

# THE ECONOMIC PROGRESS OF U.S.S.R.

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**I**T is now nearly ten years since the slogan of "All Power to the Soviets" in Russia passed from an insurrectionary slogan into a political reality. And it is now nearly seven years since the end of civil war on six or seven fronts ended the military period of the revolution and gave the first "breathing-space" for economic reconstruction.

When by the end of November, 1920, the remnants of Wrangel's invading army had been finally driven out of the Crimea, Russian economic life was at the lowest ebb which one can conceive possible, short of complete catastrophe and collapse. Industrial production as a whole stood at less than a sixth of the pre-war amount; while the activity of blast furnaces, as the basis of the essential metal trades, had sunk to the ludicrous figure of 2 per cent. of the normal. Even stocks of goods carried over from earlier years, which had served as a mainstay during the war period, were in most cases approaching complete exhaustion. The fuel situation was so acute as to threaten a complete stoppage of transport. The coal-field of the Donetz and the oil-fields of Grosny and Baku had only just passed back under the sphere of the Soviet Government; and locomotives had to crawl their way with green wood to heat their boilers. Some idea of the disorganisation caused to transport by the civil war can be gauged from the fact that in 1919 about 60 per cent. of the railway mileage was in the hands of the White armies, and in 1920 80 per cent. of the railroad was within the sphere of military operations. By the end of 1920 more than half the locomotives were disabled and awaiting repair (the figure already stood at 30 per cent. in October, 1917), while over 2,000 bridges and 1,000 miles of permanent way had been destroyed. In agriculture, the compulsory requisitioning of the peasant surplus, imposed by war necessities, had caused the area of peasant sowings to shrink by some 30 per

cent., and the total yield of grain by more than a half; so that the ration of the town worker in several months of 1920 was insufficient to keep him from starvation for more than some eleven to thirteen days in the month. The position of important raw materials was even worse: the cotton crop in Turkestan, for instance, as a result of the civil war was in 1919 only 6 per cent. of the pre-war yield. A downward spiral of collapse had been established in which food and fuel could not be moved from distant regions to the towns for lack of transport; transport breakdown threatened from lack of available fuel and the inability of the metal industry to conduct the necessary repairs; industry in turn was shackled by shortage of materials, fuel, and food, while the Donetz coal mines themselves were at a standstill because they could not procure food supplies for their workers. At the base of the whole stood the peasant, unwilling to plough and reap and send to market unless sufficient inducement were given him in the shape of available supplies of manufactured goods. Finally, as though a malignant deity schemed to make collapse inevitable, the spectre of famine, such as visits agrarian countries once in a lifetime, descended on the Volga region.

It was a brave prophet who in those dark days declared that Russia could pull through to convalescence without going cap in hand to the pawnbrokers in the West; and the *émigrés* in Berlin, Prague, Paris, and London, whose military ventures had ended in fiasco, joyfully acclaimed the famine of 1921 as the beginning of the end. It even seemed doubtful whether Russia could climb out of the depths and "mark time" at a low economic level, until such time as the advance of the workers' movement in Western countries brought her aid. Russia in pre-war days had relied on borrowing from abroad to the extent of over £20 million each year, and her industry had relied extensively on foreign managerial and technical personnel. Her existing plight was unprecedented in modern history; and subsequent events were to show Austria snatched from death only by virtue of a "stabilisation loan" from the League of Nations, Germany, in much less serious plight than Russia, salvaged only by pledging herself to Wall Street, and even Paris and London having to raise American credits in order to stabilise their foreign exchange.

Yet seven years have proved the Cassandras unjustified. No workers' governments in Western Europe have appeared to lend Russia aid. No foreign loan was forthcoming at Genoa, save on conditions which amounted to economic servitude of Russia to the capitalist West. The amount of foreign capital procured by means of "concessions" has been insignificant—less than £1 million per year on the average. Short-term credits procured in the course of foreign trade were no greater, and probably less, than is received by the majority of nations who trade with richer neighbours. Yet to-day Russian industry, in spite of the devastation of six years of war and invasion, approaches and even surpasses the pre-war level of production.<sup>1</sup> Real wages now exceed the pre-war amount; and to wages must be added gains in the shape of an extensive system of social insurance, steadier employment,<sup>2</sup> the eight-hour day, and a fortnight's holiday with full pay, which must bring the material position of the worker up to at least 25 per cent. above the pre-war standard. The currency has been stabilised, a new monetary unit, the *chervonetz*, based on gold and foreign valuta, introduced—a stabilisation which preceded that of the mark, the lira, or the franc, and even preceded by a year the return of Britain to the gold standard.

Nor is this all. In addition to the restoration of shattered productive forces, Russia is now making important progress toward industrialisation and the raising of industrial production above the pre-war level. In addition to re-equipment of existing factories, new factories are being built. In addition to reconstructing the old transport system, the construction of new lines is being set on foot. In addition to restoring the old sources of fuel for industry, a whole new network of electrical power is

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<sup>1</sup> It is interesting to compare this with Mr. J. W. F. Rowe's estimate, for the London and Cambridge Economic Service, that Britain has reached at most no more than 94 per cent. of pre-war production. Of course, just as this figure is approximate and subject to a margin of error, being only an estimate, so are all Russian comparisons with pre-war, since in their case the 1913 figure is an estimate only.

<sup>2</sup> It is true that figures of unemployment are actually high. But this represents, in the main, influx of peasants from the villages, and coexists with a steady increase in the total numbers of workers employed—for instance, a 6 per cent. increase in 1925-26.

being created, of which seven large stations with a 166,000 kilowatt capacity have already been opened. In the current year, 1926-27, sums equivalent to about £85 million are being applied to capital development in state industry (including electrification); while capital accumulation of all kinds (including transport, agriculture, housing, &c.) is estimated to amount to over £190 million.<sup>3</sup> If we make allowance for the fact that part of this figure represents sums set aside to repair current depreciation and wear and tear, we find that the figure of *net* capital accumulation represents nearly 8 per cent of the total national income of Russia, and compares very favourably with the figure of pre-war capital accumulation, which was 8.5 per cent. of the national income according to reliable estimates. In Britain, which has a national income per head four times as great as Russia, capital accumulation is no more than 12-13 per cent. of the national income and still falls behind the pre-war amount. On the basis of this, Soviet official plans anticipate an annual growth of some 15 per cent. in industry over the next five years; while with regard to the total national income the most cautious estimates anticipate a 6-7 per cent. growth per year. These figures compare with a pre-war annual growth of 2.5 per cent. in the national income (Professor Prokopovitch's estimate) and of 3.8 per cent. in industry, and with a 3.5 per cent. annual growth in U.S.A. and 2.1 per cent. in Britain.<sup>4</sup>

This reconstruction period of seven years can be divided into three main phases.

*First* was the fierce struggle against the famine and the fuel and transport crisis in 1920-22. This showed itself financially in a universal shortage of circulating capital—an inability of industry to find the means to purchase the food, fuel, and materials with which to keep its plant in operation. The problem facing the Government was to concentrate the limited resources which

<sup>3</sup> These figures are arrived at by converting chervonetz roubles into £'s according to the ratio of their internal purchasing power (as expressed by the Gosplan Wholesale I.N. and the Board of Trade Wholesale I.N.), which gives a truer picture than converting roubles then at the par of exchange.

<sup>4</sup> Figures based on articles by Professor Weinstein in *Socialist Economy* (Russian), 1926, No. IV; Strumilin in *Planned Economy* (Russian), 1926, No. IV, &c., the translation of which I owe to H. C. Stevens.

it had upon the fuel and transport and transport-repairing industries, even though this meant a ruthless reduction of the number of persons on rations in Moscow and Petrograd, or an actual closing of textile, leather, and other factories producing finished goods. Industries producing secondary necessities for the urban population had to be starved of resources in order to provide the funds for purchasing from the peasant more primary necessities and coaxing him to extend the area and intensiveness of his cultivation. The whole forces of the Communist Party were mobilised and turned on to the economic front, as before they had been turned on to the military front. Drastic economies were introduced into transport and fuel, in the former by a 25 per cent. reduction of staff and decentralisation, in the latter by "concentration" of production on the more efficient pits and by mobilising available transport facilities for carrying food supplies to the Donetz miners. As a result, by the autumn of 1922 the fuel and transport crisis had passed, and the finishing industries in the final months of the year showed a phenomenal recovery, while with an improved harvest and improved transport of food, the real wages of workers more than doubled in the course of the year. At the same time the new form of organisation of State industry which replaced the temporary over-centralised system under "war communism" had come into being; and though heavily handicapped by lack of financial resources, the new Trusts (groups of enterprises governed by a Board appointed by the State in consultation with the T.U.'s as "Trustees," and possessed of commercial competence to operate on the market at their own discretion) had successfully established their position, and had in turn created their own commercial apparatus in the form of Syndicates and an Industrial Bank to pool their resources and provide them with short- and long-term credit.

The *second* period, extending over 1923-24, witnessed a more complicated stage of reconstruction. No longer shortage of fuel and food, but shortage of raw material, handicapped industry. Industrial production had recovered to about a third, and agricultural output to about two-thirds of the normal. The new industrial organs had become established and were increasing in strength and influence. The first steps were being taken to

balance the State Budget, terminate inflation, create a balance between imports and exports and stabilise the currency—all of which involved further parsimony of State grants and credits to industry and increased taxation. The main problem of the period was that wide divergence between industrial and agricultural prices which came to be called “the scissors”—a divergence which culminated in a severe “sales crisis” in the autumn of 1923, owing to the relative highness of industrial prices and the relative lowness of peasant purchasing power. The diagnosis of this problem and its solution proved to be a turning point in Russian development which ranked with October, 1917, and March, 1921. Partly the “scissors” was due to the slower reconstruction of industry than of agriculture; and one group of opinion which came to constitute the opposition within the Party in the 1923-24 discussions laid exclusive stress on this cause, and urged a more rapid rate of industrial development by accumulating as capital the profits of State industry, and by a policy of “dictatorship of industry” to strengthen State industry on the market. But the most important cause, at any rate of the most acute phase, of the “scissors” in the autumn was precisely this policy of “dictatorship of industry”: State Trusts and Syndicates had used their monopoly power to raise prices and secure monopoly profit at the expense of the peasantry; and, as in all monopoly actions, these prices and profits could only be maintained on the basis of restricted output and sales. The crucial question, accordingly, confronted the Communists: Was socialist industry to be developed at the expense of the “exploitation” of peasant agriculture through the monopoly power of State industry on the market? Among others Preobrazhensky answered in the affirmative: the necessary socialist accumulation could only come from the profits of trade with small-scale private economy, as Imperialist countries draw “super-profit” from colonial trade, and as mediæval towns grew rich on the proceeds of trade with the dependent countryside. But the majority view in the Party eschewed this policy, first because it would strike a blow at that union of urban worker with the poor and middle peasant of the village which Lenin had laid as the corner-stone of the New Economic Policy—the *sine qua non* of working-class hegemony in

an agrarian country; second, because such a policy necessarily involved lessened trade between town and village, a smaller market for industry and a smaller inducement to the peasant to extend his supply of the food and raw materials so urgently needed by the towns. This official policy by the end of 1924 had managed to close the "scissors" by a 30 per cent. reduction of industrial prices and a 70-80 per cent. raising of agricultural prices; while industrial costs had at the same time been lowered by over 20 per cent. through a further "concentration" of industry, reducing overhead charges and economising circulation capital. The monetary reform had been introduced in March of the year and maintained in spite of a poor harvest in the summer; while industrial production had expanded to over a half of pre-war.

The *third* period, starting with 1925, may be said at the same time to have closed the phase of reconstruction and to have opened the phase of progress beyond the pre-war level. It was now no longer a question of insufficient circulating capital to keep existing plant at work (although shortage of raw materials still remained a difficulty): the possibility of economies through concentrating work on the most efficient plant was now exhausted; and with the approach to the normal level of production the question came to the fore of the renewal of basic or fixed capital, depreciated and worn-out in the war years, and its extension. This task, requiring as it did parsimony in the present, in order to release resources to build factories, railways, electric power stations, &c., for the future, was a problem which dwarfed even those of the dark days of 1921. It was a problem to be calculated no longer in millions or tens of millions of gold roubles, but in hundreds of millions, and in milliards.

The crucial question concerned the source of the funds necessary for this capital extension, and whether sufficient accumulation was possible to permit the building of socialist industry in the middle of a hostile world. Four sources were open. *First* was the extraction of "super-profit" from trade with peasant agriculture. *Second* was the method of inflation, which imposes a forced levy on all persons whose money incomes lay behind the inflationary rise of prices. *Third* was restricted present consumption by the workers themselves, in the form of wages rising at a slower

pace than productivity. *Fourth* came stringent economies in industrial administration by means of "socialist rationalisation," leaving a surplus of resources available to finance capital development.

The first of these sources was ruled out as the main source of accumulation by the decisions in the "scissors" discussion in 1923-24. A certain amount could be drawn from the profits of trade with the peasantry, but only in the shape of a minimum, not a monopoly profit. The second method resolved itself in the final analysis into either the first or the third, and any considerable reliance on this method would endanger the stability of the monetary unit. Though expansion of credit, so long as it did not out-distance expansion of production and so did not raise the price-level, could play a minor rôle in supplying funds to industry, its rôle could be no more than a minor one. It was, therefore, the last two sources of accumulation on which principal reliance had to be placed. The fact that the process of capital accumulation, now resting on a socialist, not a class basis, already reaches the pre-war rate is a measure of the success in handling the greatest, if less spectacular, problem which the new Russia has so far faced.

But while the quantitative aspect of Russia's economic progress can be gauged in figures, there remains an important qualitative aspect which is less easily measured. How to test whether the social tendencies which underlie the statistician's figures are working in the direction of socialism, or whether, on the contrary, they represent from the socialist point of view a retreat? To deny the existence of any tendencies of this latter character would be to deny that Russia is in passage through a transition period. The New Economic Policy, inaugurated in 1921, does not represent complete socialism, nor is it the product of any "defeat." It is a system adapted to the economic circumstances of the transition period—a "mixed system" (which Lenin called State-capitalism), comprising socialist large-scale industry, private small-scale industry, and backward peasant agriculture. The unique character of this "mixed system" is that the workers hold the "commanding heights"—holding them by virtue of their alliance with the poorer peasantry—and that the socialist



element predominates, since it covers 80 per cent. of industrial production. Naturally, the tendency exists for the non-socialist elements to increase their relative influence, for capital to accumulate in the hands of private traders (*Nepmen*) in the town and of rich peasants (*Kulaks*) in the village, and for germs of new class monopoly and class division in this way to arise.

But against these tendencies exists the strong influence which the ruling party can exercise through its control of big industry, of taxation, of credit, of education, and by its lead in the co-operatives. These can be used to stem any tendency to a revival of class differentiation. For instance, the State has power to discriminate against the *kulak* in the matter of taxation and of credit, while the co-operatives lend special aid to the weaker peasant and so prevent him from becoming an exploitable victim for his richer neighbour. Again, the universities are now peopled by workers to at least 80 per cent., while the ideology taught there is predominantly Marxist, so that the old divorce between the creatures of higher education and the masses is well in process of being destroyed. Through the growth of State industry and the industrialisation of the country, through the influence exerted by its control of the "key positions," and through the gradual transformation of peasant agriculture, not by the compulsory methods of the "war communism" period nor by Preobrazhensky's policy of "crushing out" the peasant, but *via* the intermediate stage of rural "co-operative collectivism," the ruling party of Russia places confidence in a steady growth of the socialist elements in this "mixed system" and a progress towards a classless system, even though Russia remain encircled by a hostile capitalist world. And it is precisely because the triumph of socialism in Russia depends upon the steady progress of this industrialisation, that Russia of all countries has most to lose from the phantom of war which has once again begun to prowl about the chancelleries of European capitals.