1 Changing economic systems: an overview

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In examining economic development between 1913 and 1945 we shall be concerned with four substantially different economic systems.
(1) The economy of late Tsarism was in large part a *capitalist market economy*, but one in which the state played a considerable role and in which peasant households themselves produced a large part of the food they consumed.
(2) Following the two revolutions of February/March and October/November 1917, during the civil war (1918–20) a highly centralised system was established, later known as '*War Communism*': the state owned nearly all industry and sought to manage all economic activity (in practice, however, an illegal free market was responsible for a substantial proportion of goods circulation).
(3) Between 1921 and 1929, the *New Economic Policy* (NEP) led to the establishment of a mixed economy: the state continued to own nearly all large-scale industry, but state industry traded with the 25 million individual peasant households through a market which was partly in private hands, partly in state hands. NEP was a period of coexistence, collaboration and conflict between state planning and the market.
(4) Following the breakdown of the market economy at the end of the 1920s, from 1930 onwards economic development was planned or managed by a *centralised state administrative system*. Capital investment and industrial production were administered largely through physical controls; individual peasant households were forcibly combined into collective farms, and the market relation with the peasants was largely replaced by administrative or coercive control of agricultural output. Markets, legal and illegal, continued to exist, but were secondary in importance to the administrative controls.

(A) The Tsarist economy

The Tsarist economy on the eve of the First World War was still primarily an agrarian peasant economy. Agriculture was responsible for over half the national income, and three-quarters of all employment; over 90 per cent of the sown area was cultivated by some twenty million peasant households, the remainder consisting of landowners' estates. Following the emancipation of the peasantry from serfdom in 1861, agricultural production expanded greatly, and the peasant economy was increasingly involved in the market. But a large part of peasant production of food, and to some extent of consumer goods, was consumed by the families which produced it, or by other families within the same village. The villages were still to a considerable extent self-sufficient. In most regions peasant households were members of their village commune, in which the main fields were divided into strips; these were periodically redistributed among the households, and cultivated by the traditional three-field system.

Since the 1860s the development of the railway network and of factory industry had launched the modern industrialisation of Russia. The production of large-scale industry in 1913 has been estimated at over eleven times the 1860 level. Large-scale manufacturing and mining employed some 2½ million workers in 1913. Much of this development was in response to market demand: pride of place here was occupied by the cotton textile industry, which by 1913 employed about 20 per cent of all workers in large-scale industry. But the capital goods industries, especially fuel, iron and steel and machine building, expanded more rapidly than the consumer goods industries. In contrast to the consumer industries, the capital goods industries were encouraged and strongly influenced by the state. Railway construction fostered the development of these industries. From its inception, railway development was managed by the state, and by 1913 most of the railway network was nationalised. The state purchased a substantial proportion of all the capital goods manufactured by Russian industry, as well as some industrial consumer goods; the main state consumers were the railways and the armed services.

The capital goods industries also differed from the consumer goods industries in other respects. Unlike the consumer goods industries, they were largely foreign-owned, particularly by British, French and German capital; to a somewhat lesser extent they were also foreign-managed. And, following the depression of 1900–3, in most capital goods industries, including iron and steel, coal, oil and railway engineering, syndicates (the Russian equivalent of cartels) were formed. The syndicates decided on sales quotas for their member firms, and determined the wholesale prices. Thus capital goods industries, with some exceptions, were financed from abroad, managed by the state and had marked oligopolistic tendencies.

In the Tsarist economy, then, a number of economic structures coexisted: foreign-owned oligopolies in the capital goods industries, freely-competing Russian firms producing consumer goods, landowners' estates, small-scale artisan units, and an immense number of individual peasant micro-economies. This was a market economy strongly influenced by the state, but in which most of the participants still themselves produced many of the goods which they consumed.

There is no agreed view among historians on either the systemic features or the dynamics of the Tsarist economy. The American-Russian economic historian, Alexander Gerschenkron, writing in the late 1950s, argued that in the 1890s Russian economic backwardness was overcome by the state, which provided the motive force for industrial development in the absence of a sufficiently developed market. According to Gerschenkron, however, the economy had entered a new phase by the eve of the First World War. He argued that the boom of 1908–13 was primarily due to an increase in consumer spending; the role of the state was declining. Russian capital and entrepreneurship were replacing foreign capital. The state-induced industrialisation of the 1890s had been transformed into the market-led progress of the capitalist economy of 1908–13.[1]

In our view the balance of evidence does not confirm Gerschenkron's view that the role of the state declined in these years. It is true that the consumer goods industries expanded rapidly during the boom of 1908–13. But state orders also increased rapidly during the boom, largely as a result of the huge expansion in defence expenditure.[2] Nor is the relative role of Russian and foreign capital and entrepreneurship at all clear-cut. While the role of Russian capital and management was increasing in a number of well-established industries, foreign capital was dominant in the new industries such as electrical engineering, and its overall role had not diminished.

The debate among Soviet historians has focussed on rather different issues. Until the past few years the dominant view, expressed by V. I. Bovykin and others, was that 'monopoly capitalism' (in Western terms, 'oligopolistic capitalism') had triumphed by the 1900s; the role of the state was secondary, and pre-capitalist structures should be seen as no more than survivals from the past. The alternative view, advocated by Tarnovsky, Volobuev and others, emphasised the coexistence of competing economic structures, including pre-capitalist structures, and stressed the mixed transitional character of the late Tsarist economy. This approach was first clearly formulated at the end of the 1960s; but it was treated as a 'departure from Marxism-Leninism'. Its protagonists were demoted and their writings were banned.[3]

These debates are directly relevant to the problem of interpreting the collapse both of Tsarism and the two revolutions of 1917: the liberal-democratic revolution of February/March and the Communist revolution in October/November led by Lenin and the Bolshevik wing of the Social-Democratic Labour Party. Bovykin supported the orthodox view that the maturity of Russian capitalism meant that the Bolshevik revolution was a classical socialist revolution led by the revolutionary industrial working class. In contrast, Volobuev and his associates stressed that the plurality of economic structures had given rise to social and economic problems which had revolutionised a variety of social classes; the relatively immature Russian working class could not have succeeded on its own.

Both these Soviet schools of thought assume that contradictions within the economy and the society were the fundamental causes of the breakdown of the old order and its overthrow in 1917. On this general issue Western historians are divided. Some strongly emphasise the fundamental conflicts within Tsarist economy and society. Leopold Haimson argues that the structure of Russian industry, with its large units, poor working conditions and oppressive discipline, made for social unrest and political radicalisation.[4] Shanin notes that the Russian economy produced 'crowded city slums' and 'the growing hopelessness of villagers in the most populous part of rural Russia'; the poor became 'reservoirs of poverty and class hatred ever arrayed against the manor houses and the "nice quarters"'.[5]

Other Western historians reject these economic and social explanations. They regard the collapse of Tsarism as due to the failure of its political system to adapt to the needs of a modernising society. On the reasons for this failure opinions are divided. Some consider it was a profound structural problem;[6] others, including Hugh Seton-Watson, blame the narrow-mindedness and obstinacy of the tsar.[7]

So far we have only briefly mentioned the international context of Russian pre-revolutionary economic development: the mounting crisis which culminated in the First World War. Some Western historians, including Gerschenkron, see the war as an unlucky accident, which interrupted the progressive course of Russian evolution towards capitalism and parliamentary democracy.[8] In contrast Soviet historians, following Lenin and other pre-revolutionary marxists, saw the Russian economy as part of the international capitalist system. According to Lenin, 'imperialist war' between capitalist states was inevitable, and the half-developed Russian economy was bound to be shattered by the impact of war. Some influential Western historians, such as von Laue and Geyer, while rejecting Lenin's general view of the economic causes of war, argue that the drive to war was deeply rooted in the pre-war international system. Russia as a great power was inevitably involved in the drive to war. The Russian attempt to catch up the West placed enormous strains on the system, and these were greatly exacerbated when Russia confronted economically more advanced Imperial Germany.[9] On this view, the collapse of the Tsarist economy must be seen in the context of the profound contradictions within the European political order.

(B) War Communism

In Russia, as in the other combatant states, the First World War led to a major enhancement of the role of the state. The state regulatory agencies were headed by a Special Council for Defence, which assigned military orders to industry. This was supported by more specific agencies such as the Metals Committee, which controlled the distribution of metals and fixed their prices. A Special Council for Food Supply attempted to set maximum prices; and the Provisional Government which came to power after the February/March revolution established a state grain monopoly. After the Bolshevik revolution, the new Soviet government took over much of this war planning apparatus and adapted it to its needs.

The Bolsheviks came to power with far-reaching objectives. Following Marx, they believed that the October revolution was the first victory of a world proletarian (working class) revolution which would transfer factories, the land and other means of production into social ownership. A planned economy directly controlled by the community would replace the market, and money, the medium for market exchange, would cease to exist. In the first, socialist, phase of post-revolutionary development the social product would be distributed according to the work done by each individual. The abundance of production achieved by the planned economy would enable the transition to the higher phase of Communism, in which the social product would be distributed according to needs. Classes and the state, and all national barriers, would disappear.

The immediate aims of the Bolsheviks were far more modest. Marx anticipated that proletarian revolutions would take place in industrially advanced countries with a strong working class. But Russia, though the most advanced of the major peasant countries, was the most backward of the great European powers; it was perhaps just because of this duality of the Russian economy that the first successful working-class revolution took place there. In the summer of 1917, Lenin and his colleagues did not call for the establishment of a fully socialist economy in Russia, but for measures of state control and partial state ownership which would bring economic chaos to an end. Five months after the October revolution, in April 1918, Lenin renewed his call for relative moderation: the offensive against private capital must be temporarily halted; the modern achievements of capitalist organisation must be brought into industry; the currency must be stabilised.[10]

These proposals were soon superseded. By the summer of 1918 civil war and foreign intervention were well under way, and for two years the Soviet government was engaged in a desperate struggle for survival. In the autumn of 1919 its territory was no more extensive than that of sixteenth-century

Muscovy; the rest of the former Russian Empire was controlled by various anti-Communist 'White' governments.

Within a few months of the outbreak of civil war, the system later described as 'War Communism' was firmly established. The core of 'War Communism' was the compulsory acquisition of grain and other foodstuffs from the peasants, by the state and its agencies, using armed force where necessary. The peasants received little or nothing in return. In theory, the central authorities allocated a quota to each region, and the quotas were in turn divided among the villages. In practice, requisitioning was extremely arbitrary. The requisitioned foodstuffs were distributed to the army and in the towns; in the towns an elaborate rationing system was introduced, graded according to the occupation of the consumer.

Industrial consumer goods were also brought under close central control, at least in principle. In industry, all firms of a substantial size, and many smaller firms, were nationalised. The central planning apparatus inherited from the Tsarist regime was greatly extended. Compulsory labour service, and centralised direction of labour, were also introduced, though more cautiously.

Inflation was rampant. With the near-collapse of the taxation system, the government sought to fund its activities through currency issue. By 1 January 1921, currency in circulation amounted to 1,168,597 million rubles as compared with 1530 million rubles on 1 July 1914, but its purchasing power had declined to a mere 70 million pre-war rubles. Prices were estimated to have reached 16800 times the 1914 level.[11]

One further important feature of War Communism should be noted. The peasant economy remained more or less intact. During the agrarian revolution of 1917–8, which began spontaneously before the Bolsheviks took power, the land and property of the private estates were distributed among the peasants; and some equalisation took place between peasant households. Attempts by the government to encourage the collective or state ownership of former estates, and of the peasant economies, had almost no practical effect. State agencies had to deal with millions of peasant households.

The official economy was intended to embrace all economic activity, but in practice it was supplemented by illegal and semi-legal free markets. It was estimated that at the end of 1919 even workers' families in provincial capitals received less than half their grain, flour and potatoes from their official ration.[12] With the collapse of the currency, barter increasingly replaced money as a medium of exchange. War Communism could not have survived without this unofficial market economy.

Historians continue to debate the origins and function of War Communism. Some claim that it was primarily a result of the application of marxist ideology, with its hostility to private property and the market; others stress, in Dobb's famous phrase, that it was 'an improvisation in face of economic scarcity and military urgency'.[13] This question can be tackled in two ways. First, by an examination of the emergence of each of the characteristic institutions of War Communism. The truth seems to be that each major step was undoubtedly a response to emergency. Thus during 1918 and 1919 Lenin and his associates made valiant efforts to stabilise the ruble, but were driven inexorably along the road of inflationary currency issue. Similarly, the coercive measures to collect grain were a response to the grave food shortages in the towns and the needs of the Red Army: 'we do it', one leading official declared, 'because there is not enough food'.[14] But measures introduced in response to emergency were often strongly influenced by Bolshevik ideology. For example, in requisitioning grain, the Bolsheviks exaggerated both the importance of the rich peasants (the *kulaks*) and the extent to which the poor peasants would be prepared to cooperate with the Bolsheviks against the *kulaks*. As Alec Nove put it, 'there was a process of *interaction* between circumstances and ideas'.[15]

The second way to examine the question of improvisation versus ideology is to compare experience on Soviet territory with experience on the territories occupied by the White governments, which were all strongly biassed in favour of private ownership and the market. No detailed studies of the economic policies of the White governments have yet been made. But available evidence indicates that on a number of crucial issues the White leaders were confronted by the same problems as the Bolsheviks and adopted similar solutions. Even in the grain-rich areas of South Russia and Ukraine, following initial successes in feeding the population at relatively low prices, the governments of Hetman Skoropadskii, Denikin and Wrangel soon resorted to administrative measures and coercion to obtain grain. By the end of 1919 peasants were merely given paper receipts in exchange for requisitioned food. Wrangel invaded the Crimea in search of grain; and he even had to introduce a foreign trade monopoly in order to prevent grain being exported by private dealers. From mid-1919, the White governments in the South were also impelled to issue paper money in huge quantities, to the point of financial collapse. In the White as well as the Bolshevik areas, industrial production fell drastically.[16]

For the White governments, however, these measures of administrative control were purely a temporary expediency, to be cast aside in conditions of peace. Expediency had also driven the Bolsheviks towards a planned socialist moneyless economy far more rapidly than they had intended. But, in contrast to the Whites, the victorious Bolsheviks assumed throughout 1920 that the methods successful in war should be continued in time of peace. In February 1920, Lenin declared that the system of food requisitioning at fixed prices was a victory for socialism and should be used in economic reconstruction.[17] The requisitioning system was continued after the harvest of 1920 and during the winter of 1920–1, when the civil war had already come to an end. Moreover, in the winter of 1920–1, the Soviet government and its advisers sought to consolidate the moneyless economy, assuming that it would be a permanent feature of the peace-time economy.[18]

(C) The New Economic Policy

The Soviet government abandoned its efforts to transform 'War Communism' into 'Peace Communism' only in response to a profound crisis. From the summer of 1920 peasant disturbances were widespread. From the beginning of 1921, the country plunged into a disastrous fuel, transport and food crisis, and unrest spread to the industrial workers. Against this tense background, in March 1921 the X Communist party congress decided to replace requisitioning by a food tax, which was fixed in advance at a lower level than the previous grain quotas. The peasants would retain any surplus, and their incentive to grow more food would thus be restored.[19]

These decisions of March 1921 amounted to a quite limited reform. They assumed that peasants would dispose of their surpluses through local barter or by exchanging them for consumer goods provided by state agencies. Otherwise, 'War Communism', including the moneyless economy, would remain intact. This partial retreat did not prove viable; Lenin later frankly admitted that 'the private market proved stronger than us'.[20] Within a few months, what became known as the New Economic Policy (NEP) had emerged from the ruins of civil war.

The central feature of NEP was the right of individual peasants to sell their products freely, locally or nationally, to private traders, direct to other individuals, or to state agencies. Trade was resumed on a national scale, with most retail trade in private ownership. This was a retreat towards capitalism.

Nearly the whole of large-scale industry remained in state ownership. But artisan workshops and some small factories were rented or sold by the state to individual owners, and state industry was instructed to operate on principles of profit-and-loss accounting (*khozraschet*), and to adapt itself to the needs of the market. The wage system was restored, and enterprises were permitted to hire and fire workers in accordance with their needs. For the workers, all restrictions on changing jobs were removed; but they had to suffer the emergence of substantial urban unemployment.

The restoration of the market implied the restoration of the money economy. From the summer of 1921 the currency was gradually stabilised. Drastic reductions were made in every kind of state expenditure, and the taxation system was restored. The process culminated in the currency reform of March 1924. Simultaneously the tax in kind on peasant households gave way to a tax in money.

The NEP economy was thus a mixed money economy, in which state industry traded with individual peasant agriculture through a market which was partly in state hands, partly in private hands. The market operated within definite constraints. On the one hand, the state refrained from the use of coercion against the peasant: the state as well as the market was required to offer prices to the peasant which they were prepared to accept voluntarily. On the other hand, firm limits were imposed on the development of capitalism. All major banking institutions as well as large-scale industry remained in state hands. Stringent conditions were imposed on foreign firms seeking to invest in Soviet industry. The state maintained its monopoly of foreign trade, so that all imports required a licence, and the earnings from all exports were managed by the state. And the market economy operated within a strict political framework. While much freedom of discussion was permitted, during 1921–2 the one-party Communist dictatorship was consolidated, discipline within the party was tightened up, and an elaborate system of preliminary censorship was established. This political dictatorship continued for nearly 70 years.

After the initial set-back of a serious famine in 1921–2, the pace of recovery was extremely rapid. By 1928 both agricultural and industrial production exceeded their pre-war level. The extent of the recovery is disputed. According to the lowest Western estimate, in 1928 Soviet net national income had reached only 93 per cent of the 1913 level; according to the official Soviet estimate, it reached 119 per cent of the 1913 level.[21] Our own revised estimate of 111 per cent lies between these two limits: it implies that national income per head of population had just recovered to the pre-war level (see chapter 3 below).

In spite of the remarkable speed of the recovery, the economy failed to attain the pre-war level in several important respects. In an international perspective, the restored Soviet economy in 1928 was in a less favourable position than the Russian Empire in 1913. The other Great Powers had suffered less from the war and its aftermath than Soviet Russia. By 1928, the industrialised capitalist economies were at the peak of the inter-war trade cycle. The gap in production per head of population between Soviet and West European industry was as wide as ever, and the gap with the United States had widened. Even more significantly, as a result of technological advances in the West, particularly in Germany and the United States, the technological gap between Russia and the other Great Powers was considerably greater than in 1913.[22]

A more immediate preoccupation of Soviet policy-makers was the changed relation between agriculture and industry and, more broadly, between the countryside and the town. Although agricultural production had recovered to the pre-war level, agricultural marketings throughout the 1920s were substantially lower than before the war. We estimate that the share of agricultural output leaving the village had fallen from 22–25 per cent of the total in 1913 to 16–17 per cent in the mid-1920s. Grain marketings had fallen to little more than half the pre-war level.[23]

One important consequence of this decline was that foreign trade utterly failed to recover to the pre-war level. In the economic year 1926/27 exports amounted to only 33 per cent and imports to only 38 per cent of the 1913 level. This decline, entirely attributable to the decline in agricultural exports, was itself primarily a consequence of the decline in agricultural marketings, particularly of grain, the main pre-revolutionary export. Even in the best year of NEP, grain exports amounted to only one-quarter of the 1913 level.[24]

Why did agricultural marketings decline? One significant factor, strongly emphasised by Soviet historians, was the change in the socio-economic structure of the countryside. The abolition of the market-oriented landowners' estates, and the marked decline in socio-economic differentiation among the peasantry following the agrarian revolution of 1917–8, may both have had a negative effect on marketings.[25]

A second important factor in the decline of marketings was the reduced level of peasant taxation and the elimination of land rents. According to our rough estimate, direct taxation and land rents taken together had fallen from 9.5 to 4.9 per cent of farm incomes between 1913 and 1926/27.[26]

Thirdly, terms of trade for agricultural produce had generally deteriorated in comparison with 1913, and this probably discouraged peasants from marketing their output. From the 'scissors' crisis' of 1923 onwards, the ratio of the retail prices of manufactured goods to the prices received by the peasants for their produce was less favourable to the peasants than before the war (in Trotsky's striking image, the graph showing these two price-levels was compared to the open blades of a pair of scissors). In the 1920s, Soviet economists of all schools of thought believed that the 'scissors' would discourage the peasants from selling their produce, and encourage them to retain it for their own consumption. More recently, the American economist James Millar has argued that peasant demand for manufactured goods was price-inelastic. In consequence, when the terms of trade deteriorated, peasants were forced to sell *more* products in order to obtain essential manufactured goods. Strenuous attempts to check this hypothesis have been unsuccessful.[27] It is chastening to reflect that we are perhaps being unreasonable to expect Soviet politicians to have adopted sensible agricultural price policies in the 1920s, when we are unable nearly 70 years later to agree even the general direction in which prices should have moved . . .