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052162178X - Modernising Lenin's Russia: Economic Reconstruction, Foreign Trade
and the Railways

Anthony Heywood

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Introduction

The transformation of Russia into a major industrial power was a fundamental goal for Lenin and the Bolsheviks. Economic development and industrialisation promised to end centuries of backwardness relative to the West. Technological change was to lead the way from a weak and inefficient capitalist economy – still largely reliant on small-scale peasant production even after a half-century of tsarist industrialisation – towards a prosperous urban socialist society based on scientific planning and modern large-scale production. The transformation of the Russian economy would serve as the catalyst for social revolution by creating the material basis for socialism.

But how in fact did the revolutionaries address economic modernisation during the early Soviet period? After the tsarist regime's prioritisation of railway development and heavy engineering, did Lenin's well-known enthusiasm for nationwide electrification imply a fundamentally new course? How quickly were postwar economic recovery and modernisation to be accomplished? And what of resources? Tsarism's heavy reliance on foreign capital had been criticised by the Bolsheviks for turning Russia into a colony of the major European powers. So did Lenin and his colleagues really want the capitalist world to play a significant part in Soviet economic development? Did they seriously expect to 'normalise' economic relations with capitalist countries given their own commitment to world revolution, their abrogation of pre-Soviet debts, the Allied anti-Bolshevik blockade and the foreign intervention in the civil war? Alternatively, did they prioritise the broader goal of international revolution as the means to Russian economic progress? Or were domestic resources seen as the key?

Traditionally, a paradigm of dramatic collapse and gradual recovery has shaped analysis of the Soviet economy between the 1917 October Revolution and the mid-1920s.¹ Two distinct economic systems and

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periods have been identified. The first, known as War Communism, prevailed from early 1918 until March 1921. Highly centralised, it was an attempt by the Soviet state to manage all economic activity. Industry, banking, transport and trade were nationalised, grain was requisitioned from the peasantry through a state monopoly, and as the currency collapsed, a moneyless barter economy developed. For some historians, as indeed for many contemporaries, War Communism was a product of communist ideology and it represented the first step towards socialism and communism; for others, it was an emergency improvisation in response to the civil war, or it was considered to be the result of a combination of these motivations. Its fate, too, has been controversial. Though it helped the Bolsheviks to mobilise resources for their war effort and secure victory in the civil war by early 1920, it failed to halt the collapse of output, and the attempt to develop it as a peacetime system ended amidst deep social and economic crisis in the winter of 1920–1. Whether its eventual abandonment represented a major ideological retreat or a return towards gradualist policies which had been interrupted by the civil war in early 1918 has long been a matter of dispute.²

War Communism was replaced by the New Economic Policy (NEP), which lasted until Stalin's forced industrialisation at the end of the 1920s. Controversially introduced as a limited reform to conciliate the peasantry by abolishing food requisitions and permitting private trade, the NEP quickly led to the creation of a money-based mixed economy. Heavy industry, railway transport, banking and foreign trade remained state owned within a system of central state regulation, whilst small-scale industry and agriculture were opened to private enterprise. The NEP could not avert devastating famine in 1921–2, and unemployment and price distortions were serious problems, yet it eventually became synonymous with gradual recovery. With the exception of foreign trade, pre-war levels of activity were regained in all the major economic sectors in the mid-1920s.³

Within this framework of collapse and recovery the Bolshevik vision for Russia's social and economic transformation has been associated with a plan for nationwide electrification that was produced in 1920 by the State Commission for the Electrification of Russia (GOELRO). According to Coopersmith, electrification was not the only technocratic proposal for economic reconstruction, but it seized the initiative over technologies of the first industrial revolution by 'promising transformation, not simply reconstruction'; electrical engineers steadily acquired political support to the point where 'in

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1920, electrification replaced the railroad as the state technology by which the new government intended to accomplish its political and economic goals and distinguish itself from the old government'.⁴ The GOELRO project was championed by Lenin himself as 'the second party plan', the means to overcome Russia's poverty and backwardness, and his support helped to ensure that the Eighth Congress of Soviets approved electrification as policy in December 1920. Communism, Lenin famously proclaimed, was Soviet power and the electrification of the whole country.⁵

But given the weak state of the Soviet economy by 1920, how much progress could really be made with the GOELRO plan? The Soviet historian V. Iu. Steklov praised the project as the 'basis of the country's economic development' and 'the first plan for creating the material and technical foundations of socialism', and claimed that 'its completion ahead of schedule was a triumph of planning in the development of the country's economy'.⁶ However, Coopersmith demonstrates that the plan's actual results were modest, not least because its authors neglected its dependence on other sectors of the economy and because it received only a fraction of the necessary resources. In particular, the planners assigned great importance to foreign technology and investment, yet these failed to materialise to any significant extent.⁷

This lacuna reflected the general pattern of utter collapse and sluggish growth that scholars have identified in early Soviet foreign economic relations.⁸ This sector suffered so badly during the First World War and civil war that the overall turnover of Soviet imports and exports for 1919 was officially recorded at just 3 million gold rubles, and was colourfully described by B. E. Shtein as mere 'foraging by a besieged fortress'.⁹ The revival of foreign economic relations – potentially crucial for modernisation – began after the lifting of the Allied blockade in January 1920, and its basic features have been uncontroversial. A legal framework for Soviet–Western trade was constructed through a series of bilateral intergovernmental trade agreements, and Soviet trade missions were opened in London, Berlin and other European capitals. The annual trade turnover grew to 361 million gold rubles by 1923, foreign borrowing resumed on a limited scale, and foreign investment was attracted to concession projects (see tables 0.1 and 0.2). But the sector was one of the economy's weakest at the end of the NEP, with the annual trade turnover below half of the 1913 level in the 1927/8 financial year.¹⁰

Soviet historians interpreted this growth as a major success in the face of intense capitalist hatred.¹¹ Western accounts have tended to

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Table 0.1. *Foreign trade turnover, Russian Empire 1913 and Soviet Russia 1918–1923 (million gold rubles, average 1913 prices)*

Year	Export	Import	Turnover	Balance
1913	1,520	1,375	2,895	+145
1918	8	105	113	–97
1919	0	3	3	–3
1920	1.4	29	30	–27
1921	20	211	231	–191
1922	82	270	352	–188
1923	218	143	361	+75

Note: Figures for 1920 as given.

Source: *Vneshniaia torgovlia SSSR za 1918–1940gg.*, p. 14.

Table 0.2. *Concession applications and agreements, Soviet Russia, 1921/2–1925/6*

Year	Applications	Agreements
1921/2	224	18
1922/3	579	44
1923/4	396	55
1924/5	256	103
1925/6	482	110
Total	1,937	342

Note: Figure for the total number of agreements as given.

Source: Adapted from Sutton, *Western Technology*, vol. I, p. 9.

emphasise its relative insignificance compared to Russia's pre-war foreign trade and financial situation.¹² However, a new dimension has been given to this picture by Christine White, who has shown that the Soviet government managed to sell a much larger quantity of gold, platinum and other precious metals during and after the civil war than has been believed. Further, she has demonstrated that substantial trade was conducted during the civil war between the West and non-Bolshevik Russia, which of course may have benefited the Bolsheviks at least to some extent after they captured these areas.¹³

Perhaps the most contentious issue, raising overtly political questions, has been whether and when the Bolsheviks became genuinely interested in the economic value of relations with the capitalist world. Soviet analyses often acknowledged that Bolshevik trade overtures to the Western powers during the civil war were designed mainly to

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secure a peace treaty. But they also argued that from at least 1918 Lenin consistently 'regarded trade and economic contacts between the socialist state and the capitalist world as the economic basis of peaceful coexistence between states of differing socioeconomic systems', not least in the belief that such ties could greatly assist the Soviet economy's revival and modernisation.¹⁴ Western histories have displayed a range of opinion. For instance, Kennan doubted that there was much real Bolshevik interest at this stage. The NEP, by revealing a readiness to use private capital, did set a precedent for attracting foreign capital, but the results were negligible because although 'Western countries made no difficulties about the Soviet demand for trade', neither the Soviet nor Western governments were prepared to compromise their principles over Russia's prerevolutionary debts (abrogated by the Bolsheviks in 1918) and Western claims against the Bolshevik regime.¹⁵ Carr, however, felt that the Bolsheviks did entertain serious hopes from early 1920 that imports of machinery and capital could greatly help Russia's shattered economy, yet they encouraged capitalist hostility by remaining committed to world revolution. Thus, 'foreign trade played virtually no part at all in the Soviet economy during the period of war communism', and only with the NEP and the Anglo-Soviet Trade Agreement in March 1921 was there a beginning 'in the necessary policy of the "breathing space" for economic reconstruction through peaceful cooperation'.¹⁶ More recent specialist studies have tended to follow a similar line.¹⁷

The present study places these issues of economic system, modernisation and foreign economic relations in a new light. Its focal point is an extraordinary yet little-known decision taken by the Soviet government on 16 March 1920. A secret resolution of the Council of People's Commissars (Sovnarkom), signed that day by Lenin himself, allocated 300 million gold rubles to fund imports of railway equipment.¹⁸ This sum was enormous in the circumstances, for it equated to perhaps 40 per cent of the Soviet gold reserve, and it may well prove unparalleled during at least the 1920s if not the whole interwar period.¹⁹ Why, then, was so much gold made available for such imports? Why was railway equipment prioritised? What was the outcome of this decision? And what is the broader historical significance of this policy for Soviet economic strategy, the nature of War Communism, modernisation and economic relations with the West?

So far as the release of gold is concerned, one might suggest that if the Bolsheviks really believed international revolution and foreign proletarian assistance to be imminent, they might see little or no

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reason for maintaining gold reserves. From this perspective it could make sense during the short intervening period to try to spend the remaining gold on imports from capitalist countries and thus derive at least some immediate economic benefit from it. On the other hand, if Lenin's talk of peaceful coexistence with the capitalist world implied, as of early 1920, a potentially long delay for international revolution, Sovnarkom's decision to allocate so much of the available gold raises major questions about Bolshevik economic priorities. What was the rationale of these imports? Why was just one sector favoured? And why were the railways chosen?

As the sole form of rapid year-round transport – the country's 'arteries' – the railways were essential for the Bolsheviks.²⁰ The building of railways had played a leading role in the tsarist modernisation of Russia since the Crimean War. It had radically improved the transport system *per se*, stimulated industrial production and trade, opened up new regions for colonisation and development, and accelerated Russia's integration into the international economy by providing new opportunities for foreign trade and investment. In a political sense railway transport helped the government exert its authority, bind the regions more closely together and strengthen the empire's defence capacity. So when the Soviet leadership began tackling the economic crisis in late 1919, it naturally viewed the railway crisis as one of its most urgent problems. Crisis resolution, then, would seem to be the obvious explanation for the proposed imports. In fact, the situation was much more complex. This book will argue that the key to the decision was a strategy of rapid economic modernisation: the Bolshevik leadership prioritised railway development, not electrification, as the stimulus for beginning economic modernisation immediately in the spring of 1920, and it saw imports as a potential means to quicken that process.

As for the expenditure of the gold allocated by Sovnarkom, this study traces the subsequent acquisition of locomotives, wagons and other goods for the railways between 1920 and 1924, and argues that these contracts accounted for a major proportion of early Soviet foreign expenditure. It also shows how a special trade organisation known as the Russian Railway Mission Abroad was created in the autumn of 1920 to manage these orders. Further, it questions the traditional understanding of the management of the Soviet foreign trade monopoly by demonstrating how, under the leadership of a distinguished specialist railway engineer and administrator called Professor Iu. V. Lomonosov, the Railway Mission actually operated

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largely outside the jurisdiction of the monopoly's guardian, the People's Commissariat of Foreign Trade (NKVT).

This study, then, is in effect a biography of the Soviet government's railway imports policy between 1920 and 1924. It aims, firstly, to reassess Bolshevik attitudes towards railway development and modernisation in the early Soviet period and thereby to open a new perspective on the demise of War Communism and the first years of the NEP. Secondly, it seeks to revise our understanding of early Soviet foreign trade by providing the first case-study of imports policy in relation to one specific sector of the economy. Focusing on the origins, negotiation, financing and outcome of principal contracts, this book analyses the growth of Soviet foreign trade primarily as a means to tackle domestic economic challenges. In particular, it shows how a given commissariat – in this case the People's Commissariat of Ways of Communication (NKPS) – viewed the question of foreign economic relations, and how imports priorities and plans were formulated. Further, moving beyond the official statistics of trade turnover and deliveries based on customs data, this study may facilitate a re-evaluation of the pattern and volume of the growth of Soviet foreign trade, and more generally the impact of the NEP, based on the dates and values of contracts. Finally, it may help to clarify how the Soviet regime conducted business with Western firms, a subject about which little is known.

It may seem strange that if this purchasing operation was so large and important, historians have scarcely noticed it. The explanation appears to lie in a combination of operational secrecy, avoidance of scandal, censorship and chance. The policy's existence did soon become known publicly thanks to occasional press reports, the involvement of foreigners, and the publication of several lengthy technical reports in the mid-1920s.²¹ And as *détente* dawned in the Brezhnev era, the construction and delivery of the locomotives even served as the background for a curious though soon forgotten Soviet–Swedish film romance starring Bibi Anderson.²² But in the 1920s the policy's scope and highly sensitive political and commercial details were mostly kept secret, especially because so much gold was involved. Also, as scandal enveloped the policy in 1922, there may have been a reluctance to confront the issue fully because of Lenin's responsibility as signatory of the original Sovnarkom resolution of March 1920. Crucially, the censorship of later decades even involved distortion of the official statistics so that the principal compendium on interwar trade, published in 1960, greatly understated the actual railway-

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related expenditure and omitted many items.²³ Apart from Lenin's involvement, an important reason for this was Lomonosov's defection to the West in 1927: for some thirty years he could scarcely be mentioned in the USSR, and though there was some limited scholarly discussion of his mission in the late 1960s, his name remained problematic for historians.²⁴ Only with Gorbachev's *glasnost'* did a serious biographical article at last appear in 1985.²⁵ In the meantime, the exiled Lomonosov embarked on another monumental endeavour, producing over 15,500 manuscript pages of memoirs; but ironically, refusing to compromise over length, he could not find a publisher.²⁶

Historical analysis of the railway imports policy has thus been cursory and, at worst, factually inaccurate. The sole treatment of significant length is within a 1947 volume commemorating the centenary of the Swedish company Nydqvist & Holm AB (Nohab), which naturally concentrates on the firm's own involvement.²⁷ In general, the policy has been seen simply as a relatively limited exercise intended to help solve the prevailing railway crisis.²⁸ As for the outcomes and their significance, Nove is typical in stating merely that 'scarce foreign currency was used to import locomotives and components' in 1921, and that railway engines and other foreign equipment contributed greatly to the economy's recovery.²⁹ The more specialist literature about Soviet foreign policy, trade and transport has scarcely been more forthcoming and, significantly, has even displayed confusion over the quantity of locomotives ordered.³⁰

The present study has been made possible by the discovery of Professor Lomonosov's personal archive in England and the easing of access to official archives in Moscow.³¹ Lomonosov's collection contains a wealth of primary material such as his diaries, correspondence, official documents, technical books and photographs. His voluminous unpublished memoirs have also survived, complete with carbons of numerous telegrams, letters, protocols and reports. Among the mass of relevant and mostly hitherto unused material in Russian archives is the collection of the Railway Mission itself, which is still virtually intact and includes correspondence and copy protocols of meetings of the NKPS Collegium, Gosplan committees, and the Bolshevik Party's Politburo, Orgburo and Central Committee. In the former Central Party Archive, Lomonosov's correspondence with Lenin, and a large file pertaining to the Railway Mission are contained in the collection of Lenin's secretariat. Unfortunately, restrictions on access to certain papers of the Politburo, Central Committee, Sovnarkom, NKVT and the gold departments of the People's Commissariat of Finances, as

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well as the Archive of the Foreign Policy of the Russian Federation, mean that some aspects of the initial policy decision remain unclear. But it did prove possible to obtain extensive data about the policy's implementation, including shipments of gold to the West.

Western primary sources include papers from the foreign ministries of Sweden, Germany and Great Britain, which help to show whether or how the railway contracts influenced the development of general trade and diplomatic relations. Documents from the US National Archives clarify some of the prerevolutionary background to the Soviet orders and the problems faced by Soviet representatives in establishing relations with the United States. Papers in company archives and other collections contain useful details of the various business negotiations. Finally, further information has been gleaned from published compendia of documents, newspapers and journals, official reports, technical works and other publications dating mainly from the 1910s and 1920s, as well as from memoirs and secondary literature.

The following chapters are grouped chronologically in three parts. Part 1 aims to explain the vital policy decision: chapter 1 considers its pre-Soviet context, whilst chapter 2 discusses the collapse of the economy and railway traffic, and responses to this, between October 1917 and December 1919, before presenting the railway imports policy as a central feature of Soviet postwar economic reconstruction strategy. Part 2, comprising chapters 3, 4 and 5, analyses the implementation of the policy between March 1920 and the introduction of the NEP in March 1921, covering the placement of several major contracts in the West and, to a much lesser extent, simultaneous developments within Russia. In part 3, chapter 6 traces events between March 1921 and July 1922, whilst chapter 7 considers this policy's dénouement and its relation to the subsequent onset of Stalinist industrialisation.

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PART I

**Towards economic reconstruction,
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the birth of the railway imports
policy**