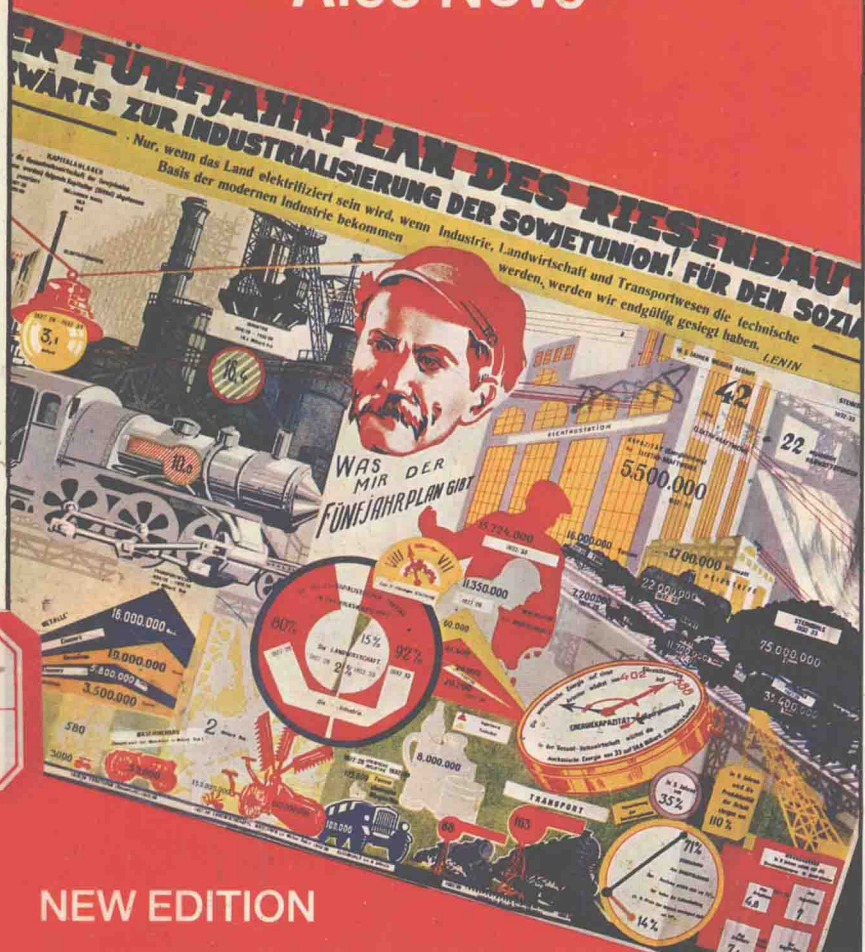




a Pelican Book

An Economic History of the U.S.S.R.

Alec Nove



NEW EDITION

ALEC NOVE

An Economic History of the U.S.S.R.



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Preface

For seventy years now the Soviet regime has been established in Russia. While its leaders have been dealing with perplexing problems of many kinds, observers in the West have been writing books and articles. If these were laid end to end, they would certainly stretch rather far. Why, then, should the author, who is not even a historian anyway, have the temerity to add to their number? 'A moratorium on books about Russia!' some critics might say. Another book on this subject requires some justification.

The justification is this: there is no convenient and compact economic history of twentieth-century Russia. There has, of course, been some scholarly work in this field. E. H. Carr's monumental history has much to say about the economy. However, the Pelican edition of his volume on the economic events of just the period 1917–23 is over four hundred pages long. This is not a criticism: there are no wasted pages. There is scope for a shorter survey of the whole epoch. For the early years of Soviet power the work of Dobb is most valuable, and the late Alexander Baykov covered the period up to the war. Particulars of these and other books will be found in the Bibliography. The author has benefited from reading and re-reading them and also the quite numerous Soviet works, contemporary and recent, to which references will be found in the notes.

Anyhow, readers may find that there are some advantages in relative brevity; perhaps it will be possible to sketch in some general patterns which of necessity escape notice in a more microscopic survey.

viii Preface

One issue is bound to loom large: the relative importance of politics. This is, of course, an *economic* history. Yet Lenin once wrote: 'Politics cannot but have dominance over economics. To argue otherwise is to forget the ABC of Marxism.' This may surprise those who believe that the dominance of *economics* is the ABC of Marxism, but it does illustrate the proposition that Soviet politics dominated, and altered, economic relations. Out of the horse's mouth, too.

It is undeniable that politics have, in an important sense, been dominant. None the less, this must not be taken too literally or understood too superficially: it does not mean that politicians could do what they liked with the economy; it does not mean that economic issues were unreal. Politicians responded to economic problems, struggled with varying success with economic perplexities. Being for most of the period in command of the major part of economic life, the politicians were, for most of their waking hours, the board of directors of the great firm U.S.S.R. Ltd. In other words, their actions as politicians were interpenetrated by their function as super-managers. Thus, Lenin notwithstanding, it is hardly possible to draw a clear line between politics and economics.

In this book we will concentrate on *economic* policies, decisions, events, organizations, and conditions without for a moment wishing to suggest that other emphases are not perfectly legitimate too. In a general history the balance would naturally be different, even if this author were writing it. Perhaps this is most obvious in the relatively brief chapter on the war of 1941–5. This great drama deserves the closest attention from many points of view, but the purely military side is so overwhelmingly important that it seemed right, in an economic history, to give these years a somewhat cursory treatment.

All dates are given in the *present* calendar, i.e. the revolution happened on 7 November, not 25 October 1917. Quotations from Russian works are translated by the author, except where the quotation is from an edition in English.

The manuscript was read and critically reviewed by Dr Sergei Utechin and Mr Jacob Miller, and I owe a great deal to their generosity in picking holes in insufficiently closely knit arguments and drawing attention to numerous errors and omissions.

Professor R. W. Davies was kind enough to show me a draft of work in progress which I drew upon in writing Chapter 4, and Dr Moshe Lewin generously allowed me to borrow from his storehouse of information on the Soviet peasantry. Some chapters are based on seminar papers delivered in various British and American universities, and have benefited from critical comments from the participants. Roger Clarke was most helpful in looking up facts and checking tables. Naturally I take full responsibility for all mistakes of fact and interpretation.

Finally, grateful acknowledgement must be made to Mrs M. Chaney and Miss E. Hunter for not complaining (very often) at the succession of semi-legible drafts which descended upon them, and turning these into a manuscript which could be sent to the printers.

NOTE: In 1961 the internal value of the rouble was multiplied by ten, e.g. 100 old roubles became 10 new roubles. All value figures prior to that date (unless otherwise mentioned) are in the old roubles, in which they were originally published. This seems, on balance, preferable to moving all the pre-1961 figures for incomes, expenditures and output value up a decimal point, but the reader must always bear in mind that the roubles have altered. Thus in 1946 the average wage was 475 (old) roubles per month; in 1987 it approached 200 (new roubles), which would be 2000 old ones. Needless to say, substantial changes in relative prices must also be allowed for.

Contents

Preface vii

- 1 The Russian Empire in 1913 1
- 2 War, Revolution and Revolutionaries 20
- 3 War Communism 37
- 4 NEP 73
- 5 The Great Debate 109
- 6 The End of NEP 126
- 7 The Soviet Great Leap Forward:
I. Collectivization 150
- 8 The Soviet Great Leap Forward: II. Industry,
Labour and Finance 179
- 9 From Leap Forward to War 215
- 10 The Great Patriotic War 260
- 11 Recovery and Reaction 280
- 12 The Khrushchev Era 315
- 13 Brezhnev: From Stability to Immobility 362
- 14 Gorbachev's Heritage and Aims 379
- Appendix: A Note on Growth Rates 390

Bibliography 399

References 402

Glossary 416

Index of Subjects 418

Index of Names 426

1 The Russian Empire in 1913

INDUSTRIAL GROWTH

In the last years before it was engulfed by war and revolution, the Russian Empire had reached a level of development which, though leaving it well behind the major industrialized Western powers, was none the less appreciable. It would be quite misleading to assume that the communists took over a wholly undeveloped and illiterate country with a stagnant economy. So our first task must be to take a brief look at the progress of the empire, and at least by implication to consider whether she was well on the road to a modern economy when the process was interrupted in 1914.

Russia in 1854 faced the Western powers with an obsolete social organization and obsolete weapons. Society was still dominated by an inflexible caste system, and most of the peasants were serfs owned by the landed proprietors, the State or the Crown. Industry had languished since 1800. At this date Russian output of metal had been equal to Britain's; by 1854 she had fallen very far behind. The only railway of importance that had been completed ran from St Petersburg to Moscow, with a line to Warsaw under construction. The Russian army in the Crimea had to be supplied by horse and cart on dirt tracks; this army consisted of serfs serving virtually for life, and was poorly armed and equipped. The fleet had no steamboats and could only be sunk to block the entrance to Sevastopol. The military failure in the Crimea was a great shock to Tsar and society alike. The empire as a military power had failed to keep pace with the changing world; it had to be modernized. No doubt all this helped to precipitate the

2 The Russian Empire in 1913

abolition of serfdom. At first the government remained strongly influenced by conservative and traditional views, as may be seen from the limitations on the mobility and enterprise of peasants which formed part of the emancipation provisions of 1861. It was only gradually that the conscious pursuit of industrialization became a major motivation of policy. However, the need for railway building was clearly understood after the terrible lessons of the Crimea, and the building of them vitally influenced the development of the Russian economy in the second half of the nineteenth century. No one doubts that in the fifty-three years which separated the abolition of serfdom from the outbreak of the First World War there had been rapid economic growth and major social change, and it is certainly of interest to compare Russia's growth at this period with that of other countries and with the subsequent achievements of the communists. This is an extremely difficult task, especially as the statistics are often confusing and defective. In pre-revolutionary times systematic figures tend to be available only for large- and medium-scale industry, whereas handicrafts and small workshops were still extremely important. It is a task beyond the scope of the present study to attempt any recalculation of statistics and growth rates under the empire. So far as industry is concerned, Goldsmith's admirably thorough reconstructions (which also cite and develop indices calculated by the eminent Russian economist Kondratiev) give a number of different index series, depending on the weights used. For simplicity I will cite here his value-added 'imputed' weights with 1900 prices.¹

Industrial output (manufacturing and mining) (1900 = 100)

1860	13.9	1896	72.9	1905	98.2
1870	17.1	1897	77.8	1906	111.7
1880	28.2	1898	85.5	1907	116.9
1890	50.7	1899	95.3	1908	119.5
1891	53.4	1900	100.0	1909	122.5
1892	55.7	1901	103.1	1910	141.4
1893	63.3	1902	103.8	1911	149.7
1894	63.3	1903	106.5	1912	153.2
1895	70.4	1904	109.5	1913	163.6

For the period 1888–1913 this index gives one a growth rate of just about 5 per cent per annum. This was fairly high – higher on a *per capita* basis than in either the United States or Germany. However, the much slower rate of increase in agriculture, and the high share of agriculture in Russia's employment and national income, made the overall performance appear much more modest. Rough national income estimates, made by Goldsmith, show Russian growth rates well below those of the United States and Japan, a little below that of Germany, though above Britain and France. With Russia's very rapid increase in population, the *per capita* figures were less favourable still. Goldsmith considers that Russia's real income per head was *relatively* higher in 1860, in comparison with the United States and Japan, than in 1913; in other words their growth was more rapid than Russia's. Growth, though very rapid in certain years, was exceedingly uneven. For example, in the decade 1891–1900 industrial production more than doubled, and, in particular, there was a very marked advance in heavy industry. This was the consequence of the protective tariffs introduced in 1891, and of the deliberate policy followed in subsequent years by Count Witte, who became Minister of Finance. The output of pig iron in Russia trebled during the decade, while production in Germany increased in these same years by only 1.6. Output of oil during this decade kept pace with that of the United States, and in fact in 1900 Russia's oil production was the highest in the world, being slightly ahead of America's. The same decade saw a great railway boom, with the total track mileage increasing by 73.5 per cent. However, an economic crisis led to a slowdown of growth in the years 1900–1905 and again in the period 1907–9. This particularly affected manufacture of iron and steel, and it was not until 1910 that the output of pig iron surpassed the 1900 level. From then until the outbreak of war there was another sharp upswing in industrial production. A recent Soviet textbook, which is not likely to overstate the achievements of Tsarism, has put forward the following estimates: during the period 1860–1910 the world's industrial production increased by six, Great Britain's by 2.5, Germany's by six and Russia's by 10.5.²

The argument is advanced by Soviet historians that the economic growth of the empire was none the less much too slow

4 The Russian Empire in 1913

and that Russia remained very far behind the more advanced countries. In percentage terms Russia's growth compared favourably with her rivals, but it was still inadequate in relation to her rich natural resources and to the great gap which separated her from Western Europe and the United States. The following figures given by a present-day Soviet source, and relating to the present boundaries of Russia, compare Russia's production figures with those of the U.S.A. and the United Kingdom:

1913	Russia	U.S.A.	U.K.
Electricity (milliard Kwhs)	2.0	25.8	4.7
Coal (million tons)	29.2	517.8	292.0
Oil (million tons)	10.3	34.0	—
Pig iron (million tons)	4.2	31.5	10.4
Steel (million tons)	4.3	31.8	7.8
Cotton textiles (milliard metres)	1.9	5.7	7.4

(Source: *Promyshlennost' SSSR* (1964), pp. 112–16.)

It is interesting to note that the oil industry failed to maintain its rate of progress and in fact fell back in the first decade of the century.

An original and skilful attempt to measure the relative progress of the powers was made by P. Bairoch.³ The result strongly supports the view that Russia, despite her very considerable growth, was not making much headway in catching up with the more advanced countries. Bairoch's calculations are based on a combination of the following: consumption of raw cotton and coal, production of pig iron, the railway network, and power generation. For Russia he uses mainly data taken from Goldsmith's study. All figures are expressed *per capita*. Given the statistical inadequacies of the nineteenth century, this method has much to commend it, though the author would be the last to claim its accuracy. Russia's industrial performance is shown in the table on page 6. This table shows that, far from overtaking even Spain, Russia in these fifty years fell behind Italy. The author comments: '*Dès la fin du XIX^{ième} siècle, c'est la Russie qui se place au dernier rang des pays européens étudiés ici.*'

Similar conclusions follow for the calculations of S. N. Prokopovich:⁴

	National income		
	1894 (Roubles <i>per capita</i>)	1913	Growth (per cent)
United Kingdom	273	463	70
France	233	355	52
Italy	104	230	121
Germany	184	292	58
Austria-Hungary	127	227	79
Russia (in Europe)	67	101	50

The Russian engineer-economist, Professor Grinevetsky, came to the same conclusion. Quoting Russia's backwardness in metal-goods industries, he wrote:

These comparisons eloquently speak of the fact that Russia in her pre-war economic growth was not merely not catching up the younger countries with powerful capitalist development, but was in fact falling behind. This conclusion would be very sad for our social-political vanity, but it must be considered as an indubitable fact.⁵

As might be expected, given the many statistical gaps, there exist some alternative estimates which show a somewhat better performance for the Tsarist economy in the period up to 1913. Those interested may be referred to the works of Paul R. Gregory and M. E. Falkus.⁶ Even these higher estimates do not show the Russian Empire catching up such countries as Germany, at least not on a *per capita* basis. None the less, one must note that they do modify the gloomy picture presented by Prokopovich and Goldsmith.

Russia was thus the least developed European power, but a European power none the less. She was capable of overwhelming militarily and competing economically with a partly developed European state such as Austria-Hungary. But her development was exceedingly uneven both industrially and geographically. Her modern industry was very modern indeed, with a marked tendency to large and well-equipped factories using the most up-to-

Relative industrial progress of world powers 1860-1910

	Raw cotton (Kg. per head)		Pig iron (Kg. per head)		Railways ^a		Coal (Kg. per head)		Steam power (h.p. per 1000 persons)		Ranking list	
	1860	1910	1860	1910	1860	1910	1860	1910	1860	1910 ^b	1860	1910
Germany	1.4	6.8	14	200	21	75	400	3,190	5	110/130	6	4/5
Belgium	2.9	9.4	69	250	30	102	1,310	3,270	21	150	2/3	3
Spain	1.4	4.4	3	21	6	58	—	330	—	4	8	8
U.S.A.	5.8	12.7	25	270	19	122	420	4,580	25	150/180	2/3	1
France	2.7	6.0	25	100	18	87	390	1,450	5	73	5	6
Italy	0.2	5.4	2	8	6	38	—	270	—	14/46	9/10	9
Japan	—	4.9	—	5	—	14	—	230	—	7/10	11	11
U.K.	15.1	19.8	130	210	44	69	2,450	4,040	24	220/240	1	2
Russia	0.5	3.0	5	31	1	24	—	300	1	2/16	9/10	10
Sweden	1.5	3.6	47	110	3	76	90	910	—	55/150	7	7
Switzerland	5.3	6.3	—	—	28	88	—	—	—	85/190	4	4/5

^a Total length related to population and area.

^b The higher figure includes other forms of power.

— Negligible or not available.

Note: Most figures represent an average over several years.

date Western models. These were principally in the areas of St Petersburg and Moscow, in Russian Poland and in the Ukraine. The main metallurgical centre was now in the south, using Donets Basin coal. The older Urals metallurgical centre was declining. Most of the rest of the country had very little industry other than handicrafts. Apart from the oil of Baku, the southern and eastern territories were particularly primitive.

A disproportionate share of some industries was concentrated in areas lost to Russia after the First World War and the civil war (the Baltic states, and territories which became part of Poland and Romania). The following table illustrates this:

	1912	
	In retained territory	In lost territory
	Total value of production (millions of roubles)	
All industry	6,059	1,384
Wool	344	297
Leather	76	44
Paper	61	33
Jute and sacks	28	14
Woodworking	163	53
Chemicals	223	64
Cotton fabrics	1,389	364
Metal goods	1,137	258

(Source: V. Motylev, *Problemy ekonomiki*, No. 1 (1929), p. 36.)

The relative importance of small-scale (workshop and artisan) industry at this period may be illustrated by the following figures: in 1915 it employed about 67 per cent of those engaged in industry or 5.2 million persons. It produced 33 per cent of industrial output,⁷ i.e. the output per head was only a quarter of that of workers engaged in large-scale industry. This shows the contrast between the modern and the old, between great industrial plant and tiny cottage-industry or workshop, which, of course, was and is to be found in other developing countries.

A similar unevenness characterized the growth of different sections of industry. Thus while there was impressive growth in the metallurgical, textile, fuel and food-processing industries,

engineering lagged far behind. Most industrial equipment continued to come from abroad. This weakness was to be a principal cause of the catastrophic shortage of armaments when war broke out, not least because of the dominance of Germany as a supplier of equipment.

CAPITAL, DOMESTIC AND FOREIGN

The progress of Russian industrialization suffered from relative shortage of capital, as well as from a poorly developed banking system and a generally low standard of commercial morality. The traditional Muscovite merchants, rich and uneducated, were far from being the prototypes of a modern commercial capitalism. The situation changed towards the end of the nineteenth century, and particularly during the rapid industrialization which characterized the nineties. There was a marked growth of both Russian and foreign capital, and an equal improvement in the banking system. Russian entrepreneurs of a modern type began more and more to emerge. Under cover of the protective tariff of 1891, and with the establishment of a stabilized rouble based on the gold standard, foreign capital received every encouragement. This was particularly the work of Count Witte, who exercised a dominant influence over Russian financial and commercial policy at this time. His public statements and papers make it abundantly clear that he was pursuing deliberately a policy of industrialization, and that the dominant motive was the traditional one that a relatively backward Russia must catch up with the more developed powers, particularly in her potential to produce the means of national power, above all armaments. While anxious to obtain foreign financial help in the form of loans and investments, Witte was frankly surprised that such help should be forthcoming. When an economic conflict broke out with Germany, and Bismarck placed a ban on German credits to the Russian Empire, Witte sent the following memorandum to the Tsar:

True enough, what sense is there for foreign states to give us capital? . . . Why create with their own hands an even more terrible rival? For me it is evident that, in giving us capital, foreign countries commit a political error, and my only desire is that their blindness should continue for as long as possible.⁸

A number of Russian authors have made calculations concerning the role of foreign capital in Russia's development. According to figures cited by Lyashchenko, in 1900 about 28½ per cent of the capital of private companies was foreign-owned, in 1913 about 33 per cent. During these years foreign capital invested in Russia increased by 85 per cent, while Russian capital increased by 60 per cent. While the growth of foreign investments thus somewhat exceeded that of native investments, the latter were none the less rising by a very substantial percentage at this time. Foreign capital was invested in varying degrees in the different industries; it was above all in the oil industry that the foreigners were dominant. However, according to Lyashchenko, they also provided about 42 per cent of the capital in the metal goods industries, 28 per cent in textiles, 50 per cent in chemicals, 37 per cent in woodworking. Russian banks formed close links with foreign banks, and were effective in the cartelization of Russian industry, through the creation of so-called Syndicates, which followed the depression of 1900–1903.

The investment of foreign capital in railway building and industry, and also successive loans, especially from France, to the Russian government, created a major problem for the Ministry of Finance to ensure a large enough surplus in visible trade to enable the necessary repayments, profit remittances and interest charges to be met. One consequence was the constant concern of the government to increase the export surplus of agricultural produce; this led to an effort to restrict consumption by the peasants and to increase sales by levying taxes on the peasants. Yet Russian industry, particularly in consumer goods, depended to a considerable extent on the purchasing power of the peasants for its market. This dilemma is by no means peculiar to Russia, and raises an issue of great interest in the economics of development. Russian economists brought up on the principles of the Manchester school used to assert, in their discussions after the abolition of serfdom in 1861, that the poverty of the peasants and the lack of a sufficient peasant market held back the development of Russian industry, since it made industrial investment unprofitable. Yet Witte's policy of deliberately encouraging and sponsoring industrialization involved a reduction in peasant purchasing power as part of the means of compelling them to sell foodstuffs which they

would rather themselves consume, in order to meet the material and financial requirements of industrialization. In the words of Gerschenkron: 'The problem of peasant demand lost its previous significance, and its relation to industrialization was thoroughly reversed. . . . To reduce peasant consumption meant increasing the share of national output available for investment. It meant increased exports. . . .'⁹ There is more than a purely superficial similarity between the policy then pursued and that adopted by Stalin over thirty years later.

The government experienced great difficulty in raising sufficient revenue, particularly in years of war or of international tension. Despite its inadequate equipment, the Russian army was a particularly heavy drain on financial resources. It is therefore understandable that it was Witte who persuaded Tsar Nicholas II to call the first disarmament conference ever held, at the Hague in 1899.

Statistically speaking, industrial development was now proceeding at a satisfactory rate. However, the Russian Empire at the beginning of the twentieth century was beset by many dangers and was in a state of social and political disequilibrium. This arose in part out of the very fact of a rapid transformation of a formerly semi-feudal and agrarian society. Much of this instability arose from peasant attitudes, which we must now briefly examine.

AGRICULTURE AND THE PEASANTS

The abolition of serfdom in and after 1861 opened a new era in Russian social relations. Yet the settlement of that year caused a deep dissatisfaction. Rural unrest was still serious and contributed greatly to the revolutionary waves of the twentieth century. There were several reasons for this.

Firstly, under the settlement of 1861 the land was divided between the landlords and the peasants. This offended the peasants' age-long sense of fairness. Serfdom had been imposed largely for state reasons, to provide an economic basis for the service gentry to enable them to serve the Tsar in civil and military capacities. They were in effect paid by the Tsar with land, and peasants had an obligation to maintain the gentry in the service of