, and fertilizers, aside from the financial and social problems involved in such an extremely rapid and fundamental change.

According to reports as of June 25, 1930, the sown area of all crops for the sowing season of the spring of 1930 increased 6.9 per cent. An increase of 13 per cent had been planned.³¹ The plan for the sowing of wheat was fulfilled to the extent of 86.3 per cent, of cotton 121 per cent, of potatoes 89.2 per cent. The data for sown

³⁰ See *Kontrol'nye Tsifry Narodnogo Khoziaistva*, *op. cit.*, p. 555, and *Izvestia*, March 26, 1930.

³¹ *Pravda* of July 31, 1930, reports the plan was fulfilled to the extent of 98.9 per cent. Since an increase of 13 per cent had been planned and only 6.9 per cent increase had been achieved it is difficult to see how such an optimistic result is arrived at.

area are probably subject to a considerable discount on account of the fact that all sorts of land were ploughed and planted in almost any fashion in order to bolster up the total. The sowing was also carried on over a longer period than would normally be true, in order to add to the total amount sown. These later sowings might be expected to show poorer results.

Later data show that even the degree of fulfilment which characterized the first half of the year was not being maintained.

During the late summer of 1930 production slumped badly. Productivity of large scale state industry for the first ten months of the year increased 27 per cent, instead of the 32 per cent which had been planned.³² Steel production for the first eleven months of the year was only 85 per cent of the plan, while pig-iron production was 86 per cent of the plan.³³ Coal production in the all-important Don basin fell as low as 65 per cent of the plan for a time.³⁴ The supply of meat, dairy and poultry products fell off alarmingly in spite of an unexpectedly good grain harvest. Grain collections lagged. The production of tractors from the Stalingrad factory which had been opened in June with a blare of trumpets was bitterly disappointing. The Red Putilov tractor factory continued to fail to fulfill its schedule of tractor production.³⁵ Nevertheless, the Control Figures for the third year of the *piatiletka* were raised even beyond those of the second year.³⁶ This proceeding is an ominous portent for the third year of the Five Year Plan.

The results of the first two years of the Five Year Plan

³² *Za Industrializatsiiu*, Sept. 18, 1930.

³³ *Ibid.*, Sept. 9, 1930.

³⁴ *Izvestia*, Sept. 28, 1930.

³⁵ *Ibid.*, Sept. 29, 1930. *Za Industrializatsiiu*, Sept. 10, 1930.

³⁶ Although the increase in productivity of large scale state industry for the second year was 27 per cent instead of 32 per cent as planned, the new Control Figures projected an increase of 48 per cent for the third year of the Plan! *Za Industrializatsiiu*, Sept. 18, 1930.

have demonstrated the possibilities of the Plan. It appears that most of the original estimates of the Plan were capable of realization, in spite of numerous objective difficulties. One of the greatest of these difficulties is the lack of foreign credits. Great quantities of capital equipment and the services of thousands of foreign engineers and technicians are required to render the Plan a success. Long-term credits have proved almost impossible to obtain. As a result it has been necessary to follow a "pay-as-you-go" system and to export every year enough goods to provide the required foreign valuta. To do this, foodstuffs, textiles, and other consumption goods which are needed desperately at home have had to be exported. This has made the burden of the Five Year Plan well-nigh intolerable.

Another serious difficulty has been the shortage of raw materials. There has been constantly an insufficiency of cotton, wool, leather, iron, coal—in fact, almost every important raw material. The one bright spot has been the existence of petroleum and lumber in amounts large enough to permit exportation. To overcome these shortages, the Plan has provided for an enormous increase in capital construction in the heavy industries and has planned for the collectivization of agriculture. The serious shortage of cotton seems to be well on the way toward alleviation as the result of the increased planted area of the spring of 1930 and the great program of irrigation in Turkestan. While the production of coal, pig-iron, and steel still lags behind, great steps forward have been taken in relieving the serious shortage in this field.

Transport difficulties are beginning to bulk large as the end of the second year of the Plan approaches. It is obvious now that there was not sufficient provision for expansion and improvement of the railroad system to take care of the great increase in productivity of industry. Furthermore, too large a proportion of the capital investment in

railroads had been spent in building railroads in undeveloped parts of the country, while the existing railroads were little improved. Thus, the great Turkestan-Siberian Railroad was built during this second year, when the partial break-down of transport was already becoming evident.

The great demand for funds to support this grandiose program of capital construction has resulted in the over-issue of money and bank credit, and the stabilization of the monetary system which took place in 1923 seems under threat.

The problem of the training of sufficiently large numbers of engineers and technicians for the great new industrial system is causing serious concern. It is extremely doubtful whether the new training schools which have been set up and the newly shortened courses of instruction which are being offered are going to succeed in providing an adequate training for future engineers and technicians. Large enough numbers will undoubtedly be turned out, but the character of the training which they will have received is bound to be much below that of capitalistic countries. One serious handicap from which these schools suffer is the fact that every effort is made to eliminate from the student body the sons and daughters of the old intelligentsia and that a particular effort is made to increase the number of sons of manual labourers and poor peasants in the technical schools, even if they do not have the capability to absorb such instruction.

The most serious danger which threatens the success of the Plan is the tendency to substitute enthusiasms for genuine planning. Whenever there have been instances when the planning experts have been too conservative in their estimates, and when some other branch of the national economy has been limited thereby, the tendency has been to charge the unfortunate planning expert with *vreditel'stvo* and to punish him for counter-revolution. This hap-

pened in the case of an official who worked in Gosplan and whose estimates of pig-iron production proved too conservative.³⁷ When the difficulties of the transportation system were being explained to the Sixteenth Party Congress, the cry of *vreditel'stvo* was at once raised.³⁸ After several of the economists who plan the development of the national economy in Gosplan have had unpleasant experiences with the G. P. U. it can be imagined that their colleagues determine that their estimates shall not err on the side of conservatism in the future. As a result, all estimates are raised and the element of real planning becomes almost entirely submerged. This movement has been popularized under the slogan of "The Five Year Plan in Four Years!"³⁹

Such success as has been achieved by the Plan so far is, in the opinion of the writer, due more to the ability to interfere authoritatively in the economy of the country and to take direct action to unravel any economic snarl which may have developed, rather than to the efficacy of planning as the term is usually understood. The estimates in the Plan and the Control Figures do not operate as limits but as goals which are to be exceeded wherever possible. The element of planning would be more important if the experts who have charge of it felt some degree of liberty in working out their plans. But as has been explained, the personnel who have some real training in economics cannot use their own best judgment on account of the fear of arrest for counter-revolution. At the present time more and more of the old economists are being

³⁷ See the speech of Kuibishev, head of the Supreme Economic Council, to a meeting of engineers and technicians at Leningrad, Jan. 28, 1930.—*Za Industrializatsiiu*, Feb. 2, 1930.

³⁸ See the speech of Ordzhonikidze, the head of the R. K. I. at the Sixteenth Party Congress.—*Pravda*, July 5, 1930.

³⁹ Trade-union meetings frequently passed resolutions in favour of fulfilling the Five Year Plan in three and one-half years or even in three years. The Soviet Government took official cognizance of this enthusiasm on the occasion of refunding the separate Loans For Industrialization into one consolidated loan to be called the "Loan of the Five Year Plan in Four Years." See *Za Industrializatsiiu*, Feb. 23, 1930.

replaced by vydvizhentsy who are full of enthusiasm and are thoroughly disciplined Party members but rather indifferently trained economists.⁴⁰

It is evident now that the large percentage increase in productivity during the first year of the Plan should not have been taken as evidence of the possibility of still further expanding the rate of increase. As has been pointed out, relatively small absolute increases in production during the years following the recovery from the Civil War appeared statistically as large percentage increases. It would have been a notable feat to have maintained the same rate of increase as that obtained during the first year of the Plan. To expect to increase the rate under existing circumstances was almost madness, and has been a grave blow to the possibility of achieving the goal set up in the original Plan.

It appears inevitable that the present overly optimistic Control Figures must be modified and an effort made to get back more nearly to the estimates of the Five Year Plan. If this is done it is possible that the Plan will be fulfilled in most respects.

Continual increases in productivity depend upon the improvement of food supplies. During 1929 and 1930 labour productivity certainly was limited by serious undernourishment. Even by the end of the Five Year Plan it is probable that the increase in the standard of living will not be very marked. The slaughter of cattle which accompanied the drive for collectivization and the "liquidation of the kulaki as a class" together with the difficulties of pro-

⁴⁰ During the late summer and autumn of 1930 scores of economists, engineers and other specialists, many of them men of international reputation, were arrested, and numbers were executed. *Izvestia* of Sept. 25, 1930, contains a list of 48 of these men who were shot by order of the G. P. U. These men were charged with counter-revolutionary vreditel'stvo, but their guilt is more than doubtful. Their death must be set down as a ruthless sacrifice by the Soviet Government to popular discontent. There is no doubt that many of them were murdered only because the Soviet Government felt the necessity for scapegoats on whom to blame the food shortage. The loss of the services of these men to the economy of the country is an irreparable one.

ducing auxiliary food-stuffs such as vegetables, fruits, poultry, meat, and dairy products under the new system of socialized agriculture, can hardly have been completely offset before the end of the period. But unless a famine or a war intervenes the results of the present Five Year Plan will enable a most pronounced improvement in the standard of living during the Five Year Plan which may be expected to follow this one.

CHAPTER XIII

RUSSIAN COMMUNISM AND HUMAN WELFARE

HAS Soviet Russia actually contributed anything to the sum total of human experience in an economic and social sense? Everyone knows that there has never been an economic and social experiment on a scale to compare with it. It is true that the French Revolution, for its time, might be compared in importance to the Russian Revolution which involves the lives of more than one hundred and fifty millions of people and almost one-sixth of the world's land surface. But the French Revolution did not, by any means, introduce such new and untried economic institutions and processes as has the Russian Revolution. The Russian Revolution has tried to destroy heaven and create a new earth without any previous pattern upon which to work. All the world knows what the Revolution has cost Russia in terms of human blood, sacrifice, and suffering. The shedding of blood, the sacrifice, and the suffering continue. Do the experiments with economic and social institutions give promise of any results which may compensate the Russian people for what they have suffered?

Following the great famine of 1921 and the introduction of the New Economic Policy, it was the usual thing to say that Communism had failed, and that Russia might be expected to revert, either through a violent overturn of the Soviet Power, or through a gradual evolution, to a capitalistic system on the model of the Western world. According to this interpretation of events, the Russian Revolution was practically a duplication, at a different time and place, of the French Revolution. This interpre-

tation was a plausible one, since the concessions which had to be made to the peasantry at the time of the New Economic Policy certainly appeared to foreshadow the development of a system of peasant proprietorship such as has furnished solid support for conservative Capitalism throughout Europe. The re-establishment of private trade, the granting of concessions to foreign capitalists, the stabilization of the currency on a so-called gold basis, all seemed to presage the inevitable recrudescence of Capitalism. This belief in the eclipse of Socialism has been fortified by Trotsky's legend of the Russian Thermidor. In spite of the events of the past year, Trotsky still visualizes the events which led up to his defeat by Stalin as the triumph of the Thermidorean Reaction. These circumstances account for the failure to recognize the fact that the Russian Revolution no longer shows any signs of following the course of events which characterized the French Revolution.

The events of the past year have, however, definitely disposed of any possibility that the Soviet economic and social system would evolve into a quasi-capitalistic form. The almost complete destruction of the institution of private property, the annihilation of the Nepmen and their trade, the effective nationalization of the land, the "liquidation of the kulaki as a class," have brought complete Communism within a hand's-breadth of realization.¹ There is not the slightest sign of a decline in the fanaticism of the Communist Party or the smallest doubt in the minds of Communists that the World Revolution which is to destroy Capitalism will materialize. The probable date of the World Revolution has been a matter of dispute within the Party ranks, but of its eventual occurrence there has been no question. The Party is now more nearly unanimous in the belief that the World Revolution is not far off than at any time since the Russian Revolution

¹ See the writer's article on "The Fate of the New Economic Policy," *op. cit.*

failed to spread at once to other countries following the downfall of the Tsarist régime.

In terms of present human well-being it would, no doubt, have been better for the generation of the Russian people who witnessed the Revolution if events had followed the familiar historical pattern, and if the experiment with Socialism had been finally abandoned as abortive at the time of the New Economic Policy. The benefits which will accrue to the Russian people during the next decade, even if the grandiose plans of the Party are realized, can hardly compensate for the years since the Revolution when objective and subjective conditions of life have been comparable with the days of Ivan the Terrible or the Tartar raids.

Living conditions in Russia have been worse during the present year than at any time since the Great Famine and the inauguration of the New Economic Policy. Millions of the population are seriously undernourished and in some parts of the Soviet Union actual famine conditions have been approximated. Faced by this situation, the Soviet Government has not hesitated to safeguard the standard of living of the workers in the largest cities at the expense of all other classes and groups of the population. The supply of almost all commodities is better in Moscow than in any other part of the country. For a long time even the bread ration of the Moscow workers was higher than in other cities. Every available pound of food-stuffs is swept up from the countryside. A nominal subsistence minimum is supposedly left to the peasants, but in many cases they are left practically without grain or flour. If the harvest fails in a given section of the country the peasants must shift for themselves, in spite of the fact that they may have turned over all their surplus grain to the state the previous year. The Party is determined that the Revolution shall not perish, even if a few peasants starve.²

² See the chapter on Agriculture, p. 95.

This severe shortage of food is responsible for the discouraging reports of conditions which are sometimes brought out of Russia. A peasant escapes over the Finnish frontier and reports that there is famine in his district. Newspaper dispatches report that the famine conditions are so bad in parts of Siberia that rats are swimming across the Ussuri River into Chinese territory! Some foreign observer who was in the Soviet Union in 1925 or 1926 visits the country now and is shocked and appalled to find food conditions much worse than they were when he formerly visited Russia. It appears that the Soviet régime is about to collapse.

On the other hand, American engineers and capitalists go to Russia and are shown the great new factories and plants which are being built. They report that Soviet Russia is making gigantic strides forward. The capitalistic world is puzzled. Certainly both types of story cannot be true.

The extraordinary thing about it is that, in the main, both types of story are true. In isolated districts actual famine conditions are approximated. There is a shortage everywhere of fats, of meat, in fact of almost everything except bread, of which the supply is fairly adequate. The hard conditions of life are due to the unsatisfactory agricultural situation during the past several years, and to the determination to industrialize the country at the earliest possible moment. These conditions, however, must not be taken to prove that the Soviet economic system has been a failure. On the contrary, on the industrial front impressive successes have been scored.

At the present time, the standard of living of the labourer is in some respects worse than during Tsarist times, in terms of food, clothing, and shelter. But when the advantages of the shorter working day, vacations, workers' clubs, and social insurance are considered, it must be recognized that even during the present hard times the labourer has gained from the Revolution. The standard

of living of the individual peasant is distinctly worse than before, and this is true to an even greater extent of the standard of living of the old intelligentsia, office workers, school teachers, and the "white collar" workers in general. Certainly if the *average* standard of living of Tsarist times be compared with the *average* standard of living at the present time, present living conditions must be said to be much inferior. The income which was taken from the "exploiting classes" has not as yet fully accrued to the exploited classes who despoiled them.

Nevertheless, the standard of life is so low now, largely because of the determination of the Party to make it much higher in the future. It will be possible to weigh much more exactly the gains and losses of the Revolution to the masses of the population after the passage of the next five years. If the population can continue to suffer and endure for such a period, the collectivization of agriculture and the industrialization of the country will have improved living conditions noticeably.

It is probable that the standard of living in Russia will never reach a level of comparative luxury such as that attained by the bourgeoisie in capitalistic countries. Even if the productive mechanism of the Soviet system were to become efficient enough to make this possible for the wide masses of the population, such a standard of living would be repugnant to the spirit of Communism. Under the régime of Russian Communism there will never be any artificial stimulation of desire through advertisement, nor will the desire to emulate the "leisure class" operate to create a standard of living which would include non-essentials. It is possible, therefore, for the Soviet economic system to provide the economic basis for an optimum Communistic standard of life much sooner than might be thought. Simple food, communal housing, proletarian club-houses, plain clothing, motor transport, short hours of labour, vacations at state recreation houses may be taken to represent the final goal of Communist effort in

terms of standard of living. Such a goal is, no doubt, wholly unacceptable to the bourgeoisie, the intelligentsia, the greater part of the agricultural population, and even the upper strata of the working classes of the capitalistic world. It is probable, however, that it would have a wonderful appeal to the most poorly paid and most unintelligent fifty per cent of the population of the capitalistic world.³

If it be said that the Soviet system has greater possibilities in respect to its productivity than is usually realized, it must be admitted that in respect to the psychological and intangible possibilities of the system the record is not an encouraging one. The philosophers who first created ideal social systems constructed them as Utopias, not where men would produce more goods, but where men could live the ideal life. In these Utopias, the evil which finds expression in the lives of men was to be exorcised by the new conditions of life. In Utopia, meanness, pettiness, greed, envy, and bitterness were to disappear. In Utopia, man would at last be free. In spite of the fact that Russian Communism recognizes Marx, who was contemptuous of Utopianism, as its spiritual father, there are many Communists all over the world who think to find in Soviet Russia Utopia realized.

But one must admit that Soviet Russia is further removed from Utopia than is capitalistic civilization. In Soviet Russia there is not less bitterness but more. Communism has not brought peace to Russia, but a sword. The struggle for power has replaced the struggle for wealth. Within the state Trusts and Commissariats, within the Party, the struggle for power is sharper than within the institutions of Capitalism. The orthodox Party member of to-day finds to-morrow that his orthodoxy has been successfully attacked by a fellow Party member who hates or fears him and he is ruthlessly expelled from the

³ It is not maintained, of course, that the most poorly paid and the most unintelligent fifty per cent of the population are an identical group.

Party. The institution of the *chistka* or "cleaning" has been evolved and is used in every institution in Russia to give full rein to suspicion, envy, and sadism.

Has the new order of life in Russia resulted in a new brotherliness in the relations of man to man? The struggle for power among those who have been able to obtain positions of importance has been mentioned. It cannot be said, moreover, that the attitude of those in power toward their subordinates is any improvement over the attitude of persons similarly placed in the capitalistic world. It is true that the workers themselves are pampered and petted *as a class*. They certainly fare better than any other class in the Soviet Union. But the office workers, the clerks, and "white collar" workers are only one degree better off than the "deprived" classes who are openly branded as enemies of the Soviet Power. The same thing is true of the old intelligentsia who took service under the Bolsheviks. The number who hold positions in the political and economic apparatus is being constantly reduced by "cleanings" and by the G. P. U. They are ordered about by the former proletarians who have been placed in executive positions and who are thus able to feel a sense of their new importance. The "white collar" workers, such as stenographers, clerks, and bookkeepers, are members of trade unions, but their union organizations are without power or influence. They are discriminated against in many ways. They are the new "proletariat" of the proletarian state.⁴

Nor can one say that there is any evidence of increased brotherliness among the industrial workers. Certainly there is never any evidence that the form of address, "Comrade," has any real significance. The crowded street cars in Moscow naturally do not afford a fertile field for

⁴ Members of this class in the Soviet Union are referred to by the word *sluzhashchii*, in contrast to members of the class of manual workers who are referred to by the word *rabochii*. The line between the two classes is quite sharply drawn, and everyone is very anxious to be classed as the latter rather than the former.

the growth of friendliness to one's neighbours. Yet one cannot fail to be struck by the general air of irritation and ill-feeling which is so prevalent. One rarely sees a smile or hears a laugh. Partly this is due to the food shortage which makes life so hard in the Soviet Union at the present time. But the sense of tension and of repressed anger seems due to other causes also.

Never in history have the mind and spirit of man been so robbed of freedom and dignity. It is not merely that academic freedom, freedom of speech, freedom of the press, and freedom of thought are forbidden. The Party is not content with mere abstention from unauthorized action. Men must publicly deny their real thoughts and feelings. Nor is the matter so simple that it is possible to embrace a set of beliefs and principles and, thereafter, feel that one is safe within the precincts of orthodoxy. When Stalin was fighting the Trotskist Left it was the orthodox thing to belittle the kulak danger and to favour a policy of conciliation toward him. Two years later the kulak is branded by Stalin as the primary danger and he must be liquidated as a class. The writer once attended a Party chistka in which a woman member who was being "cleaned" was asked to explain the Bukharinian heresy. The continuous questioning had worn the woman's nerves almost to the point of hysteria and she cried out, "One day I am told that the views of Bukharin are exactly right. Now I am told that they are all wrong. How am I to know?"

The policies of Bukharin, Tomsy, and Rykov are branded as heretical. They are warned that they must recant. They are forced to the humiliation of public recantation,⁸ but even this is not enough. The supporters of Stalin demand that they abase themselves still further.

An engineer is arrested by the G. P. U., charged with

⁸ See the text of their recantation in *Ekonomicheskaja Zhizn*, Nov. 26, 1929.

vreditel'stvo * and is shot. His son is a Party member. He is ordered to sign a statement that he approves of the execution of his father. He refuses, and is expelled from the Party. Never before has the human soul been so placed in bondage.

It must not be forgotten, however, that to perhaps a majority of the inhabitants of the capitalistic world, academic freedom, freedom of speech and of the press are words only, whose importance is little understood. Probably the greater part of the labourers in Soviet Russia do not feel that they are deprived of freedom in any way. So long as a man does not attempt to rise out of the mass of labourers there is little curtailment of freedom of a sort which the ordinary worker would feel. The urban proletariat in the Soviet Union have been extremely dissatisfied during the last year on account of the food shortage and on account of their close connection with the village. But they have not been dissatisfied because of restrictions upon their freedom, nor on account of the failure to attain the psychological conditions of Utopia.

That the Soviet régime is founded upon force and fear there can be no question. But this was true of the Tsarist régime also. Furthermore, it must be conceded that the Revolution still continues in Soviet Russia. The conflict between the Party and the peasantry over the nationalization of the land and the collectivization of agriculture seems to bear out Trotsky's theory of "permanent revolution." This conflict accompanied by isolated peasant risings, and the execution of thousands of persons by the G. P. U., evidences the violence of the revolutionary struggle which continues to the present time.

It is the belief of the Communist Party that this vio-

* This term is used to designate any secret attempt to hamper the work of the Soviet Government or any of its organs. A professor of engineering was convicted of this crime on the ground that he had stated the coefficient of expansion of steel incorrectly in a text-book which he had written. He had done so, it was charged, in order to cause the boilers of engines built by his students to explode!

lence is characteristic only of the transition period and will disappear when the proletariat has won its battle with the bourgeoisie all over the world and the dictatorship of the proletariat can be succeeded by the truly Socialistic State.

The Communist declares that the present policy of violence and force has been necessary in order to preserve the truly socialistic character of the Revolution. Without the activities of the G. P. U., the former bourgeoisie, with the aid of foreign capitalists, might have re-established the old régime. Unrelenting warfare on economic heresy has been necessary to preserve the Revolution from internal decay. Only the ruthlessness of the Party leaders and their unwillingness to compromise in any degree has preserved the Revolution from degenerating into a bourgeois revolution.

The Communists point to the British Labour Party and to the German Social Democrats as an example of how a non-militant policy can betray Socialism. One must recognize the justice of their criticisms of these parties which have certainly been infected by petty bourgeois ideology. The experience of the socialistic parties in England and in Germany raises a serious doubt whether a completely socialistic order could ever be attained without violence and whether it could be maintained without the use of force and coercion.

Russian Communism has attacked head-on some of the most difficult problems of modern economic and social life. It at least has had the courage to try out radical solutions for economic problems such as the agricultural and unemployment problems and for such a social problem as that of the status of women in modern economic life. Some progress in solving these problems has been made. Neither the Social Democratic Party nor the British Labour Party can point to fundamental economic experiments which have been carried on or to progress in solving any of the more serious problems of modern economic and social life.

If the desirability of achieving a really socialistic eco-

conomic and social order is taken for granted, then considerable credit must be given to the Russian Communist Party for having preserved the dynamic character of the Revolution and for having developed a truly socialistic system. Even if one is not a Socialist, the contribution to the fund of human experience and knowledge for which the Soviet system is responsible cannot be denied. It has been proved that a socialistic state can exist and carry on the functions necessary for survival. It used formerly to be denied that a socialistic state could "carry on" at all. Such a denial is no longer possible. It is quite another question whether the socialistic or the capitalistic state is a better régime in which for men to live.

It is possible, then, to find some justification for the violence and force of the Revolution, the Civil War, and for a reasonable period thereafter. It has, however, been thirteen years now since the October Revolution. Violence still continues. To a foreign observer it appears that violence has come to be inseparable from Communism. It is not only in the village that class warfare is preached. It is impossible to believe that "liquidation of the kulaki as a class" will bring an end to violence. The miserable remnants of the former bourgeoisie and the other "privileged classes" are still relentlessly persecuted after the passage of all these years. New heresies are constantly being discovered among the membership of the Party. It seems likely that the supply of victims for persecution could be successfully maintained even if the last remnants of the "exploiting classes" were to be finally eliminated. Militant hatred has become perhaps the most prominent psychological characteristic of Russian Communism.

One of the characteristic features of the Soviet system has been the lessening of the intensity of the individual economic struggle. Although the struggle for power is more intense than in the capitalistic world, the great mass of the people do not feel the bitter necessity of safeguarding or improving their individual economic status, either

by saving or by increasing their earning capacity through advancement to more responsible posts. Communism is extremely scornful of the individual who practices the petty bourgeois virtues and attempts to build up a comfortable living for himself and his family. The worker is expected to seek improvement in his economic position only as the class to which he belongs improves its status. The engineer and technician are expected to hold themselves in readiness for transfer from one part of the country to another on short notice. At the same time, serious efforts are made to prevent the earnings of this class from rising high enough so that its members can ape bourgeois standards of life. In this way no one is permitted to build up a home which can be considered permanent, and on which the individual might be tempted to spend too much time and expense. As a result, there is a very noticeable lack of social competition or emulation of the sort which is comprehended in the American colloquialism "Keeping up with the Joneses." Furthermore, the future is too uncertain, even in the case of Party leaders, to encourage any attempt to set up a household upon the bourgeois model. The dissolution of the family as a social unit has also operated to destroy any pride of family which might cause the individual to be concerned about building up economic safeguards against the future. Not only is it impossible to amass wealth in the Soviet Union, but the whole manner of life under the New Order tends to neutralize human craving for wealth.

Although the system of social insurance in Soviet Russia has not yet developed to equality with that of the more advanced capitalistic countries such as Germany, it is one factor which has been responsible for lessening the sharpness of the economic struggle. The system is being extended, moreover, and the certainty that everything possible will be done to broaden and strengthen the system is a factor in lessening the sharpness of the economic struggle. No doubt the experience with depreciated

paper currency has also been a factor in discouraging saving and likewise in causing the general unconcern about the future which is so characteristic of the economic life of the individual. It has been no small triumph of Communism, however, that it has partially, at least, substituted interest in the success of the Five Year Plan for interest in the economic success of the individual.

It must be admitted that the foreign observer feels that life has become a dreary thing, indeed, when it has been placed on such a level. The Communist retorts that this is purely bourgeois prejudice. The economic struggle may give zest to life for those who are successful, but it offers no compensations to the vast majority who fail in the struggle to "get ahead" financially, and who instead are always confronted by the threat of economic disaster and by the difficulty of meeting day-to-day needs.

The creation of a system of life which has displaced the money standard of measurement for even the moral and subjective values which exist in bourgeois civilization must be registered as a distinct contribution to human welfare. While it is true that the struggle for power has in many ways replaced the struggle for money, this fact does not entirely destroy the value of this element of the Soviet system. In Soviet Russia men do not devote their time to money-making activities in order to ape the standards of living of a wealthy leisure class. The servility which is induced by the desire to obtain monetary rewards has almost disappeared. The state employee in a retail shop is not particularly interested in whether the customer makes a purchase or not. He does not, therefore, either fawn on the customer, or subject him to high-powered salesmanship. He does not address the customer as "Sir" and pretend that the customer is a superior order of being. This has serious disadvantages from the customer's standpoint, no doubt, but the spiritual advance which is registered cannot be gainsaid. Waiters in restaurants, employees in hotels, and other workers who render personal service,

including household servants, have also lost both the servility and the false "Happy-to-serve-you-Sir!" attitude which is so characteristic of similar workers in the capitalistic world. Tips are still accepted in Soviet Russia, but Russians rarely give them. The foreigner customarily does, but he cannot usually purchase servility by so doing. Some of the old cabmen will still address a foreigner as "Gospodin" (Sir) or "Barin" (Gentleman) in the hope of getting a tip, but this is not usual. Tips are sometimes refused, even when offered by foreigners. Tipping is an alien element in the Soviet system of life which is rapidly disappearing.

There is no class which has a special position on account of wealth ownership. Power, influence, and authority are not accorded to fools, incompetents, and mediocrities in the Soviet Union simply on account of the possession of wealth. Fanatics, toadies, and bullies do attain to power in the Soviet system, and in the case of the fanatics, at least, much more frequently than in the capitalistic world. One cannot but hail, therefore, the destruction of wealth as the universal standard of all values, while recognizing that the transfer of power to the dominant group of leaders in the Communist Party from the owners of wealth has not yet been shown to be a change for the better.

When men have thought, spoken, or written of Soviet Russia it has almost always been assumed that the Soviet economic system would be successful because Communism was innately good, or that the Soviet economic system would fail because Communism was innately bad. Men have rarely realized that the economic system might not be technically successful, even though the ultimate ends of the Communist Party might represent an important forward step in human progress. Still less have men considered that the subjective values of Communism as they are realized in Soviet Russia could be inferior to those of bourgeois civilization, while the economic system could at

the same time be technically successful.⁷ Men have thus viewed the economic value of the Soviet system from the theological standpoint. The good must endure and the evil must perish. It may be that at long last events do so fall out. At least it is a comfortable attitude to maintain toward events which are occurring in the Soviet Union. But for the present, it must be recorded that although the Soviet civilization is farther removed from the Utopia of the philosophers than is the civilization of Capitalism, the Soviet system nevertheless has possibilities of economic success great enough to constitute a menacing threat to the future of Capitalism.

What is the attitude of the population as a whole toward the Soviet régime? Does it have the support of the majority of the population, or only of the small minority which makes up the membership of the Party?⁸ While the membership of the Communist Party is less than two million out of a population of over one hundred and fifty millions, the Soviet régime has the support of a much larger group than is represented within the ranks of the Party. It must be remembered that it is not easy to join the Party. Until this year, when the restrictions on membership were considerably relaxed, the Party was a very exclusive organization indeed. Many persons would

⁷ J. M. Keynes approaches the same idea from another angle when in his *Laissez-faire and Communism* he asks what constitutes the essence of the New Order in Russia. Is it merely a purely materialistic and technical improvement over Capitalism, or is it a new way of life?

⁸ On April 1, 1930, the number of members of the Communist Party, exclusive of the members who were in the Red Army, was 1,708,000. Although only 262,000 members were taken into the Party in 1928, and only 297,000 in 1929, during the first quarter of the year 1930, 200,000 new members were taken into the Party. The Party has embraced a new policy of materially enlarging the membership, while increasing the percentage of workers in it. The Central Committee has ordered that during the year 1930 the percentage of the Party membership actually employed as workers in production must rise to 50 per cent. During the first quarter of 1930, 84 per cent of those taken into the Party were actual workers. The proportion of "white collar" workers taken into the Party during the same period was only 2.4 per cent. By contrast, there has been a drive to encourage engineers to join the Party. See *Pravda*, May 14, 1930.

gladly join it even now, if they would be permitted to do so, on account of the personal importance which membership in the Party gives.

In spite of the food shortage of the last several years, many of the workers are still positively loyal to the Soviet Government. Most of the remainder are at least passively loyal. It is natural that this should be so, for the Soviet Government has always favoured the proletariat over all other classes. The workman knows that any change which occurred would almost certainly make his lot worse than it is now.

Nevertheless, even among the urban workers there is a great deal of dissatisfaction and even of bitterness. In Moscow, during the early part of March 1930, the writer accompanied by two other foreigners was returning home late at night. We were all wearing fur coats and consequently were considerably better dressed than most Russians. A man in ragged clothes passed us in the street. He had evidently been drinking. As we passed he hurled a bitter curse at us and said, "You Party people! Your time is coming! We will cut you to pieces!" The proletarian assumed that anyone who was warmly dressed must be one of the Party leaders. Two or three years earlier he would no doubt have cursed us as Nepmen, but now that the Nepmen were gone his anger and bitterness turned toward the only class who were better off than he.

The non-proletarian elements in the cities think with the bitterness of despair of the days which are gone. This is shown in a striking manner by the way in which the audiences at the opera and the theatre take occasion to applaud whenever there is some reference to the "old days." This has sometimes necessitated the removal or the alteration of plays or operas in order to remove the opportunity for such demonstrations.

On account of the grain requisitions and the enforced nationalization of the land, the peasants are bitterly hostile to the Soviet régime at the present time. Probably

most of the poorest peasants are loyal, for the same reason that the urban proletariat is loyal. They have been favoured and pampered at the expense of the other peasants. To say that twenty per cent of the peasant population are active supporters of the Soviet régime would probably be too liberal an estimate.

If it were possible to put the matter to a free vote, the writer is convinced that at the present moment the majority of the population would vote in favour of a return of the old Tsarist régime in preference to the present one. But this obviously cannot happen. Neither is it a fair statement of the case. The present moment is a critical one for the Soviet Government. Living conditions are worse now than they were two years ago and worse than they probably will be two years from to-day. Furthermore, the majority against the present system and in favour of the old régime would come mainly from the peasants. The peasant is being torn up by the roots and transplanted into totally new and strange soil. He naturally finds such a process a very painful one, even though the new soil may prove more fertile. It is possible that in ten years the peasant may have forgotten his present grievances and may be an enthusiastic supporter of the new system of collectivized agriculture. Moreover, no party or ruling group could ever permit the peasant to really freely decide what political and economic organization he would prefer, for he would favour the primitive village organization and no political government at all.

The future of the Soviet régime depends upon whether or not the Communist Party has miscalculated the breaking-point of the Russian people. Only a people with the predominantly Asiatic character which the Russians have, would or could have borne the experiences of the last sixteen years. During all this period Russia has been on a war-time basis, with a slight respite during the years 1925 and 1926. Not only have material conditions of life been bad, but the psychological strain has been incredibly great.

Everyone, whether a member of the Party or not, who rises a degree above the dead level of the masses lives under the shadow of the secret police. Agents of the police are found among all classes, so that no one dares trust anyone. No member of the old or new intelligentsia can expect to live a quiet and tranquil life. The key-note of life is struggle, and he who would stand aloof must suffer either suspicion or contempt.⁹ Life is so bitter and so oppressive that one feels as though passing from darkness to light when one crosses the Soviet frontier.

The enormous strain under which the leaders of the Party work is another factor which must be considered. The responsible workers of the Party must expect to find themselves engaged in one severe struggle after another. On the agricultural front during 1929 and 1930 there was first the campaign to extract grain from the peasants. Before this campaign had ended the struggle began to force the peasants into the collectives; almost at once it was necessary to induce the peasants to turn their work animals over to the kolkhoz. Then came the campaign for collection of seed for the spring sowing. At the same time Stalin's article appeared in which he denounced the forcible methods of collectivization, and at once the peasants began to escape from the kolkhoz. Strenuous efforts had then to be made to induce them to return. In the midst of this confusion the spring sowing campaign had to be carried on. In the meantime a great struggle within the Party between the Stalin group and the dissident elements in the Party was being waged.¹⁰ On the industrial front, the Party workers, having completed the first year of the Five Year Plan with considerable success, set up for themselves an enlarged program for the second

⁹ See the address of Kuibyshev, head of the Supreme Economic Council, to a general meeting of the engineers of the city of Leningrad, on Jan. 28, 1930. The address is entitled "Those Who Are Not With Us Are Against Us."—*Za Industrializatsiu*, Feb. 2, 1930.

¹⁰ See the chapter on Agriculture, pp. 83-89.

year. As events proved the inability to fulfil the enlarged plan, continuous exhortations to the directors of industry, to the trade-union leaders, to Party workers, were issued.¹¹ Is it any wonder that the typical Soviet executive, whether he be an official of the government, of the economic organs, of the trade unions, of the Party, or of several organizations at the same time, as many Party members are, should be a harassed and haggard-appearing man?

The writer, in common with most foreign observers in Russia during the first months of 1930, felt that the breaking-point was nearing then. Everyone felt that the hysteria which was being engendered must find expression in a violent outbreak of some sort. No one would have been surprised if war had flamed out along the Western border. Scattered peasant revolts did occur. But a temporary retreat which furnished a momentary breathing-spell was enough to save the situation.¹²

This circumstance illustrates the fact that it is impossible to consider Soviet Russia in terms of the Western bourgeois world. China has suffered during a longer period than has Russia, and the situation continues without hope, because there is no alternative to the present situation. Soviet Russia may be expected to endure also, because the population has the same Asiatic capacity to endure suffering, while the program of the Party does offer hope of better material conditions in the future.

If the Soviet economic system can manage to surmount the present food crisis it will have demonstrated its stability. Bad as the food situation is, it is likely to be improved within the course of the next two years. Agricultural production will probably be larger next year than it was this year on account of the opportunity for providing better equipment for the collectivized farms,

¹¹ See the chapter on Planned Economy, pp. 303-305.

¹² See the chapter of Agriculture, p. 109. See also the author's article, "The Fate of the New Economic Policy," *op. cit.*

for improving their management and technique, and on account of the additional irrigated areas which will be brought under production.¹³ On account of the great depletion of meat and dairy cattle, however, it will require a longer time to effect a noticeable improvement in food supplies.

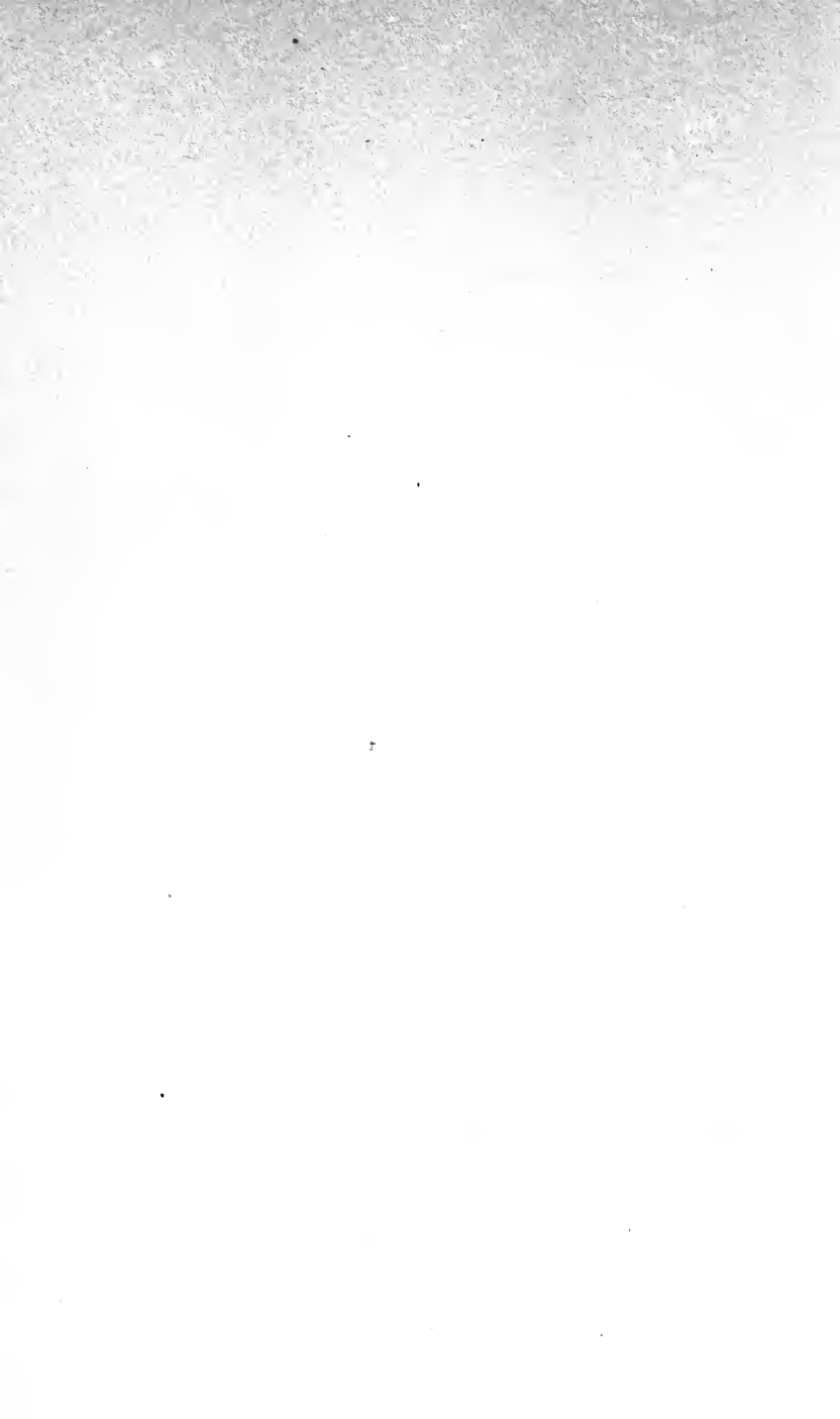
The writer believes that the Soviet system will survive the present food crisis. If necessary the exportation of food-stuffs from the Soviet Union could be altogether stopped, and necessary fats could even be imported for a year or so. If this were done it would, of course, seriously hamper the fulfilment of the Five Year Plan. It is possible on account of the fanatical enthusiasm which the Party feels for the Plan that such extreme measures would not be taken soon enough to prevent a crash. Such a crash does not seem probable, however.

It is possible that the fanaticism of the Party will entangle the Soviet Union in foreign wars for the purpose of furthering the World Revolution. This is bound to happen whenever the Soviet economic system has been placed on a successful and stabilized basis. But it may happen before that time. If it does, the economic development of Soviet Russia would be set back indefinitely. The Party realizes this, and until present difficulties are solved the Soviet Union will make every effort to prevent itself becoming embroiled with any first-class Power. As the Manchurian expedition showed, however, the Soviet Union does not follow a peace-at-any-price policy, so this contingency must be considered.

The significance to the capitalistic world of developments in the Soviet Union cannot be exaggerated. If the present crisis is passed, the Soviet Union, within a decade, will be in a position to offer a standard of living which will compare favourably with that of the more poorly paid manual workers in capitalistic countries. Unless in the meantime Capitalism has notably improved its

¹³ See the chapter on Agriculture, p. 116.

technique of marketing and distribution, so that underconsumption and unemployment can be prevented, and unless the standard of living of such workers in the capitalistic world shall have been materially raised, the World Revolution will begin to make rapid strides.



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- Rabochaia Moskva.* Organ of the Moscow Committee of the Party and of the Moscow Soviet.
- Sotsialisticheskoe Zemledelie.* Organ of the Commissariats of Agriculture of the U. S. S. R. and the R. S. F. S. R. and of Kolkhoz Centre and the Grain Trust.

Trud. Organ of the All-Union Central Committee of Trade Unions.

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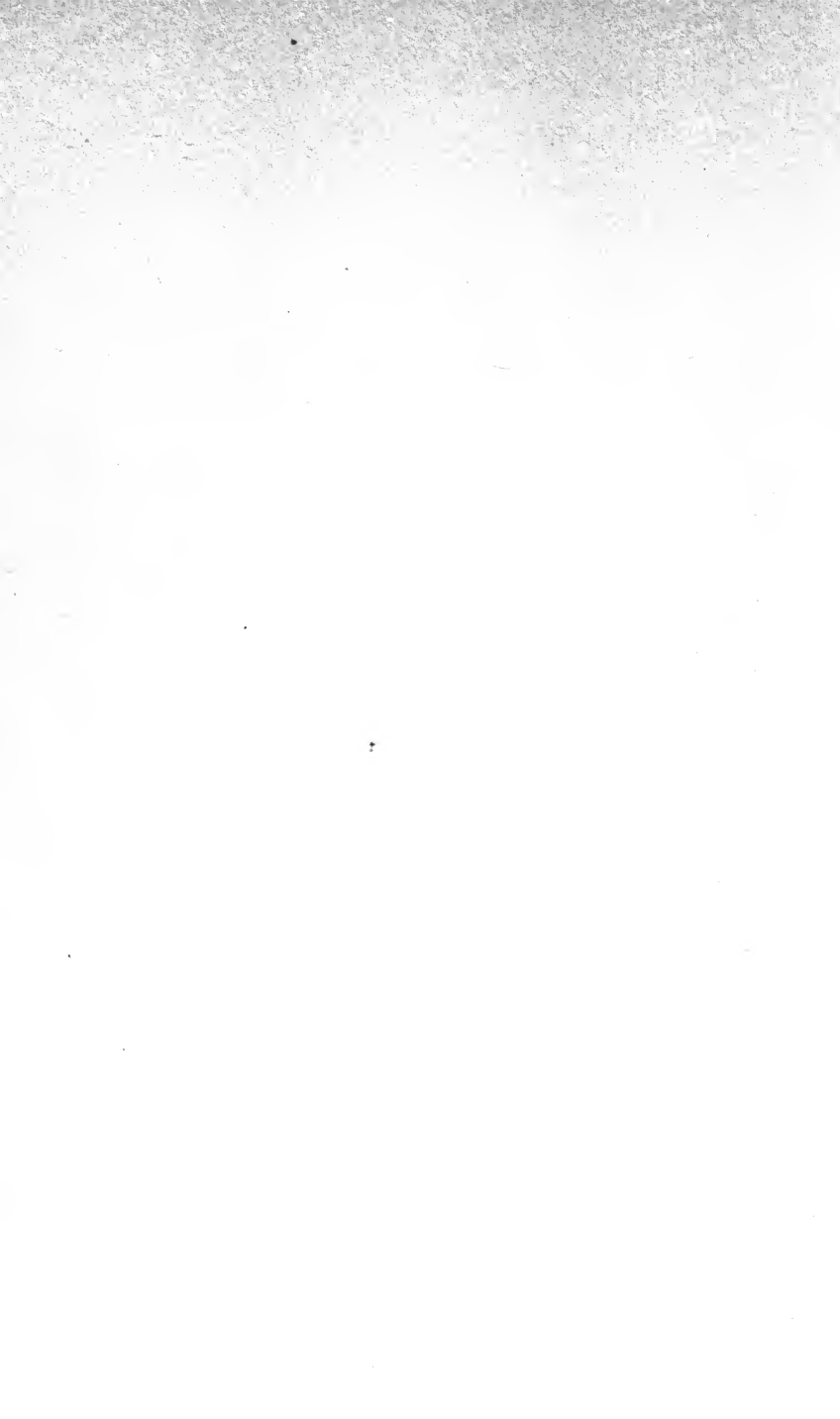
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A GLOSSARY OF RUSSIAN TERMS

- artel. The basic unit of a producers' co-operative association. Also one type of kolkhoz.
- bedniak. A poor peasant.
- Centrosoyuz. The wholesale and planning organization of the consumers' co-operative associations.
- ceredniak. A "middle" peasant.
- chervonetz. A bank note of the State Bank, worth ten rubles.
- chistka. Literally, "cleaning." The process of trying and removing from office persons who are suspected of disloyalty, who are of non-proletarian or non-peasant origin, or who are inefficient or bureaucratic.
- dolya. Equal to 44.43 milligrams.
- fabkom. Factory committee.
- fubr. The fund set aside by Trusts out of profits for improving the living conditions of workers.
- Gosbank. The State Bank.
- Gosplan. The State Planning Commission.
- Gostorg. State wholesale trading organization.
- G. P. U. The secret police.
- kulak. A "rich" peasant.
- kasha. A cereal food used by Russian peasants and workers.
- kolkhoz. Collective farm.
- kolkhozniki. Peasants who belong to a collective farm.
- krai. A political and economic division of the Soviet Union.
- kustarni. A term used to refer to hand work done by Russian peasants.
- Metkoproymsoyuz. The co-operative union of metal workers.
- Mosselfrom. A Trust of the Moscow oblast which manufactures food products.
- Narcomfin. The Commissariat of Finance.
- Narcomtorg. The Commissariat of Trade.
- Nep. The New Economic Policy.
- Nepman. Private trader.
- obedinenie. A Combination composed of a number of Trusts.
- oblast. A political and economic division of the Soviet Union.
- okrug. A political and economic division of the Soviet Union, immediately under the oblast.

- piatiletka. The period covered by the Five Year Plan.
- pood. Equal to 36.11 English pounds.
- Prombank. The Bank for Long-Term Credit for Industry and Electrification.
- promtorg. A body which has control over trade and industry in the okrug.
- promfin plan. The industrial and financial plan of a Trust or factory.
- rayon. The lowest political and economic division of the Soviet Union. Immediately below the okrug, and above the village.
- R. K. K. A conciliation commission to which labour disputes are referred.
- R. S. F. S. R. Russian Socialist Federal Soviet Republic.
- samagonka. A liquor illicitly distilled by peasants from rye or potatoes.
- Selskosoyuz. The wholesale purchasing organization for the agricultural co-operatives.
- smychka. A term used to express the theoretical community of interest between the workers and the peasants.
- sovkhoz. State farm.
- Sto. Council of Labour and Defence.
- Torgpred. Soviet commercial delegations abroad which regulate trade with the Soviet Union and which draw up important contracts.
- tovarishchestvo. The most elementary form of the kolkhoz.
- U. S. S. R. Union of Socialist Soviet Republics.
- Vesenkha. The Supreme Economic Council.
- vreditel'stvo. A secret attempt to hamper the economic activities of the Soviet Union.
- Vsekobank. The All-Russian Co-operative Bank.
- vydvizhentsy. Workers who have been "pushed up" by the Communist Party into executive positions.



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