

Roger Skurski

**SOVIET MARKETING
AND ECONOMIC
DEVELOPMENT**

STUDIES IN SOVIET HISTORY & SOCIETY

General Editor: R.W. Davies

SOVIET MARKETING AND ECONOMIC DEVELOPMENT

Roger Skurski



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This book describes and analyses the postwar evolution of Soviet distribution and marketing against the background of the Soviet approach to economic development and marketing development patterns elsewhere. The principal theses offered here are: first, that the development of marketing in the USSR is a function of the Soviet strategy of economic development which has treated the whole area of consumption – i.e. agriculture, light industry and goods distribution – more or less as a residual or buffer; and second, and more importantly, that due in part to its own success, and to diminishing returns, the traditional Soviet model of development and the place of distribution in it have outlived their usefulness and are now in a state of transition; third, if productivity and production in the Soviet economy are to continue to grow, higher priority must be accorded to the consumer sector including distribution, and that sector must be redirected away from the production side towards the final consumer.

The book provides both a dynamic picture of the evolution of Soviet marketing and an examination of the current status of this increasingly significant area. This is carried out in the context of the wider question of the role of this sector in Soviet economic development. The contention is that in the development process the Soviet people have learned to expect a rising material standard of living and that, therefore, their contribution to overall growth and development depends on its continuation. However, this continuation is contingent upon devoting more resources to the consumer area and to reorienting it from the production to the consumer side – not only in propaganda and plan but also in fact. Further, it will be necessary for goods and services to be obtainable conveniently and with less expenditure of consumer time, or else the incentive system will be undermined and the economic growth rate reduced. Thus, the lowly consumer sector could become a major stumbling-block to future development of the Soviet Union.

Roger Skurski is Associate Professor of Economics and Director of Graduate Studies in Economics at the University of Notre Dame, Indiana.

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SOVIET MARKETING AND ECONOMIC DEVELOPMENT

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**SOVIET LOCOMOTIVE TECHNOLOGY DURING
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Preface

The purpose of this monograph is to describe and analyse the postwar evolution of Soviet distribution and marketing against the background of the Soviet approach to economic development and marketing development patterns elsewhere. The Soviet Union, according to its leaders, is currently at the stage of communist construction, the main goal of which is to ensure the complete well-being and free, all-round development of the individual. Improvement of the material well-being of the people has been, and continues to be, the long-run goal of Soviet society; this improvement is important in itself and also as an essential precondition of the full development of the individual. Until the 1950s, however, progress in consumer welfare was concentrated in public goods because of the higher priority accorded to industrialisation, defence, and building socialism in one country. Since that time, a greater concern for consumer welfare has emerged. As a result, there has been a rise in real personal income, in consumer goods production and in the quality and variety of products but many problems remain, among which those related to distribution and marketing are crucial.

The principal theses offered here are: first, that the development of marketing in the USSR is a function of the Soviet strategy of economic development which has treated the whole area of consumption – i.e. agriculture, light industry and goods distribution – more or less as a residual or buffer; and second, and more importantly, that due in part to its own success, and to diminishing returns, the traditional Soviet model of development and the place of distribution in it have outlived their usefulness and are now in a state of transition; third, if productivity and production in the Soviet economy are to continue to grow, higher priority must be accorded to the consumer sector including distribution, and that sector must be redirected away from the production side towards the final consumer. A number of more specific empirically testable hypotheses follow from these and they are presented in Chapter 1.

I attempt to provide both a dynamic picture of the evolution of Soviet

marketing and an examination of the current status of this increasingly significant area. This is carried out in the context of the wider question of the role of this sector in Soviet economic development. The contention is that in the development process the Soviet people have learned to expect a rising material standard of living and that, therefore, their contribution to overall growth and development depends on its continuation. However, this continuation is contingent upon devoting more resources to the consumer area and to reorienting it from the production to the consumer side – not only in propaganda and plan but also in fact. Further, it will be necessary for goods and services to be obtainable conveniently and with less expenditure of consumer time, or else the incentive system will be undermined and the economic growth rate reduced.

This study builds on the base provided by the previous research work of other scholars as well as my own work over the last decade. The first of our main theses is a more refined specification of the central hypothesis of Gur Ofer in *The Service Sector in Soviet Economic Growth*, in which he argues that the novel Soviet economic and social system is the major explanatory factor for the small size of the service sector in the USSR compared with other countries at similar levels of economic development (Ofer, 1973b). We examine the marketing components of the service sector by alternative methods and in more detail than was possible in Ofer's study where commerce was only one of the subsectors considered. The emphasis is on the retail portion of the distribution sector, but wholesaling and warehousing will not be ignored because they constitute basic supports for retailing. Agricultural procurement and sales-supply, however, will not be discussed although some of the labour and capital data include them.

The second general thesis presented here (that the traditional Soviet model of development and especially the role of distribution in it are outmoded and are in a state of transition) seems to be the logical and important extension of the first. In 1968, Philip Hanson suggested that 'changes of recent years are part of a complicated transformation intended to favor the consumer' (Hanson, 1968, p. 206) and in a more recent study Gertrude Schroeder and Barbara Severin documented some elements of this transformation (Schroeder and Severin, 1976). As was suggested some years ago (Skurski, 1972c), the methods employed by Soviet internal trade at first failed to take into account the implications of the changing Soviet environment. Eventually, the distribution sector began to respond and for a while fairly reasonable progress was registered. This study surveys the evidence of this progress

and discusses problems which have been alleviated, those that remain and obstacles to further improvement with a view to separating systemic problems from those that might be solvable within the current system.

Our third general theme is that the status of the consumer in Soviet society must be further increased if past promises are to be fulfilled and if the preconditions of further significant economic progress are to be met. The consumer would thus be elevated from a buffer to a leading actor in the Soviet economy. This line of reasoning provides the linkage between marketing and the wider Soviet economy. The people must deal with this sector on a daily basis and their attitudes and motivations are directly influenced by it.

If the Soviet Union is to continue to grow and develop, the role of consumption in the Soviet development process must change from the traditional one where consumption above a basic minimum competes with and therefore has a negative influence on the achievement of the goals of the system to one in which advances in consumption contribute to these goals. In other words, more direct attention must be paid to the consumer, and in our view this requires a decentralised and flexible, if not market socialist, approach. No doubt, consumption has always had an approach-avoidance quality for the system's leaders, but now it appears that the potential gains outweigh the potential losses.

The research for this study has been carried out over a long period of time, and many people have contributed to it in many ways. David Granick is responsible for sparking my interest in the Soviet economy and for guiding my first research in the consumer area, my doctoral thesis, while I was still a graduate student at the University of Wisconsin in the 1960s. I am glad to have had the benefit of his knowledge and insight as well as his personal example. The idea of this book received strong support from Philip Hanson, one of the pioneers in the Soviet consumer field. His ideas, criticisms and suggestions were a great benefit at the time the plan of the book was being laid.

The last phase of the research was accomplished during a sabbatical year spent at the University of Birmingham. I am grateful to the University and especially to the Centre for Russian and East European Studies for the facilities provided, the library, and the opportunities to interact with the members of the Centre through its various programmes and seminars. I particularly wish to recognise the help of Jacquelyn and the late John Grayson who more or less took my family and myself under their wing and made our stay more productive and enjoyable. The financial support for that year was provided by a Fulbright-Hays Fellowship and an International Research and Exchange Board grant,

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R.S.

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1 Background, Hypotheses and Methodology

INTRODUCTION

During most of the Soviet industrialisation period consumer goods enterprises and the distribution network could rest assured that almost any consumer product – any size, colour, style and quality – would be sold if offered to the public. This was a sellers' market; the sellers held the upper hand, simply trying to fulfil their plans without being concerned about the demands of buyers. After the mid-1950s, however, both the production of consumer goods and personal incomes increased, and gradually more and more consumer demands were answered. A concern for consumer welfare was emerging. But, with the advent of some buyers' market conditions, no longer were all consumer goods that arrived on the market automatically sold; inventories increased as did the problems of planners. In 1965 Professor Marshall Goldman examined production and consumption in order to document and explain these changes (Goldman, 1965). The objective of the present study is to analyse the domestic trade sector of the Soviet economy as it has reacted to the development of the buyers' market and the rise of the Soviet consumer. Another major change in the economy, the 1965 reforms, presented trade the opportunity to begin to respond to the new conditions.

The purpose of this chapter is to set the stage for the analysis of growth and change as well as continuing problems of this sector. The discussion begins with a general review of the Soviet consumption record and the role of the consumer in the economic development of the USSR and is followed by a description of Soviet internal trade since 1950. The hypotheses offered are then presented, and the chapter closes with an examination of data and methodological issues.

THE SOVIET CONSUMPTION RECORD

In the pre-revolutionary period consumption levels in Russia were relatively low: real per capita income and consumption are generally reckoned at about a quarter of that in Western Europe and less than a fifth of the American level.¹ The First World War, the revolution and the ensuing civil war had a devastating effect on the Russian economy, and as a result consumption fell dramatically, probably reaching its nadir right after the civil war. At that point (1921) Lenin introduced the New Economic Policy (NEP) as a strategic retreat from the drastic policies of war communism – a retreat necessitated by public opinion, the chaotic state of the economy, and the sheer inability of the inexperienced state to deal with the situation. NEP was a retreat to a more mixed economy with private as well as public ownership, and markets as well as a command system, but its main purpose was economic recovery. Because this policy for the most part was successful in achieving its goal, per capita consumption recovered, though the 1928 level of food consumption was still short of that of 1913 (Hanson, 1968, p. 30). This means that on the eve of the great industrialisation drive, Russian² living standards had almost returned to their pre-revolutionary level but were lower relative to those of the more developed world than they were in 1913 owing to the advances registered abroad during the turbulent post-revolutionary period.

On the other hand, social policy in the first decade of the revolution experienced a dramatic shift in the direction of public consumption. Free education of workers and peasants was one of the Bolsheviks' first priorities: by 1928 almost all urban children and about two-thirds of the rural children received an elementary education, and nearly half the population was able to read and write owing to the success of the literacy campaigns (Westwood, 1980, p. 69). Social insurance – which provided permanent disability pensions, maternity and funeral benefits, and benefits for temporary sickness, incapacity or unemployment – was firmly established during the NEP period, as were free medical care, sanatoria and rest homes for workers (Carr and Davies, 1971, p. 605). During these early years, inconsistencies surrounded housing policy 'but the conception that it was a social obligation, however imperfectly fulfilled in practice, to provide decent housing for the workers continued to predominate' (Carr and Davies, 1971, p. 623).

It seems to be generally agreed that by the end of the First Five Year Plan in 1932 there had been a significant and widespread reduction in Soviet consumption. This was a period of rapid structural change which,

of course, ordinarily entails some pain and suffering, but the Soviet case is unique in that the changes occurred so rapidly and the hardship was so widely spread. Rationing was introduced in 1929 in the major cities and by 1931 was extended for basic consumer goods to all cities. From 1932 to 1934 the USSR experienced probably its worst famine as the result of the worldwide depression and other 'accidental' factors (Dobb, 1966, p. 26), as well as Soviet government policies, including:

1. Rapid collectivisation during 1930–1 and the growing use of force to which the peasants responded by destroying buildings and equipment and slaughtering livestock, including work animals. Agriculture suffered a setback in terms of a loss of physical inputs, a decline in peasant morale and a rise in organisational problems from which in some respects it has yet to recover.
2. Government attempts to maintain grain exports to pay for needed imports during the worldwide depression when the terms of trade moved against primary product exporters such as the Soviet Union.
3. Building inventories in the event of war.
4. Priority for feeding the urban population.

Yet, as Alec Nove has noted

a great industry was built. It should be added that morale in Russia itself, and the impact of her achievements internationally, were affected by the co-incidence of the Great Depression. Russia was growing, the Western capitalist system was apparently collapsing, with massive unemployment and social disruption, culminating in America with the paralysis of 1932–3, in Germany with six million unemployed and the triumph of Hitler. The worst period of Russia's own crisis coincided with crashes and bankruptcies in the 'capitalist' world, and at least Russia's troubles could be seen as growing pains. It is well to remember that the West was no sort of model for Russia or anyone else to follow in the [early 1930s]. (Nove, 1969, p. 223)

Afterwards, during the mid 1930s, personal consumption improved, the planners discontinued rationing and by 1937 the people had regained their 1928 position.

Of course, one must also take into account the improvement in social services, the elimination of unemployment, and the undeniable

fact that many ex-peasants who moved into industry were earning more than they would have earned had they remained on the farms. Finally, those who had been workers in 1928 had very good opportunities of promotion and the vast majority of them were probably making a good deal more in 1937 than in 1928. The average is pulled down by the dilution of the urban labor force by unskilled 'immigrants' from the villages. (Nove, 1969, p. 250)

In the next three years living standards declined moderately, and as a result of the Second World War they again dropped significantly, and this time remained low until the war's end. The late 1940s witnessed the beginning of a rapid rise in per capita personal consumption which would continue almost until the end of the next decade, and which would permit a recovery to pre-war standards by the time of Stalin's death in 1953. In other words, *at the end of the Stalin era the Soviet people were again (for the fourth time) about as well off as they were in 1913 in terms of personal consumption, but on the whole they must have been better off because of the advances in public goods consumption.* Of course, most of the consumers were not the same since only some of those who were consciously able to experience the consumption levels of 1913 were still alive in 1953.

Since Stalin's time, personal consumption levels have experienced a continuous and substantial increase. The improvements during the 1950s were particularly dramatic: the production of consumer goods was raised to record levels, the variety of products was expanded and many consumer durables common in the West made their first appearance in the USSR. State retail prices were lowered substantially after having risen throughout most of the two previous decades. In fact, the official Retail Price Index has been kept essentially constant ever since 1955 and is used to justify the claim that there is no inflation in the Soviet Union. However, this assertion must be discounted because the official index does not reflect some changes such as those connected with introducing new products (which may not be all that different from the old ones) and because some goods and services are acquired outside the state distribution system. Perhaps the largest and most well-known legal institution of this sort is the collective farm market where the people take the products of their private plots and handicraft work to be sold at prices determined more or less by the forces of supply and demand. Flourishing too are various illegal and semilegal, black and grey market activities which, of course, go unrecorded in the index of state retail prices, but which on the other hand add flexibility to an otherwise rather