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## THE ECONOMIC ORGANIZATION OF THE SOVIET UNION

## VANGUARD STUDIES OF SOVIET RUSSIA

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# The

# Economic Organization of the Soviet Union

By SCOTT NEARING and JACK HARDY



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To the sincere men and women of Russia who, despite frison, exile, and death, burned out their lives trying to attain freedom, peace, and brotherhood for the common people.

## BIOGRAPHICAL NOTE

## SCOTT NEARING

Born at Morris Run, Pennsylvania, in 1883; received his B.S. degree at the University of Pennsylvania in 1904, and his Ph.D. from the same institution in 1909; was instructor of economics at that university from 1906 until 1914, and the following year was made associate professor; was also economics instructor at Swarthmore College, and Dean of the College of Arts and Sciences at Toledo University; author of *The American Empire*, *The Next Step*, Oil and the Germs of War, Dollar Diplomacy, Education in Soviet Russia, and many other books and pamphlets.

JACK HARDY

Born in New York in 1901; a graduate of two eastern universities, in one of which he served on the faculty for one year; has worked and studied with Scott Nearing for four years, and collaborated with him in various pieces of research; gathered material for this book during his visit to Soviet Russia in the early part of this year, having spent about half a year travelling through the Union observing the working of the new economic system at first hand; author of the chapters on the Slave Revolutionary Movements, and the Chinese Revolution of 1911 in *The Law of Social Revolution*, issued by the Social Science Publishers in 1926; contributor to the labor press on economic and political subjects. THE Russian Revolution startled a war-diseased world and ushered in the most daring political and economic experiment of the twentieth century. Considering the vast territory affected, the radical changes inaugurated, and the influence which has been and still is being exerted on international relations, there is probably no greater event in modern history, whether for good or evil. Most Americans forget that a decade has already passed since Lenin and his Communistic followers assumed the power. The period of rapid revolutionary change has gone. Russia is painstakingly, step by step, building something different, something unique, something whose final destination is unpredictable.

America has been a land of discovery from its foundation. Not only in the realm of scientific invention, but in first attaining the coveted North Pole and in exploring other unknown areas of the world, Americans have given generously of life and treasure. Today we are uninformed about a great nation covering one-sixth of the land surface of the world. Russia is cut off by an Atlantic Ocean of prejudice, misunderstanding, and propaganda. We still maintain a rigid official quarantine about the Soviet Government. The result is ignorance frankly admitted by one "of the highest authorities in our Government," who declares this inevitable "in the absence of diplomatic relations." Judge Gary corroborates this verdict, "Like many other Americans, I am ignorant in regard to many of the

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conditions which exist in Russia at the present time."\*

Every scientist realizes that ignorance is one of the most dangerous forces in the world today. No matter how good or how bad the Soviet system, we should know all about it. Instead, we have been ruled by propaganda and hearsay.

The fact is that for the past ten years the Bolshevik government has been operated on, dissected, and laid in its coffin amidst loud applause and rejoicing by distinguished orators in all parts of the world; yet today it is stronger, more stable, than ever before in its history and its leaders have been longer in power than any other ruling cabinet in the world. It is high time that we appraise this government as scientifically and impartially as possible, without indulging in violent epithets or questionable and controversial dogmas. Surely the world is not so abysmally ignorant that after ten years of the rule of the Soviet we cannot discover a common core of truth about Russia.

Whether the Communists are thought to be "dangerous enemies of society" or the "saviors of humanity," the facts should be known before judgment is pronounced. No matter what our conviction, we have to admit that the Bolsheviki are hammering out a startling new mechanism in the field of political control. Their experiment deserves scientific study, not hostile armies; intelligent criticism, not damning epithets.

In the past, America has been flooded with propaganda of all shades. Dr. E. A. Ross dedicates his last volume on Russia "To my fellow-Americans who have become weary of being fed lies and propaganda about Russia." In his chapter on the "Poison Gas Attack"

<sup>\*</sup> Curvent History, February, 1926.

he lists forty-nine stories broadcast throughout America which have been proved totally false. Other writers have pointed out similar facts. Walter Lippman, Editor-in-Chief of *The New York World*, in his illuminating study of all Russian news which appeared in *The New York Times* in the early period of the Revolution, has proved the stupidity, inaccuracy, and falsehood of the "facts and fabrications" which have passed as news. Even those articles and books which have tried to deal honestly with the subject have usually been inadequate. They have either been too general or they have been specific but too brief to be of more than passing value. In all too many cases they are based on only a few weeks of observation in Russia by someone who did not know the native language.

The present series is designed to meet the need for reliable, accurate information on the major aspects of present-day Russia. We have tried to make it as scientifically accurate as is possible in the treatment of contemporary phenomena. It has been our aim in selecting each author to choose someone who because of previous experience and training was peculiarly well qualified as an authority on the particular subject to which he was assigned. In every case we have chosen those who either have made a prolonged stay in Russia, actually writing their volumes while in the country, or those who have made a special trip to Russia to secure the facts about which they write. We have tried to make the series inclusive, covering the more important aspects of the many-sided developments in Russia. Each volume is devoted to one major subject alone. People want detailed, accurate facts in readable form. Here they can be found, ranging all the way from an

analysis of the governmental machinery to the school system. Within this series some repetition has been inevitable. The editor believes that this is distinctly desirable since each author expounds his subject in his own way, with an emphasis original to him and in the light of his own data. No effort has been made to eliminate contradictions, yet they are surprisingly few. Where the testimony of all is unanimous, the conclusions reached are overwhelmingly strong. Where differences exist, they should stimulate the reader to weigh the evidence even more carefully.

It is probably too much to hope that propaganda organizations will not endeavor to discredit any such genuine effort to arrive at the truth. Perhaps it is sufficient to say in refutation that no similar attempt to secure the facts about Russia from trained experts has yet been made in America or elsewhere, so far as the writer is aware. There is scant ground for intelligent criticism unless similar scientific studies have been made with conflicting results; even then time alone can proclaim the final truth. No sincere and unprejudiced scientist will deplore an effort to study and describe what has happened in the first experiment the world has ever seen in applied communism, even if mistakes have been made in the analysis.

These volumes on the whole not only contain the most valuable data so far available, but they will probably remain of permanent worth. In the future no real historian endeavoring to master the facts about the great political upheaval in Russia will care to ignore them. Is Russia the most tyrannical dictatorship of bloody despots that the world has ever seen? Is Russia the first step in the building of a new world order whose keynote will be industrial democracy? We do

## EDITOR'S INTRODUCTION

not pretend to give here the final judgment of history, but we do claim to have made a sincere effort to portray the facts.

Thanks are due to the authors who have so painstakingly sought to present the truth as they found it, to the publishers for their assistance in making this a notable and usable series, and to all those whose labor, whether by hand or brain, has helped to give these volumes to the American public.

> JEROME DAVIS, Yale University.

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## AUTHORS' PREFACE

THE authors have tried in this volume to furnish descriptive and statistical data which will answer the questions: How do the Russians earn their living under the Soviet system? How is the Soviet economic machinery owned? Is there private capital in the Soviet Union, and if so, how much? What are the relations between employer and worker? Are the workers organized? How? Is the Soviet economic system speeding up or slowing down? Is the Soviet Union moving toward socialism or capitalism? Several topics, such as technical education and Trade Unionism under the Soviets, which are to be the subjects of special Vanguard Press studies, have been passed over briefly in this book. Otherwise the economic situation in the Soviet Union has been treated in some detail.

The authors have compiled the data which is presented in this volume from sources available in this country and from others available only in the Soviet Union. Both of the authors have visited the Soviet Union recently: one during the latter part of 1925 and the early months of 1926; the other during the late months of 1926 and early in 1927. Both, therefore, have not only made a study of materials available here, but have also had the opportunity to observe the workings of the Soviet social and economic system at first hand.

Within the Soviet Union the authors had the opportunity to speak with many of the leaders of the Soviet economic administration, and to visit factories, mines, government institutions, workers' homes and clubs, trade union headquarters and meetings, factory and other schools, etc. When interpreters were required they were in many cases able to utilize friends. In other cases they hired the services of persons who were able to help them ask their questions and compile their data. In visiting individuals and institutions, they sometimes went by pre-arranged appointment. At other times they went unannounced, made known the purpose of their visit to those in charge and, as the case might be, asked if they might have access to certain data or whether they might visit the factory or other institution. In no case were their requests refused.

Acknowledgments are due to a number of persons, both in this country and in the Soviet Union, who have generously aided the authors in the compilation of data and in the preparation of this volume The members of the staff of the Economics Division of the New York Public Library have been most generous in making available the facilities of their department and in locating the material available in this country. In the Soviet Union, Dr. L. Nimen, director of the department for foreigners of the Society for Cultural Relations' with Foreign Countries, arranged for Jack Hardy many interviews with leaders of the economic administration with whom he wished to confer. A. Ginsberg, head of the Department of Economic Management of the Supreme Economic Council, instructed members of his staff to make available much statistical data which we desired. J. Ulizky, director of the Conjecture (Industrial Forecasting) Bureau of the Supreme Economic Council, gave many hours of his time in making clear the organization and the work of the Supreme Economic

Council. Alexander Kogan, member of the presidium of the State Economic Planning Commission, also gave 2 considerable amount of time to describe the history and the work of his department.

The Agrarian Institute of Moscow, through its assistant director. Mr. Dubrofsky, also made available a considerable amount of statistical data upon Russian agriculture. E. Variach, a director of Centrosoyus, the Central Federation of Consumers' Cooperatives, also facilitated the compilation of a considerable amount of material upon the cooperative movement. Thanks are also due to S. Chernov, delegate for foreign affairs of the Commissariat for Ways and Communications, and to a number of other directors, consultants and other persons employed in the Commissariat for Trade, the State Bank, the trade union movement and other departments of the Soviet Economic administration. No one of the persons whom we have acknowledged is in any way responsible for any mistakes which have been made or for opinions which have been expressed.

The authors wish to thank Miss Ann Coles, who prepared the three charts which are contained in the book upon the "Indices of Industrialization," "Trade in the Soviet Ufion," and "Dynamics of Real Wages and Productivity." They also wish to thank Mr. Fred Ellis, who prepared the chart upon "Soviet Foreign Trade;" Miss Barbara Gail, who typed the original draft of the manuscript and who helped to prepare the index; and Miss Ruth Byrne, who typed the final draft.

The structure and function of the Soviet economic machinery is new and is serving a form of society which has never before existed. It has, therefore, no precedent by which it can be guided and it is continually changing, in detail, as experience teaches which features are work-

## xvi AUTHORS' PREFACE

able, which need to be discarded and what innovations are necessary. It is, therefore, inevitable that this book will contain some inaccuracies, as the economic machinery, in minor details, is changing even while it is being written about.

> Scott Nearing. Jack Hardy.

New York City, April 5, 1927.

## INTRODUCTION

THE fundamental principles underlying Soviet economic organization are:

- 1. The socialization of all basic productive forces such as land, mines, railroads, factories.
- 2. The organization and direction of productive forces on a unified, scientific plan.
- 3. The elimination of private profit and the social use of all economic surplus.
- 4. Universal obligation on all able-bodied adults to render some productive or useful service ... "He shall not eat who does not work." (Article 18, Soviet Constitution.)
- 5. Active participation, by the workers, in the direction of economic life.
- 6. The widest possible provision, among all who render productive and useful service, of:
  - (a) Food, clothing, shelter, health service.
  - (b) Education, recreation, cultural opportunity.
- 7. "The abolition of exploitation of men by men, the entire abolition of the division of the people into classes, the suppression of exploiters, the establishment of a Socialist society and the victory of socialism in all lands." (Article 3, Soviet Constitution.)

Surrounded by a hostile world, and desolated by war, revolution, counter-revolution, blockade, armed intervention and famine, the workers and peasants of the xvii

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Soviet Union have not yet been able to put all of these principles fully into practice. Until 1920-21 the Soviet State was fighting for its life. It is only during the succeeding years that peaceful economic construction has been possible

During the entire period since the Revolution; however, the Soviet authorities have been able to keep the reins of the State firmly in their own hands and to maintain the Soviet form of government. They have established a State built upon economic rather than upon geographical lines. The Soviets are designed to represent directly the productive units of the country, —the factory, the mine, the office, etc. Profiteers are in harsh disfavor, and are excluded by law from electoral privileges.

With this foundation of economic principle and political organization, Soviet Russia has been able, in the past seven years, to create an economic organization that is without parallel anywhere else in the world. The nature of that organization and the character of its activities will be described in the following pages.

Any person visiting Russia in 1927 cannot fail to be impressed by the rapid forward movement that is taking place in her economic life. One titled Englishman, Sir Thomas Allen, revisiting the Soviet Republic in 1926 after having seen it in 1922, gave his impres sions thus: "Change, change, everywhere; and for the better. Better railway stock, with sleeping and refreshment car accommodation, and improved stations. Hotel accommodation restored to normality and completely wanting on our last visit [four years ago.] A brisker and brighter movement among the people. Thousands of shops, formerly empty, now animated with business life. People with apparent purchasing power waiting

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in queues for textiles, which they are eager to secure. State, cooperative and private business rivalling each other for the customers' trade. The motor bus, motor car, the electric passenger car—practically all new. The people better clothed, and to all visible appearances more prosperous. A general impression of life and movement."<sup>1</sup>

During the latter months of 1926, a non-communist technical adviser employed by the Soviet Government attempted to account for the unprecedented strides being made by the Russian economic system, and stated that Russian industry contained within itself hidden potential possibilities. To this explanation V. V. Kuibysheff, President of the Supreme Economic Council, countered by stating that Russian economic progress was due, not to "hidden possibilities" but to the fact that, in the Russian system, "economic life proceeded according to a plan."<sup>2</sup>

Just here is to be found the explanation for whatever success the Soviets have achieved—Soviet economy is founded upon a carefully considered and closely watched *plan*. Instead of allowing the competitive chaos so prevalent in modern capitalist countries, the Soviets have almost completely abolished competition and have placed the direction of economic life under, a special commission of "planned economics." This body plans minutely and elaborately for every branch of the country's industrial life, and publishes programs in advance for one and often as many as five years. Industry, agriculture, finance, transport, shipbuilding, etc., are each made to dovetail with the needs and capacities of each other and of the population.

Industrial production is dependent upon raw materials and machinery; imports are regulated by export

### INTRODUCTION

possibilities, which in turn depend in large part upon agricultural production. By unified planning for every field of economic life, the Soviet Union has, within the brief period of six years, produced economic results that have astounded the western world.

Two or three of these results should be briefly noted:

- 1. The budget was balanced and the currency stabilized without external loans or credits. No such record has been made by any of the other major European belligerents. The Soviet Union accomplished this result in 1924, before it was achieved in Britain, Germany, France, Italy, or Belgium.
- 2. The volume of production has increased each year since 1921. No other principal nation can show an equally steady gain in productivity.
- 3. The material well-being of Soviet workers has been improving steadily since 1921. No other European country can make a similar showing.

In a world recovering from the shocks of war, revolution, and famine, such achievements are sufficiently noteworthy to justify a careful inquiry into the economic organization of the Soviet Union.

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