

**THE ECONOMIC POLICY
OF SOVIET RUSSIA**

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by

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PREFACE

I LEFT Soviet Russia in 1928. For more than twenty-five years I have been associated with the University of Moscow, where I held the chair for Public Finance, also Professor and Dean at the School of Economics in Moscow for many years. In Tsarist times I was a Member of the Council (Board of Directors) of the State Bank of Russia.

During the Soviet rule since 1921 I was President of the Financial Section of the Institute of Economic Research attached to the Commissariat for Finance of U.S.S.R. In this capacity I took part in the work of the Commissariats (Ministries) for Foreign Trade, for Foreign Affairs and for Transportation, in the State Budget Committee, in the Custom Tariffs Committee and in other Soviet institutions.

In my lectures and in my work in these institutions I did not hesitate to criticize freely and impartially the Soviet Economic Policy. I have never been associated with any political parties or groups. I thought, therefore, that I might express my opinion and do some useful work with reference to the possible ways and means of the economic regeneration of the Russian people. However, when I was in London for temporary research work during my vacations in August 1928, I got the news that I had been deprived of my chair in Moscow University.

This is the fate of so many of my colleagues who, like myself, do not share communist teachings. Still, I was in a happier position abroad, as twelve Universities of four countries joined in their efforts to help me in the circumstances and offered me a temporary or permanent appointment or invited me to deliver public lectures.

In 1926 I had the great distinction of being elected honorary doctor by Munich University. In the same year the Council of the League of Nations invited me to become a Member of the Preparatory Committee of the World's Economic Conference, this invitation being private in char-

acter; nevertheless, the Soviet Government prohibited me from accepting it and refused to give me a passport, although officially the Commissariat for Foreign Affairs informed Sir Eric Drummond that they had nothing against this invitation.

At this time I received abundant and most valuable help from my foreign colleagues. I cannot sufficiently express my thanks for all the kindnesses shown to me. . . .

Now, for a few remarks about the contents of this book. I have tried to remain as impartial as possible. I have used only the latest official information and figures which I considered to be trustworthy.

It should be noted that everywhere the prices are expressed in chervonetz rubles. A chervonetz ruble (= 100 copecs) is equal to about two English shillings. At par it means 2s. 0½d., or £1 is equal to 9 rubles 46 copecs as in pre-war times. Since the stabilization of the ruble in 1925 the chervonetz currency in the home market has remained practically stable, and only in 1929 a noticeable depreciation of the ruble took place.¹ The export or import of chervonetz currency is strictly prohibited; therefore no comparison with the quotations abroad is possible.

The Soviet Government is flooding foreign countries with a great many official and semi-official publications in different languages extolling the communistic regime. I have tried to give an impartial picture.

The Soviet Russian experiment is carried out on one-sixth of the globe, and it affects harshly the economic and social life of all Europe. Unfortunately, so very little is known about it abroad. As a rule, foreigners are prevented from getting the right information. I hope that my book will help to give an idea of what is really going on in the vast country of the Soviets in the field of economics.

*University of Graz,
January, 1930.*

P. HAENSEL.

¹ The wholesale price-index on October 1, 1928, was 1·761, and on October 1, 1929, 1·817 (1913 = 1·000); the retail price-index was 1·999 and 2·150 respectively (cf. Chap. IX).

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THE ECONOMIC POLICY OF SOVIET RUSSIA

CHAPTER I

GENERAL SURVEY, ORIGINS OF BOLSHEVIST RULE AND THE INTRODUCTION OF THE "NEP" (= NEW ECONOMIC POLICY)

THE Union of Socialistic Soviet Republics is a federal State composed of seven "Allied Socialistic Republics": Russia proper, Ukraine, White Russia, Caucasus, Uzbekistan, Tadshikistan and Turkmenistan. The present area of the Union is 21,352,572 sq. kilometres, or about $\frac{1}{2}$ million kilometres less than the Russian Empire before the war (21,797,725 sq. kilometres). Since the war Russia has lost some of her economically most developed areas: Poland, the Baltic provinces, viz. the present border states of Estonia, Latvia, Lithuania, Bessarabia (now annexed by Roumania) and Finland, and, above all, is deprived of free access to the non-freezing ports of the Baltic Sea.

Russia proper (the so-called Russian Federative Socialistic Soviet Republic) is by far the largest "Allied Republic" of the Union, covering about 19,653,000 sq. kilometres, including the vast territory of Siberia (about 11 million sq. kilometres). The economic policy of the Union is highly centralized and practically concentrated in the hands of the Federal Government of the Union. Of course, all government in Russia, federal, state and local, is directed by the Communist (formerly called "Bolshevist") party and its supreme organ, the Political Bureau of the party. All the leading posts of administration, from the lowest to the highest, are occupied by communists.

According to the census of December 17, 1926, the total population of the Union was 147,028,000. In the same area the population was: in 1897, 106,256,000; in 1914, 138,200,000; in 1924, 137,407,000; on the 1st of April 1930, 158,500,000. The consequences of the great upheaval and of the World War, and especially of the civil war, are clearly seen from these figures: it was not until 1924 that the Russian nation restored its pre-war numerical strength. It is reckoned that two and a half years of the civil war alone were responsible for the premature death of about seven millions of people. It was especially the male population that suffered. In 1912 there were 996 women for every 1,000 men; but by 1926 the position was reversed, there being 1,070 women for every 1,000 men. Before the war the natural increase in population was about one-third in fifteen years. At the same rate of increase, Russia in its present limits might have had about 184 million inhabitants in 1929, instead of the actual 154 million.

The change in proportion between the urban and rural population is very significant. In 1912 in the Russian Empire (including Poland and the other border states) the urban population totalled only 23.4 million, or 14% of the total population of 168 million, whereas in 1930 the urban population of the Soviet Union totalled 30.7 million, or about 19.3% of the total population of 158.5 million. In six years (1924-30) the population of the Russian cities increased from 22,700,000 to 30,700,000, or by 35%. This should be borne in mind, because the increase of urban population naturally necessitated a considerable increase in industrial production. In 1928 for every 1,000 men there were 1,036 women in the cities (920 in pre-war times) and 1,076 in rural districts.

The density of population is 20.2 inhabitants per square kilometre in the European part of the Soviet Union and only 1.6 inhabitants in the Asiatic part (in comparison with 14.8 inhabitants of U.S.A.). The population is composed of many nationalities. The census of 1926 enumerates more than ninety principal nationalities living in Russia. But the greater part are Russians proper, *viz.* 77,791,000

(36,704,000 males and 41,087,000 females), and Ukrainians (31,195,000); other principal nationalities are (thousands omitted): White Russians 4,739; Kasaks, 3,968; Uzbeks, 3,905; Tartars, 2,917; Jews, 2,600;¹ Georgians, 1,821; Turks, 1,707; Armenians, 1,568; Mordovians, 1,340; Germans, 1,239 and Chuvashs, 1,117. Other nationalities have less than a million persons each. Only 390,000 foreigners live now in the Soviet Union, which total includes 92,299 Persians, 85,352 Japanese, 81,783 Chinese, 45,975 Greeks, 25,885 Turks, 10,137 Poles, 7,991 Germans, 529 British, 296 Americans.

Before the war very few Russians proper emigrated to foreign countries, Jews and Poles being the chief emigrants. The persecution of the Jews in pre-war Russia and overpopulation in the western regions stimulated their emigration, chiefly to the U.S.A. In 1906-11 there emigrated yearly from Russia to the U.S.A. on the average 82,224 Jews, 51,736 Poles and only 12,435 Russians, a considerable number of whom used to return to Russia. Now the Soviet Government imposes severe restrictions on the emigration and travelling of its citizens abroad. In spite of exorbitant passport fees (220-330 rubles or £23-35 (\$115-175) for each passport for a single journey), of the thousands who apply for such permission to go abroad, but very few actually obtain it; whole families are very seldom allowed to go abroad, and the remaining relatives are usually considered as hostages. By this cruel device intellectuals and non-privileged classes are made slaves of the communistic regime and cannot cherish any hope of leaving the country. In 1911 about eight million Russian subjects and over three million foreigners crossed the European frontier of Russia, going abroad (not including a large number of those who

¹ The number of Jews in the Soviet Union is somewhat larger because some of the Jews who now reject the traditions of their forefathers often declared themselves to the census authorities to be Russians proper. As a result of the "pale" the number of Jews in Moscow before the war was very small (hardly over 5,000), and now there are reckoned to be more than 200,000 Jews in the metropolis. Jews play an important rôle in the communistic party and occupy many very important posts in the Government and the Army. In pre-war times the Jews totalled 4% of the whole population of the Empire, but thanks to the "pale" they lived almost exclusively to the west of the Rivers Dvina and Dnepr.

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crossed the frontier without passports, avoiding the regular custom offices), and in 1927 only 19,727 Russians and 20,564 foreigners (and 6,160 persons whose nationality is not stated) crossed the European frontier from Russia. Comparatively large numbers of Russians now cross the Asiatic frontier (35,857 persons in 1927, in comparison with 54,406 persons in 1911), but almost all of them went to China (31,156 persons in 1927) as a result of the policy of the Soviet Government in China and in connection with the Chinese Eastern Railway.

In comparison with pre-war conditions the birth-rate has decreased slightly, while the death-rate has declined very substantially. Therefore, the population of the Union is now increasing very rapidly and more so than was the case before the war. This is to be seen from the following table (for the European part of Russia) per 1,000 of population :

	Births.	Deaths.	Increase of population.	Marriages.	Divorces.
1911-13	45.5	28.6	16.9	8.2	—
1927	42.9	21.0	21.9	10.3	2.7

The fall of the death-rate is partly due to the decrease of infantile mortality (in 1909-10, 265 children out of each 1,000 children born died at an age below one year, in 1926, only 174, and in 1927, 191); no doubt the Soviet Government has improved the medical care of infants, especially in the cities. Partly, it is due to the decrease of consumption of alcohol by parents as a result of prohibition, and perhaps to a somewhat better feeding of a part of the peasantry. But these causes could not have influenced the fall of the death-rate in such a degree. The real explanation is that all those who were weak and of low resistance died in masses during the terrible years of the civil war and War Communism. The new regime can hardly boast much about creating healthier conditions, although considerable efforts have been made, especially in the cities, for the improvement

of medical service. In 1927 the death-rate in the cities was 16.8 and in rural districts 21.7 per 1,000 inhabitants (the birth-rate 32.1 and 45.5 respectively). In 1910 one hospital with an average of 26 beds existed for each 20,923 inhabitants (besides private clinics), and in 1928 one hospital with 43 beds for each 25,314 inhabitants (and hardly any private clinics).

Even since the time of economic stabilization the percentage of population contracting contagious diseases is again increasing alarmingly, as can be seen from the following table (for each 10,000 of population) :

NUMBER OF PERSONS WHO CONTRACTED CONTAGIOUS DISEASES IN U.S.S.R. FOR EACH 10,000 OF POPULATION

	Typhoid fever.	Small-pox.	Measles.	Scarlet fever.	Whooping-cough.	Diphtheria.
1924	11.7	2.0	21.7	13.7	14.5	4.6
1925	11.1	1.3	41.5	17.4	24.3	4.7
1926	8.3	1.1	26.5	22.7	28.6	5.1
1927	9.5	0.9	31.7	23.9	29.2	5.4

	Influenza.	Tuberculosis.		Malaria.	Trachoma.
		Lungs.	Other organs.		
1924	127.9	54.5	14.1	419.8	36.9
1925	191.1	76.3	21.0	337.2	58.3
1926	288.3	79.9	27.4	299.5	63.4
1927	325.7	88.1	30.5	244.7	72.4

There has been a considerable increase since the Revolution in cases of scarlet fever, and especially of tuberculosis, no doubt as a result of congested housing conditions. Malaria shows very high figures: in the years 1923-25 it was registered that seventeen millions contracted malaria; later, malaria decreased in Russia proper and the Ukraine,

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but increased again in the Caucasus. It is difficult to compare all these figures with pre-war conditions because of the difference of methods of registration. But there is a most marked decrease of small pox and diphtheria in comparison with pre-war conditions; the decrease of typhus in late years is natural, because millions got over it during the civil war.

More symptomatic are the statistics of death due to diseases in the cities. In 1905-09 there died in Russia every year from measles, scarlet fever, small-pox, whooping-cough and typhus, 10.56 persons for every 10,000 inhabitants (in Germany 1.84 and in England 1.30); in 1925, in 28 principal Russian towns, there died from the same diseases 16.4 persons for each 10,000 inhabitants. In the same year there were 20.50 deaths from tuberculosis for every 10,000 inhabitants (33.4 in Viatka, 32.0 in Ufa, 23.5 in Leningrad and 16.2 in Moscow); the percentage of deaths due to pneumonia and diseases of respiratory organs is also very high—18 for every 10,000 inhabitants (in some towns, like Samara, Tver and Orenburg, even 30 cases). From scarlet fever 6.5 persons died and from suicide 2.47 persons for every 10,000 inhabitants. The number of suicides in the Union is rapidly increasing: in 1923, 2,720 men and 1,545 women; in 1924, 3,258 and 1,800; in 1925, 4,276 and 2,062; in 1926, 4,704 and 2,006; in 1927, 7,606 and 3,356 respectively (for 1926 and 1927, preliminary figures). The Commissar for Health Semashko has written lately an alarming article on the increase of epidemics in Soviet Russia.

Birth control and abortions (there exist practically no legal restrictions for these) have somewhat lessened the birth-rate, but they are practised almost exclusively by the population of the cities. The sharp decrease of the death-rate resulted in an astonishingly rapid increase of population (21.9 against 16.9 per 1,000 inhabitants in pre-war time). The number of marriages has increased (10.3 marriages for each 1,000 inhabitants in 1927 as against 8.2 before the war) as a result of easier divorce. For the same reason divorces are comparatively numerous (2.7 for each 1,000 inhabitants in the European part of the Union and even

3·1 in the European part of Russia proper). In pre-war Russia divorces were very difficult to obtain; among the peasantry divorces were hardly known. Now each party is absolutely free at any moment to get a divorce by a simple declaration at the registrar's office, even against the will of the other party and in spite of the fact that there are children (alimony will be usually paid in the latter case).

According to the census of 1897 in pre-war Russia out of each 1,000 inhabitants 771 belonged to the peasant class, 23 to the Cosacs (as a rule they were simple peasants living in the south of Russia and Siberia and having some special rights and duties of a military character), 15 belonged to the nobility and the State officials, 5 to the clergy, 5 to the merchant and industrial class, 107 to artisans and the lower class of urban population, 66 to natives of Asiatic origin, 8 to other social classes.

The same census revealed that out of each 1,000 inhabitants, 746 were engaged in agriculture, forestry, fishery and hunting; 96 in industry; 14 in administration, justice and police; 10 in Army and Navy; 6 in religious cults; 46 in private service, commissioners, servants; 18 rentiers and pensioners; 16 transport service; 38 in commerce; 10, all other occupations.

The census of 1926 was based on quite a different system of registration, and, besides, it is difficult to compare the items: the economic situation changed rapidly in the beginning of the twentieth century. The census of 1926 reveals that of the total of 82,529,000 persons engaged in occupations, 71,566,000 are engaged in agriculture (86·7%), 2,791,000 in industry (3·4%), 1,861,000 in petty industry, 363,000 in building industry, 1,293,000 in transport service, 1,155,000 in commerce, 1,890,000 in administration (2·4%) and 1,610,000 in other occupations. The agricultural character of the country is therefore evident.

According to a special investigation by a Government committee based chiefly on taxation reports, the class structure of the Russian nation in the year 1926-27 was the following:

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Total population	148,069,000
(A) <i>Agricultural population</i> (with chief revenue from agriculture)	112,723,000
1. Peasant tenants	108,010,000
(a) Poor peasants ¹	21,106,000
(b) Middle peasants	81,045,000
(c) Well-to-do peasants (hiring agricultural labour and possessing agricultural implements worth over 400 rubles per farm)	5,859,000
2. Peasant labourers and servants	4,713,000
(B) <i>Non-agricultural population</i> (with chief revenue other than from agriculture)	35,346,000
1. Proletarian population	24,005,000
(a) Working class	11,574,000
(b) Officials and employees	8,369,000
(c) Occasional labourers	943,000
(d) House servants	353,000
(e) Unemployed	1,572,000
(f) Pensioners and holders of scholarships	1,194,000
2. Non-proletarian workers	6,913,000
(a) Artisans (with no hired labourers)	5,793,000
(b) Liberal professions	506,000
(c) Other	614,000
3. Small capitalists and artisans hiring labourers and small merchants with no hired labour	2,421,000
4. Bourgeois class	284,000
(a) Merchants and industrialists hiring labour	179,000
(b) Wholesale traders, rentiers and owners of larger industrial plants	105,000
5. Other non-agricultural population	1,723,000

The agricultural character of the country is evident from this table too, especially if we take into consideration that among the "artisan class" (2, a) are included 3,615,000 members of artisan families living in rural districts and usually deriving a substantial part of their income from agriculture as well.

The terrible illiteracy of the Russian nation is well known. The census of 1897 has shown that only 211 persons out of 1,000 could read (293 among men and 131 among women). Even eliminating children below 10 years, the number of literate persons was only 27% (in European Russia only 30%). Substantial improvement had been achieved in the years immediately preceding the Great War. The laws passed by the Duma a few years before the war guaranteed the possibility of universal education, and every school

¹ *Vis.*, (1) who have no cattle of their own and cultivate less than 11 acres of land, and (2) 50% of those who having no cattle cultivate 11-16 acres, and (3) those possessing one beast and cultivating less than 3 acres.

district received appropriate school grants from the State Treasury for the teachers' salaries and for the erecting of school buildings.

According to the census of 1926, 70% of the men and 57% of the women among the urban population and 46% of the men and 23% of the women among the rural population could read (51% and 29% respectively for the whole country). The civil war is responsible for the increase of illiteracy. In the year 1926 only 68% of the boys and 49% of the girls of the age between 10 and 14 could read, whereas in the group between 15 and 19 years there were 72% of males and 53% of females, and in the group 20-24 years, 81% and 53% respectively literate people; these obtained their primary education before the revolution. Those of the age of 23 years at the time of the last census (December 17, 1926), who obtained their primary education just before the war, show the highest figures of literacy, namely, 84% for men and 53% for women. Children born during the last year of the Tsarist regime and attaining the age of 10 in 1926 were much below the average as far as literacy is concerned, 57% among the boys and 44% among the girls; and at the age of 14 (in 1926) only 71% among the boys and 50% among the girls were literate.

No doubt great efforts are made by the Soviet Government to increase literacy. Nevertheless, the chief endeavour is made simply for political training and communist teaching. Besides, it is laid down that instruction be given in the language of the respective nationalities (*e.g.* in the Tartar language for children living in the Tartar region), and there are great difficulties in preparing teachers and books in native languages. In the Ukraine, for instance, the Russian language will hardly be understood in a few years, whereas the Tsarist Government aimed at and practically achieved a knowledge of the Russian language by almost all peoples living in the Russian Empire. In the Ukraine even professors in the Universities are ordered now to teach only in the Ukrainian language—a rather poor language created somewhat artificially. (It is not exactly the language spoken by the peasantry of the Ukraine.)

The schools in the cities are overcrowded, and in many places the children are using school buildings in shifts: the elder pupils are taught in the evenings only, because there is insufficient accommodation for all simultaneously. The preparation of new contingents of teachers is inadequate, and it is very doubtful if, with the present low salaries and political pressure, a sufficient number of fully prepared teachers will be available in the immediate future.

It is expected that in Russia proper universal education will be possible about the year 1933-34 (in towns it will be secured about the end of 1930), in the Asiatic republics about the year 1940. The so-called "Izbachitalnya" (village reading huts), of which about 23,000 operate, special small popular libraries, trade-union libraries, schools of "political ABC," schools for liquidation of illiteracy, are important weapons for political agitation.¹ A tremendous amount of literature is issued every year for purely political purposes. Marxian doctrine, materialistic background and communist conceptions are required, and no other tendencies are allowed by the censorship in all political, economic, social, historical, literary, pedagogical and kindred publications. Religious writings are not permitted, and the atheistic Press is encouraged.

Practically the whole Press of all kinds is in the hands of the Government and strictly supervised by the communist censors. More than 600 newspapers with a circulation of over 8,000,000 copies are issued, and all are communistic. It is contended that in 1925 Soviet Russia issued 23.3 million publications in comparison with 31.6 million in Germany, 13.2 million in Great Britain and 9.6 million in U.S.A. In 1927 non-periodical publications absorbed 1,421 million sheets of paper. But large quantities remain unsold in spite of the comparatively very cheap prices. Millions of rubles are spent by the Government every year to cover the losses of this tremendous Press. Naturally the radio, cinema and theatres are used for the purpose of glorifying the communistic regime. Of foreign life hardly anything is described in the Soviet Russian Press except strikes and

¹ See S. Harper, *Civic Training in Soviet Russia*, 1929.

labour unrest in "countries where capitalists rule," and the fiercest of language is always used against all "bourgeois governments" of the rest of the world.

The teaching in the universities and in all schools is closely supervised by the communist party and the political police. Economics, philosophy, political science and history can be taught in the universities only by communists or staunch Marxians. Special liberally-endowed schools are organized for preparing communist professors and mass agitators. "Militarization of the Soviet Union" being one of the most important aims of the Soviet Government nowadays, not only are great military preparations going on, but in the schools, and especially in the universities, special military training of the youth is carried out. The Soviet Union has a system of military conscription, and the regular army is 562,000 (36% of the army are communists).

In order to prepare communist agitators and propagandists among Eastern nations, special universities have been instituted in Soviet Russia by the State, where hundreds of Chinese, Japanese and other Eastern students get their communistic education (cp. Harper, *op. cit.*, p. 286).

The communist party is not only *the* ruling party, but it is also the only legal party in the Soviet Union.¹ At the beginning of 1917 the Bolshevik party numbered not more than 30,000, and in October, at the moment of the Bolshevik revolution, not more than 200,000. Later, the number of members rapidly increased, but by means of frequent purgings and exclusions the number of members has been kept at a low figure. Now the conditions of admission to the party are made extremely difficult, and even industrial workmen (they are preferred) are admitted only on serious probation. In 1928 there were about one million regular members and 400,000 candidates awaiting admission. In every factory, government institution, rural community or educational institution there is a "communist cell" supervising the work of the institution, transmitting orders of the party and giving information about the affairs in the institution. There are over 43,000 communist cells in the

¹ See Harper, *Civic Training*, Chap. II.

country, about half of them in rural districts. A cell may propose exclusion of any non-party worker from the respective institution, and this decision will be as a rule complied with. The strictest discipline and absolute obedience are required. Ejection from the party has very serious consequences. Communist members enjoy great political privileges, but even a Commissar is not allowed to receive a salary of more than 225 rubles a month (£23, or \$115). However, they get free of charge, or almost so, a room in a sanatorium, theatre tickets, the use of an automobile, etc. Some communists derive a substantial income from literary royalties—and they are rather high—but they are obliged to surrender 25% of this income to the party funds.

The Third Communist International is only one of the institutions of the communist party, and naturally interconnected with the Soviet Government. The severance of these ties is ideologically an impossibility and would be contrary to all the aspirations of the communist teaching. This would be just as ridiculous as to suppose that the Pope should abstain from spreading Catholic Faith in the universe. In the international aspirations of the communistic faith and agitation lies perhaps the most important difference between Communism and Fascism: both apply in their internal affairs rigid measures and ruthless policy, but the international aims of the first and the national ideas of the second alone set them poles apart. . . .

The natural resources of Russia are immense, but unfortunately Russia never knew how to use them properly. Russia is the largest agricultural country in the world, in spite of an unfavourable climate: ¹ 17.5% of the total world's area under wheat, 60% under rye, over 20% under barley and 20% under oats are in Russia. Timber resources are larger than in any country in the world. The forests of Russia cover a surface of over 900 million hectares, of which about 600 million are utilizable. The present output (about 150 million cubic metres in the State forests) is much below the actual possibilities, although in many dis-

¹ Cf. Poletika in *Berichte über Landwirtschaft*, IX. 4, 1929.

tracts the forest fund has severely suffered from abnormal cutting.

The mineral resources of Russia have never been calculated properly. The actual deposits are enormous. The known oil reserves are the richest on the globe and are supposed to contain about 3,000 million tons, or more than one-third of the world's resources; oil-fields have been discovered lately in the Ural region. The known utilizable coal reserves are calculated to contain 400,000 million metric tons, or 7% of the world's reserve; in this respect Russia's reserves are considerably below those of U.S.A., Canada or China, and less happily distributed over the country. European Russia is rather poor in this respect, containing only about 70,000 million tons, almost exclusively in the Donetz region, whereas the famous Kusnetzki region in Siberia alone contains about 250,000 million tons.

On the other side the hydraulic reserves are calculated at 65 million h.p., or about 20% of the world's reserve, and equal to the U.S.A., but they are concentrated mostly in remote regions. Extremely abundant and more happily distributed over the country are the reserves of peat (some 170,000 million tons calculated in 7,000 calories' fuel). Russia possesses large deposits of iron in favourable conditions (for instance, the deposits of some 200 million tons of good quality at a depth of 700 feet in Krivoi Rog in the Ukraine and of some 30-40 million tons at a much greater depth near Kursk). Russia has rich deposits of manganese ore, potassium, platinum, gold, silver, copper, mercury, salt, asbestos, potassium salts, mica, etc.

Still, the fuel problem may offer some difficulties in the more or less distant future. This was markedly the case during the Great War, when vast areas of forest were abnormally cut in the central parts of Russia. The fuel problem has been thoroughly studied since, and the Soviet Government has actually undertaken important measures in this respect, especially in the utilization of peat. Unfortunately, impulsive sentiments rather than economic investigation induced some of the communist leaders (Lenin and Kryshansky) to insist on vast investments in electrification.

Only the future will show if this was not a serious waste of national resources at this stage of economic development of a country with very poor accumulation of capital.

The most unfortunate feature of the pre-war social conditions of Russia was the unequal division of landed property. Unrest and peasant uprisings were of common occurrence during over a century of the Tsarist regime, but they were always ruthlessly subdued with armed force. In 1905 hundreds of the mansions of the nobles were burnt by peasants.

In 1905, in fifty provinces of European Russia, out of the 395 million dessiatines (1 dessiatine is about 2.7 acres), 154 million dessiatines were owned by the State, the Church and public institutions; 139 million dessiatines were owned by peasant communities (consisting of 12½ million peasant farms) and 102 million dessiatines by private owners. (Eliminating the three Northern provinces, where huge State domains were located, out of the 276 million dessiatines, 46 million dessiatines belonged to the State, the Church and public institutions, 131 million to the peasant communities and 99 million to private persons). Out of the 241 million dessiatines of peasant communities' lands and lands in private ownership (139 + 102 respectively), 53 million dessiatines were owned by noblemen, 163 million dessiatines by the peasant class (124 million by peasant communities, 15 million by Cosac peasant communities, 13 million by peasants in private ownership, 11 million by peasant co-operatives), 17 million by merchants and public companies, and the rest (8 million dessiatines) by other classes (clergy, foreigners, lower class of urban population, etc.). In many districts the area of land owned by peasant communities was on the average very small: 4.9 dessiatines for each family in Poltava province, 5.5 dessiatines in Kiev province, 6.3 dessiatines in Tula province, 7.0 dessiatines in Orlov, Kursk and Tambov provinces, etc. Such small areas were not as a rule sufficient, under the existing methods of cultivation, for families of 6-7 persons, as they used to be, and the peasants were compelled to hire, at a

comparatively high price, land from the neighbouring noblemen. This usually provoked dissensions between the parties.

The Duma, the first Russian parliament, proposed partition of the vast domains of the nobility, with compensation of the owners, for distribution among peasants, but in vain; the Tsarist Government dissolved the democratic parliament and altered the election law. In order to obviate the agrarian trouble, the laws of 1906 and 1910 were passed by which it was intended to create a large class of small peasant proprietors.

The Government began to sell its domains to the peasantry and aided the purchase of lands from the nobles. The peasants were allowed to demand allocation of allotments out of the community fund as their private property, and the Government greatly encouraged this movement by the law of June 14, 1910.

In a few years millions of peasants became small private landowners, receiving their allotments out of the community fund. On the eve of the Great War about 3 million peasant families were granted allotments in private ownership, involving about 26 million dessiatines of land.

Nevertheless, the economic position of the peasantry was unsatisfactory. Under the existing methods of cultivation great masses of them lived in constant distress. Insufficient produce (the *per capita* value of agricultural production of the rural population in Russia was only about £6 a year, in comparison with £40 in U.S.A.), poor implements and hardly any fertilizers, high taxation, heavy payments for land received at the time of emancipation or bought on mortgage, drunkenness, periodical poor crops and famines fell to their lot. It has been calculated that on the average the peasantry was underfed, and the cereal consumption was on the average below normal. The peasant was forced to sell his grain although he had insufficient produce for his own consumption, or else he could neither buy manufactured goods nor pay the taxes. Considering the figures one wonders how the peasants lived under constant under-feeding. But good harvests in some parts of the country enabled collection of considerable "surpluses" in the open market at a time

when in other parts a bad harvest kept the peasantry in a state of semi-starvation.

The whole organization of Russian economics artificially stimulated agricultural export. On the eve of the Great War, out of the total export of £150,000,000, about £102,000,000 represented export of agricultural products. Russia had a heavy foreign indebtedness, and "the transfer problem" necessitated artificial export. The big Russian State debt to foreigners was insufficiently backed by normal assets, only partly so by railroads, and high taxation, mostly indirect, aggravated the situation.

No doubt great improvements in the economic position of Russia were achieved after 1906. The State and the local government undertook important measures for the improvement of agriculture. Over 50 million rubles were spent yearly for the spreading of agricultural education and amelioration; important credit facilities were given and a net of grain elevators erected. Still the land problem remained acute enough. In the years 1912 and 1913 the harvest was much above the average, and a good harvest in pre-war Russia meant great improvement in general prosperity.

Industrially pre-war Russia was very poorly developed. After 1906, however, a great change began, and a considerable influx of foreign capital altered the situation. Before the twentieth century the instability of the currency was a great obstacle to the influx of foreign capital. By means of skilful financial reforms Count Witte stabilized the ruble at the end of the nineteenth century, although it necessitated great sacrifices. The new gold ruble was perfectly stable, and exchange into gold coin was not suspended even during the Russo-Japanese War of 1904-5.

According to a valuable investigation by Mr. Ol, the total amount of foreign capital in the Russian Empire amounted in 1897 (the year of currency reform) to 442,000,000 rubles; in 1900 to 911,000,000 (French 226,000,000, British 137,000,000, German 219,000,000, Belgian 296,000,000); in 1903 to 1,007,000,000; in 1906 to 1,088,000,000; in 1914 to 2,125,000,000, and in 1915 to 2,206,000,000 (French

688,000,000; British 535,000,000; German 436,000,000; Belgian 318,000,000 and American 114,000,000: *viz.* the Singer Sewing Machine Co. with 50 m.r. and the Harvester Co. with 60 m.r.). The chief influx was in 1910-14, and foreigners invested preferably in the mining, oil and metallurgical industries. Russian capital was mostly invested in the textile and food-stuffs production.

Still, Tsarist Russia on the eve of the Great War was industrially a rather poorly developed country. The whole capital invested in all industrial public companies (corporations) amounted in 1913 to only 3,200 million rubles (£330,000,000, or \$1,650,000,000), and the dividend paid to the shareholders was only about 210 million rubles, or somewhat more than two shillings per head of the population. This represented the bulk of Russian large-scale industry; it should be borne in mind because the Bolshevik nationalization of all this industry involved, in fact, a comparatively modest amount of capital (as a matter of comparison, in England, or on a territory some hundred times smaller than Russia, a capital of about £700,000,000 is invested in municipal undertakings alone).

Nevertheless, there was a remarkable development on the eve of the Great War. In 1913, 343 new purely Russian industrial public companies (corporations) were founded with a capital of 501 million rubles, and 29 foreign companies (corporations) with a total capital of 44 million rubles.

The output of coal increased rapidly: in 1900, 16,442,000 tons; in 1909, 26,065,000 tons, and in 1913, 36,295,000 tons. This was insufficient, and 7,672,000 tons were imported from abroad (in 1913 a special law was passed liberating coal for certain purposes from customs duty in order to obviate the great deficit in the supply of coal on the home market). There was a considerable increase of consumption of naphtha oil (1908-09, 3,492,000; 1911-12, 4,508,000, and 1912-13, 4,049,000 tons), and a rise in price. A considerable increase of production of pig iron (1903, 2,462,000; 1910, 3,041,000, and 1913, 4,623,000 tons) was not sufficient to cover the demand of the home market, and the Government permitted import of foreign pig iron in 1911-13 free of duty. The pro-

duction of iron and steel increased considerably (1909, 3,131,000, and 1913, 4,917,000 tons); the production of copper doubled in five years.

The total length of railway line on January 1, 1914, was 67,960 kilometres, of which 47,602 kilometres were State railways; in the last ten years before the Great War the length of railway line increased by 17%.

The average total of foreign trade across the European frontier may be stated as follows, in million rubles :

	Export.	Import.	Balance.	Total turnover.
1899-1903	759	566	192	1,325
1904-1908	981	645	336	1,626
1909-1913	1,423	1,004	419	2,427
1909-1913 ¹	1,501	1,140	361	2,641

¹ All frontiers.

Towards the end of this period there was a considerable increase in the import of raw materials and semi-manufactured goods—an indication of the industrialization of the country. It has been calculated that in 1895-1910 the value of agricultural produce increased from 4,000 million rubles to 9,500 million rubles and the production of manufactured goods from 2,800 million rubles to 4,900 million rubles, but since 1910 the manufactured produce increased very rapidly.

During the Great War Russia experienced two chief economic difficulties, transportation and fuel problems. The railway net of Russia was built chiefly for encouraging export and partly for strategic purposes. The mobilization of enormous numbers of soldiers necessitated a considerable increase of transportation of goods and it practically meant a sudden twofold increase of goods' supply. A peasant in a village consumed his produce at home, but the same peasant as soldier necessitated long-distance transport of food-stuffs and of other goods, by rail.

Especially difficult was transportation of fuel and food-stuffs from the abundant South to the industrial North. Even before the war there was an insufficient supply of fuel

and as we have seen considerable quantities of coal were imported from abroad. One of the most important industrial districts, namely, the Petrograd region and the Baltic provinces, were always supplied with English coal. Simultaneous increase of transportation of fuel and food-stuffs to these remote and industrially and politically important regions presented the greatest difficulties. Large cutting of forests supplied the country with additional quantities of fuel, but there were serious difficulties in the transportation of these enormous quantities of wood from the forests. Horse traction necessitated additional supplies of oats, and rail-transportation of wood fuel necessitated four times the number of carloads required for the transportation of coal. Further, the system of mobilization was unsatisfactory, and very often the highly skilled workmen in vital industries were sent to the front if they happened to come within the younger age limit.

But the most important and peculiar features of the situation were the difficulties of supplying the metropolis and the insufficient supply of food-stuffs and fuel in the Petrograd district. Even in France at this time, under-supply for the population and the consequent increase in prices threatened disturbances.

On the whole, the economic situation of the country was more or less satisfactory during the first three years of the Great War. In forty-six provinces of European Russia ¹ the area of tilled land and the quantity of collected grain did not diminish substantially, and, considering the fall in exports, Russia had a great surplus of cereals in the country, especially if one takes into consideration the fact that the year 1913 was a record year surpassing all former averages.

The rise in the prices of cereals stimulated peasants' production, and in spite of the fact that all adult males were under arms, the remaining women, youths and old men increased their efforts. The peasants' tillage of 1916 shows an increase of 18% over that of 1913. The big landowners, on the contrary, diminished their tillage because of insufficient supply of labour and Government requisitions. How-

¹ Practically all European Russia except parts occupied by the enemy.

ever, in Russia, where there was a surplus of cereals the Government had some difficulties in collecting the grain. The chief reason for this was that the Government was checking prices artificially and requisitioned grain of the big landowners in a haphazard way; the results of this interference were pitiable.

PRODUCTION OF RYE AND WHEAT IN RUSSIA
IN 1913-1917

	Winter Rye.		Summer Rye.		Winter Wheat.		Summer Wheat.	
	ooo dess.	ooo,ooo poods.	ooo dess.	ooo,ooo poods.	ooo dess.	ooo,ooo poods.	ooo dess.	ooo,ooo poods.
<i>European Russia :</i>								
1913 .	22,003	1,210,7	194	9,3	3,888	278,8	15,742	838,9
1914 .	21,764	1,061,5	192	7,6	4,173	228,2	15,675	553,5
1915 .	21,984	1,351,1	203	9,4	4,244	322,3	14,837	650,1
1916 .	19,724	1,110,1	278	10,1	4,697	319,0	11,645	304,5
1917 .	19,732	878,7	215	5,9	4,878	310,9	11,333	333,1
<i>All Russia (incl. eleven Asiatic provinces) :</i>								
1913 .	22,803	1,243,2	744	31,3	3,906	348,0	20,531	1,037,6
1917 .	20,393	915,0	676	31,9	4,882	311,0	16,867	642,9

On the contrary, with regard to the supply of wood fuel the Government avoided fixed prices and compulsory requisitions: the supply of wood fuel surpassed all expectations and the prices of wood fuel were astonishingly low. Large stocks of such fuel fell into the hands of the Bolshevik Government.

Interruptions in the supply of bread were in some industrial towns largely due to the inefficient policy of the Government, and Petrograd felt the ill effects of this more than any other city in Russia.

In other respects Russian economics suffered comparatively little, and the following statistics may be of interest in this connection. In forty-seven provinces the number of horses was (in millions): in 1913, 20.9; 1916, 23.0; horned cattle: in 1913, 30.3; 1916, 37.5; sheep and goats:

in 1913, 35.0; 1916, 61.5; hogs: in 1913, 10.3; 1916, 16.3. The production of cotton was (in million poods): in 1913, 14,351; 1914, 17,298; 1915, 19,886; 1916, 16,186; 1917, 8,635. The production of flax in twenty-six chief provinces (in million poods): in 1913, 36,096; 1914, 26,201; 1915, 22,580; 1916, 23,597; 1917, 21,810 (but the export sharply diminished). Production of coal in Donetz region (million poods): in 1913, 1,544; 1914, 1,684; 1915, 1,627; 1916, 1,744, and in the first half of 1917, 834. Production of naphtha oil (in million poods): in 1913, 542; 1914, 543; 1915, 562; 1916, 594; 1917, 501, and the transportation of oil from Baku was much above the average. Production of pig iron (in million poods): in 1913, 161; 1914, 166; 1915, 173; 1916, 173. Production of sugar (in million poods): in 1914, 93; 1915, 101; 1916, 108; first ten months 1917, 77. There was a mass creation of new industrial enterprises and large issues of new stock of public companies (corporations).

The quantity of goods transported by rail on State railways in European Russia (in billion poods) was: in 1913, 10.8; 1914, 8.9; 1915, 8.4; 1916, 9.7, and on private railways: 4.2; 4.0; 2.3; 2.8 respectively; the Asiatic lines naturally increased their haulage very substantially. The transportation of some commodities may also be of interest (in million poods): flour in 1913, 296, and in 1916, 324; grain in 1913, 844, and in 1916 only 413 (but this is mainly due to the general decrease of exports).

The state of public finance was satisfactory ¹ in spite of the fact that at the beginning of the war prohibition was proclaimed, which abolished the most important source of State revenue, *viz.* the proceeds of the sale of vodka.

The Russian Minister of Finance, Mr. Bark, has been vigorously criticized for this measure at an ill-chosen moment. However, it was as bold as it was useful under the circumstances. Even the first year's budget was balanced remarkably well (see Michelson and others, *op. cit.*, p. 119), in spite

¹ See the new publication: Michelson, Count Kokovzov, Apostol and Bernatzky: *Russian Public Finance during the War* (Econ. and Soc. History of the World War Series). 1928.

of the falling off of revenue from the spirits monopoly and customs duties. The budgets of 1915 and 1916, including all war expenditure, resulted in a deficit of only 382 and 320 million rubles respectively.

The total war expenditure up to 1st January, 1917, amounted to 25,047 million rubles. By means of loans 16,321 million rubles were raised (7,761 million consolidated domestic loans; 2,726 million Treasury bills, and 5,835 million rubles foreign loans). The amount of currency notes had risen from 1,633 millions on the eve of the War to 9,097 millions on the 1st January, 1917. The actual interest paid on the Tsarist loans was 5.318% for the first two loans, and 5.789% for the last loans, which compares quite favourably with France, where the first 5% loan was issued at 5.73%.

Financial conditions were therefore satisfactory, and large borrowing abroad greatly alleviated the financial strain during this period. Taxation might have been increased in a more drastic manner and even made "merciless," as indeed was advocated by Count Kokovtzev, former Minister of Finance. However, there existed some political difficulties in further increasing taxation, and in general the financial situation at this time did not inspire any great fear.

The issue of paper money affected prices till the year 1917 much less than it might have done, because the population, and especially the peasantry, began hoarding notes. At the same time prices differed greatly in different localities, simply because of the difficulties of railway transport. Cash deposits in the savings banks increased from 1,595 million rubles on January 1, 1913, to 3,890 million rubles on January 1, 1917, and deposits in securities from 318 to 1,336 million rubles. Peasants' deposits increased very substantially. The deposits in the State Bank increased from 238 million rubles on July 1, 1914, to 1,795 million rubles on January 1, 1917, and the deposits in private banks from 3,591 to 7,566 million rubles.

At any rate it is impossible to attribute the sudden collapse of Tsarism to any difficulties of an economic char-

acter. No doubt Petrograd, the chief political centre, was hit through the difficulties of railway transport more than any other city, and this affected the spirit of the industrial masses. Besides, railway transport suffered terribly as the result of an extremely cold winter at the beginning of 1917.

Great importance in this collapse was attached by "public opinion," and especially by foreigners, to the personal conduct of the Tsar and his family, and the Tsarina and Rasputin were considered to be chiefly responsible for what subsequently happened.

No doubt the attention of the upper classes was much more directed to the affairs of the Emperor's Court and to the haphazard bureaucratic nominations (the so-called ministerial "Cheharda," or "Leapfrog") than to the real menace, namely, the weakening spirit of the Army. Successive military mishaps demoralized the Army. And, as always in the history of Russia, military misfortunes proved to be disastrous for the autocratic ruler. The loss of the Crimean War induced Nicholas I to commit suicide. The unfortunate Japanese War evoked revolution, which was suppressed only with the greatest difficulty, and constitutional reforms had to be initiated. The war mishaps of 1916 proved to be fatal to the Tsarist regime.

The Army masses could not understand the aims of the war and its political or national issues. The great political issue which inspired Russian Tsarism for over a century, namely, the capture of the Dardanelles and Constantinople, could not be understood by the masses. Russia was prevented from achieving this aim after her victory over the Turks by the Berlin Congress of 1878. As a matter of fact, the possession of the Dardanelles would have made Russia in military respects the most powerful nation of Europe, because in such a case she could leave unprotected a front line of over one thousand miles in length on the Black Sea, and direct all her human mass on the Western Front. . . .

Such considerations could, however, never inspire the Russian peasant who constituted the mass of the Russian Army, and, moreover, the peacefully-minded average Russian never felt any dislike for the German nation. At the

same time, the Russian soldier underwent the most frightful sufferings and privations in the poorly-made trenches, often being left during three terribly cold Russian winters without sufficient supplies of munitions and even of food-stuffs. . . . The Russian Army suffered on account of its abnormal size, and the sending home of considerable contingents might indeed have strengthened its military resistance. It is said that the Allied military experts were simply horrified at the idea of diminishing the numerical strength of the Russian Army, and no one dared to suggest such a possibility. . . .

The prestige of Tsarism was shaken, and indeed it had no deep roots in public sentiment.

Some patriotic and enlightened intellectuals connected with the Duma and the leading Liberal parties thought that they were able to save the situation. They held that the oppressive measures of the Tsarist regime and the lack of social reforms were responsible for its downfall. They therefore began by proclaiming democratic reforms. Freedom in a country of political slaves was proclaimed at a time when every belligerent nation was ruthlessly abolishing all guarantees of a Habeas Corpus Act and would have mercilessly suppressed all insubordination.

The confusion of minds cannot be better illustrated than by the famous declaration of the Provisional Government of March 16, 1917 :

" (1) An immediate general amnesty for all political and religious offences, including terrorist acts, military revolts and agrarian crimes.

" (2) Freedom of speech, of the Press, of association and labour organization, and the freedom to strike, with an extension of these liberties to officials and troops in so far as military and technical conditions permit.

" (3) The abolition of all social, religious and national restrictions.

" (4) Immediate preparations for the summoning of a Constituent Assembly, which, with universal suffrage as a basis, shall establish the Government regime and the constitution of the country.

" (5) The substitution for the police of a national militia, with elective heads and subject to the self-government bodies.

" (6) Communal elections to be carried out on the basis of universal suffrage.

" (7) The troops that have taken part in the revolutionary movement shall not be disarmed, but they are not to leave Petrograd (!!).

" (8) While severe military discipline must be maintained on active service, all restrictions upon soldiers in the enjoyment of social rights granted to other citizens are to be abolished.

" The Provisional Government adds that it has no intention of taking advantage of the existence of war conditions to delay the realization of the above-mentioned measures of reform."

The situation became impossible, and the War Minister Guchkov and the Foreign Minister Milyukov resigned on May 13, 1917. The Government had not even time to devote any attention to economic and financial problems. The financial position became especially acute, but those responsible tried to elaborate "democratic" financial measures and hoped to increase revenue and to improve the situation by proclaiming State monopolies on sugar, grain, tea, coffee, matches, cheap tobacco, etc. In the meantime currency depreciated by leaps and bounds, and a corresponding increase in the existing excise duties might have had some practical effect.

Paper money issue remained the only possible expedient. Instead of the 1,633 million rubles of notes in circulation at the beginning of the war there were 9,097 million on January 1, 1917, 9,950 million on March 1, 1917 (the time of the fall of the Tsarist regime), and 18,917 on October 23, 1917 (last return of the State Bank on the eve of the Bolshevik revolution). The Provisional Government during eight months of its existence issued more paper notes than had the Imperial Government during more than thirty months from the outbreak of the war. But now inflation had a much more disastrous effect, because the population began to distrust hoarding, and many invested their savings in foreign currencies or succeeded in sending them abroad. It was a great marvel that the "Liberty Loan" of the Provisional Government issued on March 27, 1917, was more or less successful; it was backed by many liberal-minded rich circles and also by the intelligentsia.

The gold fund, which at the beginning of the war was 1,631 million rubles (£172 million), had diminished to 1,475 million rubles by January 1917 (mostly because of the cession of a part of the Russian gold reserve to the Bank of England), and to 1,295 million rubles on the eve of the Bolshevik revolution. By this time (October 1917) the pre-war debt amounted to about 8,600 million rubles (£905,000,000), of which about a half was due to foreigners, viz. 3,000 million rubles to France, 200 millions to England, 500 millions to Germany and 430 millions to Holland.

Foreign loans for war purposes amounted to 8,070,000,000 rubles (£850,000,000).

The attempt of the Provisional Government and of its head, Mr. Kerensky, to carry on war against Germany failed, and the Army refused to attack. In Petrograd the Government was under constant menace from the garrison which helped its accession to power and from the dissatisfied labour masses. The Government tried to convince them by peaceful measures. On the other hand, the headquarters of the Army and the Staff in general were against all these concessions. In a country like Russia, where for centuries all governmental power had been concentrated and the vast peasantry were perfectly indifferent to all political problems of the Central Government, everything depended on the attitude of Petrograd and perhaps of Moscow.

So it happened. The Bolshevist *coup d'état* was achieved in Petrograd by means of the mutinous garrison. The slogan for "peace with no annexations or indemnities" proved to be very popular among the dissatisfied masses. In Moscow the gallant resistance of a small detachment of "loyal troops," mostly cadets of the military school, was broken very soon, and on the 25th of October by the old calendar (7th November by the new one), 1917, Russia became Bolshevist. The "people" did not show much interest in the change of Government which had taken place.

Lenin and his friends were hardly prepared for the great task of ruling Russia, and no doubt they did not expect that power greater than that of an autocratic Tsar could so soon and so easily fall into their hands. They were successful with their slogan of "peace with no annexations or indemnities," and they knew too well that the whole peasantry would bless them if they would proclaim annexation of the lands of the nobles for the benefit of the peasants. Indeed, nothing dearer and more feasible existed in the eyes and imagination of the Russian peasantry. The peasants' sympathies had to be bought, or at least it was necessary to secure their non-intervention !

Thus it was natural that on November 8 the Bolshevik Government issued their land decree, in which they proclaimed the division of the landed property of non-peasant classes. As might be expected, the effect was tremendous; millions of peasant soldiers at the front and peasants living in the cities, men and women, fled home "to divide land." . . . Everybody feared to be too late for the opportunity, and many perished in the tumultuous flight to villages.

On November 11 appeared a decree satisfying the labourer: an eight-hour day was proclaimed. A "declaration of the rights of the peoples of Russia" on November 22 was a natural expression of a revolution.

Something more feasible for the idea of Socialism had to be done, and the Bolshevik Government proclaimed on November 29 a "Worker's Control of Industry." Still, nobody knew what was to be done after this, and on December 1, the Supreme Council of National Economy was instituted to solve economic problems.

It was a very widely accepted principle that in modern capitalistic society everything depends on the power of financial capital or of the banks. Naturally, by the decree of December 27 nationalization of the banks was ordered.¹ By the same decree, and by that of January 21, 1918, all former State loans were declared to be null and void.²

It was only with the decree of January 3, 1918, that the Bolshevik Government conceived the necessity of maintaining their power by instituting the first revolutionary tribunal. The decree of February 3 ordered organization of the Red Army, and Trotzky should be credited with the creation of this powerful weapon. No doubt the war stores left by the former Army were immense, but the skilful *political* organization of the Red Army, with its system of political agitators and leaders and its ruthless methods, was his special achievement.

¹ The total balance sheet prepared by Soviet banking experts shows that 12,669 million rubles of bank assets were confiscated by this decree.

² The financial policy of the Soviet Government till 1921 was described in a special pamphlet (in English and German) prepared for the Third International by the Commissariat of Finance in June 1921.

On February 26 the American Embassy left Petrograd; nevertheless, President Wilson's congratulatory telegram of March 11 convinced the Bolshevik leaders that foreign nations acknowledged them. . . .

On March 6-8, 1918, the "VII Congress" of the Bolshevik party proclaimed a new name for themselves; henceforth they were to be called the "*Communist party*," and the name "*Bolshevik*" acquired in the mouths of non-party people even a contemptuous significance. . . . *Noblesse oblige* and the "*Communist*" party began to put Socialism and Communism into practice.

In April 1918 a special "Council of Bank Experts" was instituted, to elaborate a project for financing State industry and trade, for the nationalization of all industry, and for making trade a State monopoly. On April 2 all kinds of insurance were subjected to Government control, and on April 12 all Co-operatives and their numerous stores were made part of the Government trade apparatus. A decree of April 22 declared all foreign trade nationalized. On May 1 abolition of the right of inheritance was proclaimed. After the establishment of a State grain monopoly, State monopolies of tobacco, rubber, tea, coffee, textiles, petroleum, nails, agricultural implements, sugar, cotton and hides followed. At last appeared the famous decree of June 30, 1918, on the nationalization of all large-scale industry and commerce.

It was contended that the Government would not have issued this far-reaching decree at this stage, had there been no ulterior motive, such as the fear that Germany might insist upon the restitution of the factories still belonging to her nationals. But, as a matter of fact, this measure constituted one of the central parts of the entire programme of nationalization and it was anticipated by all who knew anything about the intentions of the party. Like the land decree, which was replaced by one of a purely socialistic character on "nationalization of land," the decree relating to workers' control was replaced by one proclaiming "nationalization of industry." The Statute of July 25 regulating the Government statistics attached first-rate

importance to statistics as a method of socialistic regulation.

At the end of 1918 the attention of the Soviet Government was chiefly directed to the war against the White Armies. A state of war was officially proclaimed on September 2, and the Red Terror began its terrible reign on September 10, 1918. By the decree of October 3 the Red Army was to be increased to three million soldiers, and a few weeks later the "Council of Labour and Defence" was instituted, in which Trotzky played the leading rôle.

However, the adoption of socialism went on. On November 2, 1918, compulsory membership of Co-operatives was ordered and everybody had to receive his ration at the respective co-operative store. In December 1918 a Code of Labour was issued. Labour was declared to be a public duty; it was proclaimed that in the new State the workman had a right to get his "labour ration" and not "wages," which were an attribute of the capitalistic regime. "Equal remuneration for all workmen," this was the slogan, and there was to be no difference in the remuneration for skilled and for unskilled labour.

In order to root out all well-to-do peasantry, who were considered as natural enemies of a socialist regime, it was ordered by the decree of June 11, 1918, that there should be organized in all villages "committees of poor peasants" to expropriate the rich peasants: two years later hardly any peasant holding of more than 24 acres was left "unexpropriated" in the regions under Soviet rule. . . .

These socialistic measures produced a collapse of the whole economic life of the country of the Soviets. The town population starved. Some people begged the Government to permit private trade in food-stuffs as a means of preventing starvation, but in vain. Lenin himself declared in an article in the official *Izvestiya* of February 15, 1919, that private trade in food-stuffs was impossible, because it would restore the rule of the capitalists. . . .

Naturally, underfed workmen could not work efficiently, but with the abolition of differentiation in the remuneration of skilled and unskilled workers all skilled labour broke

down.¹ In 1919 the Government mobilized millions of workmen and subjected them to military rule. They were mobilized for the transport of wood fuel, and in order to increase their zeal they were paid in salt, which could not be otherwise obtained.

It has often been contended that the system of "War Communism" (as it was later called) was a cruel necessity because of the war and the blockade. This excuse is a much later invention, of the time when the Russian socialistic experiment had failed. As a matter of fact, the foregoing enumeration of the Government measures shows that they represented a systematic application of socialist ideas in practice. It would have been, for instance, much more natural and expedient simply to have removed restrictions on private trade and to have allowed private initiative,² but the Government ridiculed any restoration of the "bourgeois order."

At any rate, socialization went on unabated for a long time after the lifting of the blockade and the cessation of the external and civil wars, thereby increasing economic difficulties.

The Allied Supreme Council decided to lift the blockade and to renew trade relations with Soviet Russia on January 16, 1920, and a Soviet Russian Delegation of the "*Centrosoyous*" (Central Union of Co-operatives, *i.e.* the central board for distribution of commodities, this being practically one of the Government institutions) visited England at this time. In May a delegation of English trade unions visited Russia, and Comrade Krassin went to England. In July 1920 the U.S.A. Government removed all restrictions in the way of trade with Russia. In August the war with Poland

¹ In 1919 the efficiency of labour was only 22% of the average pre-war efficiency. The total industrial production was as low as 18% of the pre-war production. Consequently the stocks of raw materials amassed before the Revolution were not yet exhausted in 1920. Cp. Kritzman, *Geroicheshiy Period*, pp. 157 and 185.

² As a matter of fact, private initiative could have prevented dire starvation. For instance, in the supply of wood fuel the Government was able to procure through its own organization only 10% of the wood cut in the forests in a period of over two years. At last, in January 1919, the Government allowed the rest to be procured by the private initiative of consumers, and they managed to procure nine times greater quantities in six months.

came to an end, and the Russo-Polish Armistice was signed in October 1920. On November 9, 1920, the last "White General," Wrangel, was defeated in the Crimea and practically the civil war then came to an end. Bela Kuhn, the former Hungarian Communist Premier, began to order the wholesale execution in the Crimea of all anti-Bolshevists who were unable to flee or really believed in the sincerity of the Soviet posters proclaiming an amnesty. . . .

Nevertheless, so-called "War Communism" continued unabated. A decree of October 11, 1920, abolished all payment for State services and for commodities supplied by the State and local institutions. By this measure the Government initiated the total abolition of all the remnants of the capitalistic "money circulation." Orders were given to invent new methods of registration of production in "units of labour." And, in fact, a special committee elaborated somewhat later such a unit called "tred" or "work-unit" (from the words "*Trud*" = work and "*Edinitza*" = unit), representing an average time of work. A decree of November 29, 1920, proclaimed expropriation of all small-scale industry of artisans not yet nationalized definitely (the industrial census of 1920 registered 37,000 State enterprises with about 2,000,000 labourers; one-seventh of these enterprises had one labourer only). A decree of December 13, 1920, abolished the financing of "Co-operatives" (distributive organs of the Government), and on February 4, 1921, the Council of the Commissars ordered that from June 1, 1921, no further credits should be given to them: it meant that all distribution of commodities should be done strictly according to the budget plans of the Government. A decree of February 22, 1921, organized the State Planning Committee, *i.e.* the highest government institution for all planning of national economy. The famous Electrification Plan, embodying bold ideas of a highly electrified socialist country, was solemnly promulgated by a decree of December 22, 1920.

On January 3, 1921, appeared a decree ordering confiscation of all larger amounts of cash in private possession (there existed a former decree which prohibited the hoarding

of cash equal to more than twenty times the lowest monthly wage in the respective locality). This was a logical consequence of the abolition of money circulation.

Here it may be mentioned, that a special congress of workers of the Commissariat of Finance had already passed in May a resolution that in order to abolish money economy, all taxation should consist in requisition of produce in kind and in compulsory service for the needs of the State. On February 2, 1921, in the official *Investiya*, the decision of the Government was promulgated by which a suspension of all kinds of taxation was proposed, and the Commissariat of finance ordered immediate repeal of all tax collections. As a matter of fact, money circulation was so thoroughly abolished and socialization so universal that in the State budget of 1920, amounting to 1,215,159,000,000 paper rubles, the yield from direct taxes was shown at the insignificant figure of 20,000,000 paper rubles and from indirect taxes at 356,000,000 paper rubles; or, in other words, the whole budget by 1920 registered simply entrance and discharge of commodities in money valuation, as practically no actual payments or receipts in cash existed.

Thus, at the end of February 1921 socialization was complete. No private trade or private industry was allowed. The peasants were compelled to surrender to the State all surplus of their production over the necessary minimum for their own consumption, and armed detachments of State collectors requisitioned all surplus. The socialistic State would not allow any private exchange between the peasant producer and town consumer. "Bagmen" (viz. "bootleggers" who carried *food* in bags) were declared to be the worst enemies of the nation, and it was ordered that their loads be confiscated; in case of resistance they were ordered to be shot on the spot without trial. Everywhere were armed pickets of these merciless confiscators. Nobody was allowed to travel by rail without a special permit from the authorities, but all travelling was naturally free of charge, as also in this socialistic period were all other services of the State; under the most fictitious pretexts people procured such permits and . . . smuggled food; others travelled

surreptitiously or climbed the buffers and roofs of the waggons. Thousands perished in these attempts, and all kinds of diseases were contracted in infected waggons, for ordinarily only goods waggons were employed, and people were transported like cattle. Innumerable gramophones, clocks, garments, gold and silver coins were brought by bagmen into the "khlebny" (rich in bread) villages for barter in exchange for food.

The results of this first socialistic experiment were unbearable sufferings for the population. Russia, the former granary of all Europe, became a country of starvation at a time when crops were good. Never before in modern times had the urban population starved in Russia. The inhabitants of the cities fled into villages for fear of a hungry death. Petrograd lost 62% and Moscow 49% of its former population.

The Government and its spokesmen explained to the population that all these privations were a natural consequence of the "White Guard" assault, of the Allied intervention, and of the blockade. Contradiction or resistance was impossible, and the Red terrorists shot mercilessly all "opponents of the Soviet rule." . . . Nobody dared to criticize communistic order or the wisdom of its introduction in a purely agricultural country. . . .

Suddenly, a complete reversal of economic policy was ordered. The New Economic Policy, the so-called NEP, was proclaimed. As a matter of fact, the NEP meant restoration of those old principles of bourgeois capitalist order which seemed to have been buried in the Union of Socialistic Soviet Republics for ever. In 1920 one would have been shot for uttering the opinion that private trade should be allowed; but in 1921 everybody confessed that private trade was the only solution. The law passed in June 1921 declared that every private trader who paid his licence duty was protected by the State in exercising his profession, and everybody was perfectly free to choose this—almost honourable—profession!

The dates of these developments should be noted. At the end of February 1921 the last remnants of a bourgeois

economic system were abolished and money and taxes were officially proclaimed to be superfluous. A few days later, on March 8-16, 1921, the hastily summoned X Congress of the Communist party resolved to adopt a new economic policy!

What was the reason? The dangerous Army rebellion in Kronstadt, which broke out on March 2, 1921! Even in the strictly supervised Army great dissatisfaction became manifest with the economic situation and with the oppression of the peasant and the endless requisitions. Bad crops for the first time threatened to imperil all this artificial communistic building. . . .

However, the leaders of the party themselves could not make up their minds what measures should be adopted. They knew only that in the first instance something had to be done to appease the peasantry. Thus, a special decree was promulgated on March 21, 1921, by which the liabilities of the peasant in paying a tax in kind were strictly limited. Having discharged his tax liability, the peasant was free to dispose of the rest of his produce as he pleased. The dreaded food-pickets therefore were abolished.

The next step was more complicated. The X Congress of the Communist party appointed a special financial committee under the presidency of Comrade Preobrashensky, who had moved in the Congress the revision of the whole of the old economic policy. An official acknowledgment of the failure of Socialism was impossible, and for some time nobody knew what should be done next. The above-mentioned pamphlet on Public Finance prepared for the Third International at the beginning of June 1921, wherein the chief article was written by Preobrashensky, only intimated in vague terms that "the future direction of fiscal policy was not quite clear," and that some changes had to be introduced in connection with the measures proclaimed by the X Congress "partly demobilizing some branches of national economy."

Comrade Preobrashensky advocated in his article an unlimited issue of paper money as a means of getting the necessary quantity of commodities from the peasantry.

Probably never before has there been a more impudent advocacy of government speculation in paper money, and so greatly fascinated was he by this idea that he earnestly recommended it in his article to future communists in foreign countries, and urged them never to hesitate in issuing paper money in order to extract as much as possible of real values out of the population for a Communist government. There might, however, be one difficulty, he said, namely, the difficulty with the printing office. But "in order to diminish the inconvenience of so many noughts, thousands might be replaced with the letter T, millions with the letter M, and so on. Should mathematical signs become insufficient, new ones could be invented"!

This policy of issuing paper money was followed, and in eleven months of the year 1921 notes were printed to the amount of 17,404,000,000,000 rubles (in 1918 only 36,000,000,000 rubles), or about 550 car-loads of paper notes had been distributed among the Treasury offices of the Government. Naturally all the usual consequences of excessive paper currency were immediately felt.

The Government was compelled to reorganize the whole system of public finance. The State budget was reformed on the usual principles of capitalistic countries; a radical system of numerous taxes and dues (including more than a dozen heavy excise duties,¹ was introduced; all services of the State and local bodies were to be paid for; a new State bank for financing the State and private industry and trade was instituted; important measures for creating a stable currency were outlined and a special gold fund was amassed; exchanges were opened; insurance of State and private property from fire, etc. was introduced, and even private banking in the form of private mutual banks (a popular form of bank in pre-war Russia) was allowed. All restrictions on the hoarding of cash were abolished on June 30, 1921.

There is no need to describe all these reforms.² Practically

¹ As a matter of fact an official publication of the Commissariat of Finance suggested the necessity of introducing excise duties on *all* manufactured commodities.

² The monetary reform and all connected questions have been described in English by Profs. Yurovsky and Katzenelenbaum, who were largely

they meant restoration of "bourgeois" economics. As soon as the important concession was made—viz. the right given to the peasant to sell his produce to whom he liked (as otherwise he had no inducement to increase production and the population could again be subject to the risk of starvation)—the right of private trade, private banking and private industry had to follow.

Of course there was the important peculiarity that the Government possessed large industrial plants and shop premises, while private people had no capital whatever and no funds or savings in the private banks. A surprising difficulty arose, as to what prices should be charged for the commodities manufactured in the State factories. Therefore a special "Committee of Prices" was appointed under the decree of August 5, 1921.

This Committee resolved to charge somewhat lower prices for commodities supplied to the State enterprises and somewhat higher for commodities supplied to the general public. As a rule, the cost of production should determine the price to be charged. For some goods pre-war prices and prices obtaining in foreign countries were taken into consideration. Here, a few examples of price-fixing might be given. The price of raw metals was fixed at 20,000 times pre-war price; of nails, etc. 70,000 times (it was contended that efficiency of labour was only 20% of the pre-war level and the labour bill greatly increased cost); of sewing machines, 20,000 times (there existed a large pre-war stock of them and no internal production), or 10,000,000 rubles for each machine; a bottle of white wine, 15,000 rubles; claret, 18,000 rubles per bottle¹; window glass, 150,000 times (3,000,000 rubles per box), because cost of production was exorbitant and the demand enormous: peasants offered 60 poods (1 ton) of grain for a single box, which before the war used to be sold for 20 rubles (£2 only). The price of salt was fixed at only

responsible for these reforms. The fiscal policy of U.S.S.R. has been described by the present writer in German: *Das Steuersystem Sowjet-Russlands*, 1926, and *Die Finanz- und Steuerverfassung d. U.S.S.R.*, Jena, G. Fischer, 1928.

¹ Free sale was again allowed on condition of payment of an excise duty of 15,000 rubles per bottle.

100,000 rubles a pood, because "this would deprive the State salt monopoly of the odious character which it used to have, especially in France, where even so-called 'salt rebellions' occurred." Of ordinary playing-cards the price was fixed at 150,000 rubles, as for a luxury article: "a higher price would be dangerous, because it might stimulate smuggling."

The work of the "Committee of Prices" very soon became superfluous. With the depreciation of currency regulation became difficult. At last, about the end of 1921, the Government ordered that the price charged for commodities sold to State enterprises should be fixed at the cost of production, whereas for private consumers and in the open market prices might be freely increased.

With the NEP all State factories were made autonomous and they had to follow ordinary "commercial principles." In order to avoid competition between them they were united in special "trusts" or combines of different branches of industry. As a matter of fact, these big trusts, embracing as a rule all factories of their trade in the Union or in an Allied Republic, became monopolistic enterprises.

All these trusts received large credits from the State Bank. Later a special State Industrial Bank was formed for financing State industry with short- and long-term credit at a low rate of interest. Inflation was nevertheless freely used for this purpose. At the same time the trusts began hasty selling (*vazbazarivaniye*) of their stocks of goods. They tried largely to increase their funds by this means, but there was a great danger of depriving the open market of the so-called "insufficient goods" (*i.e.* of which no sufficient stock existed), and naturally great speculation developed: goods passed from hand to hand, and not a few persons made considerable fortunes. On the other side, the State trusts often interpreted "conducting on commercial principles" as a licence to extract as big a profit as possible. Being monopolistic and with all foreign competition eliminated by the State monopoly of foreign trade, they could always obtain exorbitant profits. Intervention on the part of the Government became necessary,

and prices were limited of almost all produce of the State Trusts, and especially of those commodities which are supplied to the railways and to other State enterprises. Naturally, great stress was laid on decreasing production costs, and direct orders were constantly given to the Red directors of the various trusts to this end; all newspapers were full of admonitions to this effect; the Control Department devoted chief attention to the problem, and brutally ordered dismissal of all "superfluous" employees, etc. Special premiums were offered to effect a decrease in production cost, and contests for better achievements in this connection were organized between different factories.

It is difficult to say, however, if all these efforts and admonitions were the right thing to do or how far they achieved their end. Admonitions to increase efficiency and to lower production cost sometimes resulted in an overstrain on the workmen, who loyally supported this movement. Considering the comparatively low wages in comparison with those prevalent in capitalistic States and the low standard of living of an average Soviet workman, one cannot help thinking that nowadays the State Red administration exploits its labourers in a very drastic manner. . . .

The development of private trade under the NEP surpassed all expectation. All those who had seen the Russian cities in 1920 and who came back in the beginning of 1922 were simply amazed at the changes. There was an abundance of food in the cities in spite of bad crops, and life had begun to take on a pre-war aspect; thousands of people had returned to city life, and a great shortage of housing accommodation was felt.

In 1925-6 private trade held 43.8% of the whole retail trade of the country, *viz.* 5,155 million rubles out of the total turnover of 11,781 million rubles; in wholesale trade private traders held only 7.1% of the whole turnover. In the second half of the year 1925-6 there were 643,603 trade enterprises, of which 537,936 (83.6%) belonged to private persons, 71,464 (11.1%) to Co-operatives (= State retail shops), and 34,203 (5.3%) to the State; but as a rule these private shops were of the smallest type: 114,321 I-class,

viz. one-man shops; 255,369 II-class, *viz.* small open shops; 145,522 III-class, *viz.* shops with not more than four sellers; 22,724 IV-VI-class, *viz.* shops with more than four sellers and engaging in wholesale trade. The greater number of private shops were trading in food-stuffs, refreshments and tobacco, with next in order of importance textiles and boots.

This rapid development of private trade began to annoy the Government, and crushing taxation, especially for the larger enterprises, and other measures against private capital (see below), were introduced. The result was a sharp fall in the number of such private enterprises which could survive. In 1927-8, out of 630,234 trade enterprises only 467,364 were private, of which 85,204 closed before April 1, 1928. In 1927-8 the turnover of private retail trade was only 3,090 million rubles (23.4%) out of the total of 13,211 million rubles. In wholesale trade the turnover of private trade was only 310 million rubles, or 1.3% of the total. In 1928-9 a further decrease of private trade followed. Of course, this is due to the deliberate intention of the Government, and is the more significant as no legal restrictions on private trade have been introduced since the promulgation of the NEP.

Private industry has never attained any important dimensions. Artisans employing no labourers, or with not more than three labourers, find themselves in a much more favourable position relative to taxation, and their total production now plays a not unimportant rôle in the general production of the country. Great efforts are made to organize the *Kustars* (peasant artisans), and out of about 4,000,000 *Kustars*, 16% are united in producers' co-operatives; these co-operating *Kustars* produced goods to the value of 911 million rubles in 1927-8.

The Government in its decision of May 21, 1928, deploras the fact that the co-operation of the *Kustars* has not been more widespread, and that private capital plays so important a rôle in this connection. Therefore orders are given to redouble efforts for co-operation. To achieve this end, only co-operating *Kustars* are allowed as a rule to get the necessary materials from the State factories (metals, yarn, hides, etc.).

On the other hand, the co-operating *Kustars*, especially those enjoying privileges, have to surrender all their produce to State organizations, thus avoiding the private middleman.

Big private industry did not develop. In 1925-6 only 5,684 private factories with more than six labourers each existed. This was due to the uncertainty of the law, excessive taxation, difficulties in procuring raw materials, high rents, lack of bank credit and perhaps chiefly because of the insecurity experienced by the owner in cases of litigation with his labourers.

State and co-operative enterprises enjoy great privileges in matters of taxation. It has been calculated that for the year 1925-6 these privileges cost the Inland Revenue about 373 million rubles, in comparison with the rates charged to private enterprises: it is now substantially more. The turnover tax alone is much higher for private traders than for State co-operative enterprises, and thus their cost of production is artificially increased. They naturally charge higher prices, and yet in many cases are able to compete with Government and co-operative shops, the reason being that the number of attendants in State and co-operative shops is insufficient. This is done to lower cost, but the public is compelled to waste much time by shopping in the cheaper, yet less efficient, official shops.

A further great blow to private trade and industry was dealt by some Government orders hampering the work of private banks. Private mutual banks were prohibited from paying more than 12% a year for deposits (in some cases 15-18%); and this in a country where private loans upon sufficient security pay as a rule 24-36% a year. On July 1, 1927, there were 289 private mutual banks with a total capital of 14 million rubles, and their balance sheet amounted to 60 million rubles. Lately the number of private mutual banks has begun to decrease sharply. Before the war there existed in Russia 776 private mutual banks with a total capital of about 100 million rubles, and their balance sheet amounted to 899 million rubles.

Thus steadily, without officially proclaiming suspension of the NEP, the Government kills private trade, private

industry, private banking and every form of private initiative by excessive taxation, high rents, multifarious restrictions, numerous evictions and direct persecutions. For instance, children of a private trader are not allowed to enter a university, etc. A private trader is practically outlawed, but he and usually his children are unable to change their occupation because no trade union will accept them as members, and there is no job for any but members of a trade union. Many of them tried to speculate in foreign currencies (this is the only kind of trade forbidden officially; there is always a demand for foreign notes as a means of saving in stable currency), or to bribe State organizations for the purpose of securing goods from the State factories, or to take part in smuggling. Thousands have been exiled for such acts and have lost all their property, and many have been shot by the political police (GPU) without trial.¹ . . .

The great success of private trade at the beginning of the NEP induced the Government and Communist party to keep close watch on the development of private capital. Special investigations have been made to ascertain the capital of the "class enemy of the proletariat," and innumerable measures invented to keep him down. However, the "enemy" does not die, and some of the more successful have boldly invested their savings in Government bonds yielding more than 12% and liberated from all kinds of taxes, or in the State Savings banks, which pay 8% on the deposits free from all taxation, including even the inheritance tax.

The latest and sufficiently trustworthy calculation of the incomes of the "capitalist class" in Soviet Russia for 1926-7 reveals that "small semi-capitalistic proprietors," artisans, hiring labourers, etc. had a total income of 1,035 million rubles, or 427 rubles (£45) for each member of their families a year (about 2s. 6d. or 60 cents a day), and the "bourgeoisie" (this is the very term used in the official table) a total income of 366 million rubles, or 1,290 rubles

¹ At one of the latest trials of this kind a certain Berta Ashman was sentenced to six years' imprisonment for transmitting drafts through the Latvian Legation where she was employed, and Kleiner and Taiz to capital punishment (September 18, 1929).

(£135 or \$661), for each member of their family (about 7s. 6d. or \$1.80 a day). Of this "bourgeois class," "small capitalists" enjoy a total income of 148 million rubles, or 959 rubles per head, and "middle and big capitalists" (there are about 30,000 representatives of this class in Soviet Russia) enjoy a total income of 218 million rubles, or 2,080 rubles (£210 or \$1,066) per head a year.

It should be noted that these figures represent incomes before the payment of taxes of all kinds. These are rather heavy, and on the average the "small semi-capitalistic proprietors" pay 92 rubles per head, or 21.5% of their average *per capita* income; the "small capitalists" 218 rubles per head, or 26.4%, and the "middle and big capitalists" pay 660 rubles per head, or 31.7% of their average income. Thus, if we deduct the taxes, not very much is left for a Soviet Russian "capitalist." . . . It is interesting to note that the "small semi-capitalistic proprietors" paid to the Government in the same year in taxes of all kinds 222 million rubles, or 8% of the total taxation of the country, the "small capitalists" 39 million rubles (including 20 million rubles in income tax), or 1.4% of the total, and the 30,000 "middle and big capitalists" 69 million rubles (including 50 million rubles in income tax), or 2.5% of the total. As a matter of comparison it is interesting to note that *all* State industrial and trade enterprises (including *all* State trusts, syndicates, etc.) paid in the same year in income tax into the State Treasury and local budgets only 94 million rubles!

Out of the total of 2,759 million rubles of direct and indirect taxes, 1,228 million rubles were paid by the agricultural population and 1,531 million rubles by the non-agricultural population; namely, 524 million rubles by the labour class, 366 million rubles by employees, 110 million rubles by other proletarians (servants, etc.), 176 million rubles by artisans, *Kustars* and liberal professions, 222 million rubles by "small semi-capitalistic proprietors," 108 million rubles by the "bourgeoisie," 25 million rubles by other non-agricultural classes. The agricultural population pay on the average (per head) 10.89 rubles, or 9.6% of their income per head, and

the non-agricultural population 43·32 rubles, or 13·7% of their income; labourers, 45·31 rubles, or 13·8% of their income; other employees, 43·76 rubles, or 11·2%. On the average, the agricultural population has a yearly income of 113 rubles (£12, or \$58) per head, and the non-agricultural 315 rubles (£33, or \$160) per head; labourers, 328 rubles, and other employees 390 rubles.

CHAPTER II

PRESENT SITUATION IN SOVIET RUSSIA

FOREIGNERS very seldom understand what is really going on in the vast country of the Soviets. The average traveller hardly ever knows the language. Usually those who arrive prejudiced against the Soviet Government return with the same sentiments, and those sympathizing with the "bold experiment" return enthusiastic. A few weeks, even days, of stay in some Russian towns with round trips in the hands of specially trained guides who are responsible to the political police are considered to be sufficient experience to guarantee the expression of the right opinion on everything in Russia! "Scientific" delegations go round and are duped: the lack of knowledge of the language prevents any study of official publications and the daily Press, and, moreover, the strictest censorship makes the disclosure of unfavourable facts extremely difficult. Interviews with leading communists (for, indeed, any foreigner of standing, or rich business man, or correspondent of an influential newspaper, can easily get an interview with the first statesman of the country) and "candid" talks with non-party officials result in the same optimism. Foreigners forget that all such "non-party" officials are strictly supervised and fear lest the foreigner may later publish an unfavourable opinion! Travellers would do better not to bother these unfortunate people called Soviet "spetzi" (spetz = specialist), but rather give their time to the study of statistics and the Press. The best way would be perhaps to read (or to have translated) the official Soviet Russian newspapers just for a fortnight, and one would get sufficient aversion for the horrible tyranny of the Soviet regime.

To study the economic and political life of another country,

special work in a library is essential. There is a beautiful and almost unique economic library in the Commissariat of Finance in Moscow, with about 200,000 volumes, and with all the new publications and economic periodicals of Soviet Russia and of foreign countries. For years I never saw a foreigner studying there. Foreigners very seldom take the trouble to ascertain if such a thing or such an institution which they admire now existed before. They are naturally amazed at the wonderful museums, the rich collections and the stately buildings. They find the railways cheap and comfortable and the hotels in Moscow and Leningrad quite good. However, they hardly ever know that these excellent railway cars are former "*wagons-lits de la Compagnie Internationale*," now unfortunately not used by the average Russian (at least not by those who pay from their own pockets), because he cannot afford the price, low though it may seem to a foreigner. And a hotel? How many Russians would be in bliss were they allowed to occupy a room in a hotel at their pleasure! Only a special permit of the authorities would prevent their eviction after a somewhat protracted stay, and such permission is very difficult to get.

In ordinary life we understand things only by comparison, and comparisons are impossible for such tourists. A foreigner knows what a Government is: he looks at a Soviet Directory and finds the names of all the members of the Government, except those who actually govern Soviet Russia, *viz.* Comrade Stalin and the Politbureau. Even Soviet "spetzi" cannot understand at times why such and such an order is given by the Commissar or other functionary with whom the day before he might have discussed the question to quite a different purpose. There is surely an order of the "non-governing party authority" behind it all. In every department and institution there is a strongly supervised "secret office" where all secret materials are collected, and through which all secret orders and correspondence pass. No paper with the inscription "secret" may be shown to any official not specially authorized for this purpose with the consent of the political police. On a certain day, usually Wednesday night, all communists of a

department, office, institution or factory have their meeting where current questions are discussed and orders given.

A foreigner is told about elections and the democratic organization of all civic institutions in the Soviet Union; even the exact number of delegates in various civic institutions, *viz.* 1,539,458 local, town, republican and federal delegates in 1927. A foreigner is amazed at this display of democracy. But all elections—if in any civilized country such procedure might be called election—are mass meetings where all candidates are elected by show of hands, and candidates are proposed by the communist “cell.” Nobody dares to oppose, and such opposition would be quite useless. All elections which do not satisfy the party leader or the authorities may be, and in fact are, cancelled. All the “non-working” population, *viz.* traders, ministers, etc., are deprived of the right to vote, as are all “kulaks” (*kulak* means literally a “fist,” and every well-to-do peasant may be denounced as a kulak and deprived of the right to attend an election meeting or to vote in any public institution). Any member of the community may be deprived of the right to vote by the election committee. For instance, a few years ago, when elections to the important house committees (“cells” administering affairs of a house, *viz.* distribution of available housing space, of food cards, etc., registration, and so on) took place, thousands of fully qualified voters were struck from the register at the order of special party emissaries. The remaining minorities elected members designated by the respective communist “cells,” and later no new elections were allowed. All those who were thus deprived of their right to vote have been “reinstated” after having filed a complaint affixing a stamp duty of two rubles! but the “election” has not been cancelled, and communist “majorities” rule as before. Besides, election to the higher grade Soviets (councils) is done by grades, *viz.* indirectly, and by this means the astonishing result is achieved that the ruling Soviets have always an overwhelming majority of communists.

With great pride a communist tells the foreigner that the nation takes great interest in political life, and that there

are 350,000 village correspondents in all parts of the Union sending information as to the needs of the people. This number is not exaggerated, but as to the character of their work, we may guess from the information which from time to time appears in the newspapers. These correspondents are shot or stabbed in a most mysterious way! Just to take one report of this kind which was published in the official Press in April 1929 (in one week several such cases were reported): "Village correspondent so and so has been killed by a shot through the window. The local priest and kulaks have been arrested."

A foreigner is told about the fine organization of all workers in "trade unions": 10,381,400 members were registered on January 1, 1928, in comparison with 693,000 in the first half of 1917 (before the communist revolution). But hardly ever does a foreigner realize that a trade union in Soviet Russia is an institution protecting in the first instance the interests of the State and the State employer and depending, as does everything in Russia, on the communist party. The enormous number of "trade unionists" is quite natural, because otherwise one would experience the greatest difficulty in having one's children admitted to a primary school or to a hospital. Only the production of a trade union card with all fees duly paid (2% of the salary or wages) will give admittance to, or enjoyment of, social privileges of a worker, even in the distribution of tickets to theatres or bread cards, etc. Naturally, every professor in a university wants to be a member of a trade union, *viz.* of the trade union of "workers of education." It is a great calamity if one has not been admitted to a trade union or is expelled from it. A strict scrutiny exists in order not to admit former traders, capitalists, ministers, officers of the Tsarist Ministry of the Interior, etc.; for such may starve! . . . Out of the 10,381,400 members, 2,649,800 are salaried employees of educational and medical institutions and State departments, and 3,618,500 labourers and employees of industrial undertakings (State and private).

The trade unions in Soviet Russia are a useful institution in so far as they reduce the number of dissensions between

the State employer and labourers: they usually persuade, more or less successfully, their fellow-workers to reduce demands in the matter of wages, etc. Many times strikes have been avoided by their intervention. They stimulate efficiency and discipline among workmen.¹ Still, they exercise a severe pressure on labour, and dismissals are effected with their co-operation.

In this respect they care very little for officials and better-salaried employees, who are dismissed in numbers or their salaries reduced. The trade unions order subscription to State loans as soon as they are issued, and this is a heavy burden for members. Besides, all members are invited to pay membership fees for the *Aviakhim* (Society for construction of military aeroplanes and for chemical war), for *Mezhrabpom* (international help for revolutionaries abroad²), and *Avtodor* (automobiles and roads construction). The budget of the trade unions is very large, and they spend huge sums on labour welfare, entertainments, agitation, etc. The personnel of the trade unions is extremely large and forms part of many State institutions.

With regard to the so-called "co-operatives," the foreigner is amazed at the enormous figures: some 136,100 such societies were registered in 1927; the number of members is rather contradictory, *viz.* between 23 and 35 millions (many belong to different co-operatives)! In 1927, 15,687,351 members were registered in consumers' co-operatives, 677,686 in producers' co-operatives, 9,887,534 members in agricultural co-operatives, 8,308,149 members of co-operatives supplying agricultural implements and selling agricultural produce, etc., etc. But here again it should be noted that Soviet co-operation is very different from what is known under this name in Western Europe. Practically the whole State

¹ In an appeal of the Directorate of the Central Union of Trade Unions issued in September 1929, great blame is attached to "common, narrow-guild, trade unionist, small bourgeois moods among the members, and even their leaders, instead of the fundamental aim of the proletariat, namely, the rise of the socialistic industry. . . ."

² Revolutionaries who suffered for the communist cause abroad (for instance, in street fights) or their families get help from Russia out of this fund. Besides, special more or less compulsory collections are made from time to time; for instance, for the General Strike in England. These contributions were deducted from all wages and salaries.

retail trade is entrusted to these organs called "co-operatives." It was mentioned above that at the very beginning the Bolshevist Government simply transformed the former co-operative shops into State shops.

Soviet Russian co-operation is a means of centralizing the whole distribution of commodities and of uniting the small producers in a big centralized apparatus of the State. The distribution of commodities among the population is done through these "consumers' co-operatives." Practically all capital necessary for their functions is provided by the State or is derived from net profits. Almost the whole retail trade of the State is done through this organization (cf. Chap. VI). They enjoy important tax and other privileges (low rentals, etc.) in comparison with private enterprises; small co-operatives (shops) of workmen attached to factories are even free from all taxation. There is naturally some kind of autonomous administration, but all co-operatives are subject to their respective "centres," which are parts of the State organization and, of course, directed by the communist party. The consumers' co-operatives absorb about 60% of the whole retail turnover of the country. It is intended, by greatly increasing the whole distribution work, to monopolize all supply of commodities through this organization. The prices of commodities in the co-operatives are regulated and limited by respective State organs. The co-operatives are under constant supervision of the Control Department and of the "light cavalry" (the incidental party inspectors). Reduction of cost is ordered incessantly.

It is impossible to get a correct opinion on the economic side of this retail trade apparatus of the Soviet State. An important item of cost of production, *viz.* the rentals paid for the premises occupied by the co-operative shops, are artificially low because they get premises at a greatly reduced rent. Very often indeed premises occupied by a private trader are compulsorily taken over by a co-operative at a reduced rent as soon as the private shop begins to flourish. Nobody knows exactly how much they profit from the "differential rent." The co-operatives enjoy extensive credit

at a low and practically "charitable" interest. At any rate, members' fees did not play any substantial rôle in the financing of co-operatives, although members' booklets (= members' fees) are eagerly subscribed for, because usually the most important commodities are sold only to a bearer of a co-operative booklet. Often the use of the booklets has been abused and from time to time people fraudulently producing other people's booklets have been arrested. Others procure booklets in several co-operatives to get the necessary commodities from several places. For instance, cloth is never to be had in sufficient quantities, and people buy a booklet for the sole purpose of obtaining the necessary cloth in the co-operative shop where it happens to be available. Now the membership fee has not only been increased, but a sliding scale is in force which varies according to the earnings of the subscriber. Being in many respects monopolistic organizations, the consumers' co-operatives can artificially increase their profits.

As far as other kinds of co-operatives are concerned, great efforts are made to centralize their activity and to submit them to Government regulation. Special attention is paid to the policy of increasing the rôle of the poor elements in co-operation, and great fear is expressed in the latest official reports that too large a proportion of the well-to-do peasants take part in the co-operatives and influence unfavourably their activity. Special revision of co-operatives is constantly going on, and "false" co-operatives are closed or deprived of the usual privileges. Peasants especially were found to have created irregular or "wild" co-operatives, and in 1928, in one region alone, 17% of the co-operatives were found to be irregular, in that they were employing private capital, and closed.

The efficiency of the work done by the consumers' co-operatives depends naturally on the sufficiency of the supply from the State factories and the food administration. In this latter respect all the difficulties connected with the procuring of grain and other agricultural produce from the peasants by the Government agencies react unfavourably on the work of the co-operatives. Periodically there is an

insufficiency of supply, and large queues form up before the co-operative shops, because people fear to be left without food.

Now consumers' food cards are again introduced in the cities. By this means workmen's families are not only guaranteed larger shares, but peasants who used to buy bread in the towns for cattle-breeding—which was rather profitable—cannot continue to do so. Still, this system of food distribution in the former "Granary of Europe" is a shocking sight, and for a housewife of an ordinary State official these food worries are most unpleasant. For days and sometimes for weeks you get no butter, flour, or cloth, and the usual rations are insufficient. The closing of thousands of private shops increased the inconveniences for an ordinary citizen, because new co-operative shops were opened in insufficient numbers. The insistent order to reduce cost of management results in a reduction in the number of shop attendants. Consequently, customers are attended to in a less satisfactory manner and queues become a daily occurrence. This stupid habit of forming queues is so strong that even outside toy-shops such have been formed, as was pointed out lately in the Moscow Press. Individual requirements are catered for in a poor and inadequate manner, and people "take what is to be had." . . .

A foreigner is told about the "great importance" in Soviet Russian economic life of "goods exchanges." It reminds a "capitalistic-thinking" foreigner of some very capitalistic institutions of the same name. In fact, these are simply branch offices of the Commissariat of Trade, where all contracts concluded between State and co-operative organizations, and with private firms, if any, undergo compulsory registration for better supervising by the Commissariat, especially with reference to maximum prices. These "exchanges" numbered 85 in 1927, but were reduced to 15 next year because of their superfluity, and registration is done in localities where no exchanges exist by the ordinary offices of the Commissariat.

The manual worker is always privileged in comparison with all other classes. Civil and criminal law are more

favourable to him than to others, and class justice, *i.e.* deliberate preference, is a direct prescription of the law. It is hardly of any use for a non-labourer, and especially for a trader, to go to law with a labourer, as the latter is certain to win. Therefore arrogance on the part of the labourers towards other classes is a matter of common occurrence. It is particularly unpleasant for those who happen to have in their flat or house an arrogant communist labourer as a compulsory lodger. There have been cases of suicide among intellectuals who simply could not stand such constant arrogance and humiliation. . . .

Of course, arrogance is not directly inculcated by communist teaching, but the constant flattery extended to the ordinary workman and the important positions held by many "responsible communist workers" who by chance have risen from the bottom make them unusually arrogant to all but communist or other "proletarian" people. Often doctors have been insulted and struck by workmen when they refused to issue a certificate of alleged bad health.

A foreigner is amazed again at the mass-demonstrations by the people. No doubt these demonstrations in large cities, especially in Moscow on the 1st of May or on the 7th of November (= 25th October old style), are genuine and true expressions of the sentiments of the masses. No Government in the world could achieve such a marvel of sending hundreds of thousands of people twice a year against their will for pure demonstration. There is no compulsion to take part in these demonstrations, although a good many non-party officials and workmen join the columns of demonstrators simply because they fear to disclose their antipathy to the communist regime. But even without such bowing to the inevitable, there are enough communists, communist youths and communist "pioneers" (children) who can gather a formidable crowd of many hundreds of thousands, and why should an ordinary workman and his family *not* demonstrate in favour of a Government which gives them all privileges and shows incessant flattery towards them? Flattery spoils even kings, and the Russian workman is taught daily that he is the only creator of all wealth and

everything should be done in his favour only. The *poor* peasant is officially adulated also, but only as a supposed confederate in the fight against the property-loving, well-to-do peasant.

The office workers and the intellectuals are simply a *quantité négligeable*. This is perhaps the most unfortunate class in Soviet Russia. They lead a most precarious existence and are paid very badly. In order to diminish expenditure on administration, ruthless orders have been given by the Government to reduce the number of office workers by from 20 to 50%, and so on. Special committees constantly revise lists of officials and dismiss those whom they consider of less importance or less useful, and there is no end of such wholesale dismissals (*chistka* = "comb-out"). It is impossible to describe how humiliating such procedure is. People are thrown out in masses and are left destitute. Communist party workers are usually not affected—they are simply transferred to other institutions where there is an insufficient number of communist officials—but the rest are treated in a most humiliating manner. The fear of starvation has induced some of these unfortunate people to try to save their position by calumniating their fellow-workers. . . .

Another form of humiliation is the oral examinations in "political ABC." All non-party officials are admonished that on a certain date an examination of this kind will be held. They begin to study feverishly the usual text-books on "political ABC" (outlines in communist teachings on public law, economics, ethics and history), and on Lenin and Marx. Hard oral examination combined with a special scrutiny on the class origin, education and preparedness of the examinee decides his fate. I have by an unlucky chance seen a most humiliating sight when a well-known scholar, an old man over sixty—my former professor in the University whose lectures I attended some thirty years ago—was being examined in political ABC for at least half an hour by three uneducated young communists. . . . I heard one of the questions put to him, namely, "What is now the most important aim of the Soviet Government?" The poor

old man was puzzled and hesitated. "Oh, comrade," said the examiner, "why, don't you know it? Smytchka (union) between town and land" (a common slogan at this time).

One might ask, How is it possible to introduce humiliation of this kind? but such things are ordered by people who themselves have not the slightest culture. . . . Therefore it is possible in the country of the Soviets to order public trial of all professors by their students. In 1929 professors had to report to their classes what they had done for the benefit of the Soviet regime, and if their report was unsatisfactory they were dismissed! One old surgeon (obstetrician) was found "unsatisfactory" because he was "old-regimist" and frequently used the inadmissible word "God." . . .

It has actually happened that a group of communist pioneer pupils (aged eleven to thirteen years) in a Moscow grammar school demanded the dismissal of an old experienced teacher for alleged "old-regimeness," and their demand was complied with in spite of protests by the majority of parents, including myself.

There are about 2,300,000 State officials, office workers and salaried intellectuals (teachers, doctors, etc.). At the end of 1928 the average *monthly* salary of a State official in Government departments in the principal towns was 119 rubles (₤13); in Moscow alone, 144 rubles (₤15); of an official (including judges) in law courts, 88 rubles (₤9); in scientific institutions and universities, 98 rubles; in ordinary schools, 70 rubles; in theatres, 103 rubles; in medical institutions, 61 rubles; postal service, 81 rubles; banking, 109 rubles; customs, 99 rubles. On the average, in all Government service, 91 rubles a month at the end of 1928, 82 rubles in 1927, and 75 rubles in 1925-6. In smaller provincial towns the salaries are much lower. State officials in administration departments, 76 rubles; in medical institutions, 46 rubles; in schools, 54 rubles; in law courts, 56 rubles a month, etc. (1927-8). I quote the latest rates, which represent a substantial increase of 20-25% in comparison with 1925-6.

In rural districts the salaries are even much lower, and a

rural mayor (president of the local Soviet), an important official in local administration, gets only 24 rubles (£2 10s., or \$12) a month; a village teacher about 44 rubles. University full-time professors in Moscow get 140 rubles a month, but many get even less than that. My salary as a University professor was 47 rubles (£5) a month. As a rule, professors occupy several positions at one time, and some of them manage to amass 600-700 rubles (£70) a month. Before the war a University professor was paid about 400-500 gold rubles a month; in some faculties Moscow professors, like myself, received in wages and fees 1,000 gold rubles and more a month.

Only few "spetzi" are paid as high as 500 rubles a month. It should be noted that the cost of living in Russian towns is very high, and in Moscow or Leningrad higher than in any other European cities. Usually a pension is given at old age or disablement. For scholars and those who have rendered distinguished service, the pension is sometimes as high as 200 rubles (£21) a month. In case of unemployment a dole is not always given to State officials, or, if granted, is usually very small. All salaried people are insured against sickness and disablement by their institution. In the Army, salaries are very low too: a platoon commander gets 100 rubles a month, a company commander 123 rubles, and a regiment commander 130 rubles, and in addition a certain quantity of goods in kind (cloth and food). The average salary of a teacher now is about 75% of the wages of an industrial workman; in five years' time it is proposed to raise teachers' salaries to 98% of workmen's wages.¹ The average salary of a doctor will rise from 123 rubles (£13) in 1927-8 to 190 rubles (£21) a month in 1933-4.²

According to a special investigation which concerned 3,288 families of State officials in October 1927, the average food consumption of an adult person contained 3,246 calories a day, *viz.* 114.2 grams of albumen, 73.0 grams of fats, 511.9 grams of carbohydrates. In a year the consumption of an adult person contained 163 kilos of bread-

¹ *Pyatiletniy Plan*, Vol. II, Pt. 2, 2nd ed., 1929, p. 187.

² *Ibid.*, p. 241.

stuffs, 63.2 kilos of meat, 2.4 kilos of fats, 1.8 kilos of vegetable oil, and 17.0 kilos of sugar. Their food contained on the average less calories than the food of workmen's families, where the average was 3,448 calories a month (see below, Chap. V). The quantity of calories in peasants' food consumption is also higher (see below, Chap. III).

The position of the "spetzi" is especially difficult. Very often they hold responsible posts but without actual authority. They are always strictly supervised by some communist, and in case of a failure they are made responsible and sometimes accused of counter-revolutionary action, for which the death penalty may be inflicted. The Shachty Trial, where many highly qualified engineers were sentenced to death or to many years in jail for alleged "deliberate sabotage," is one of the many examples. They were accused of wilful under-production of coal in State mines.

The "spetzi" have to invent very often such devices as are utterly incomprehensible to a normal thinking man, simply because these poorly educated Red directors want something quite extraordinary. The number of hours of work is not limited for a spetz, and he may be summoned at any time because he is paid "above the ordinary rate." He has to take part in endless meetings and discussions.

The greater part of the "spetzi" and ordinary officials work quite conscientiously. Many consider that they are helping to restore their own country and must do it from a purely patriotic point of view. And this in spite of the fact that they are constantly humiliated, and that their children might at any time be refused admittance to the university because of class discrimination, or that they may be dismissed at any moment without reasons being given. . . .

And, above all, the pernicious rôle of the GPU—the political police—must be mentioned. It is omnipotent. It has the right to condemn to death without trial whomsoever it considers guilty of "counter-revolutionary acts"; speculation in foreign currencies may be considered one of such crimes. Everywhere GPU has its spies. All members of the communist party are loyally devoted to this institution of wholesale murder and oppression. The jail of the GPU

is one of the most dreaded for its refined torture. The officers of GPU are strongly guarded and a terrorist act against them means death to many innocent people of the old regime who are held as hostages. Recently a whole group of members of the old Russian aristocracy were shot by the GPU as a revenge for the murder of a chief of GPU, who was killed while in pursuit of white terrorists on the Polish frontier. It should be noted that the members of the Government, and especially their headquarters in the Kremlin (the Moscow Tower), are strongly guarded by special troops. Any terrorist act against them would be revenged on innocent hostages of old regime people. The strictest secrecy prevails about all activity of the GPU.

The State expenditure on the GPU is enormous. According to the budget of 1928-9, the administrative department of the GPU is allowed 50,413,000 rubles, its special military corps 55,380,000 rubles, and the Bodyguard of the Government 9,100,000 rubles—a total of 114,893,000 rubles (£12,100,000) a year.

In spite of all privations Russian scholars manage to do some marvellous work. The devotedness of a Russian scholar to scientific investigation and his self-denial have always been very characteristic. Lately, when at an official meeting of professors, one Russian professor blamed the low salaries and intimated that no teaching should be done unless some improvement were introduced, nobody supported him, and an old professor retorted that never had a Russian scholar cared merely for money. . . . For this reason the greatest museum collections have been preserved by these self-denying people.

A foreigner is shown in Russia many beautiful scientific institutions. Many of them existed before the Red revolution or are scientific departments of the State industry. Some institutions administered by scholars of world-wide renown are endowed rather liberally, and quite naturally the Soviet Government is proud of them. Still, everything that may glorify socialism and Marxian doctrine gets the lion's share and is supported liberally. A philologist, if he bases his teaching on materialism, is exalted.

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Communists and non-communists have nothing in common, and a communist as a rule will not visit the home of a non-communist or have anything to do with him, unless it be a matter of business. A pioneer communist child will not play with a child of non-party parents. Everything connected with religion is scoffed at and persecuted. People may go to church, for religious rites are not prohibited to non-party people, but sermons alluding to politics will not be allowed to go unpunished. Clergymen are constantly exposed to derision or humiliation, and many of them prefer not to wear their robes in public. A communist will be expelled from the party if he should go through a religious marriage or allow his child to be baptized.

CHAPTER III

AGRICULTURE IN SOVIET RUSSIA AND THE ECONOMIC POSITION OF THE PEASANTRY

OUT of the total land area of the Soviet Union of 2,182,132,000 hectares, 175,102,000 hectares are arable land, 36,072,000 hectares meadows, 63,930,000 pasture, 595,844,000 hectares forests and bush-land; 9,107,000 hectares are occupied by farm-houses with adjoining orchards, etc.; 40,131,000 hectares are land suitable for agriculture; 120,105,000 hectares land unsuitable for agriculture; 279,050,000 hectares are unexplored-land and 862,791,000 hectares are uninhabited.

In 1927, out of the total rural population of 25,037,000 peasant farms with a total population of 123,541,000 persons, there were engaged in agriculture 22,984,000 farms with a population of 114,893,000 persons. Collectivist and State farms embrace 690,000 peasant households with a total population of 2,300,000 persons. Individualistic peasantry consisted of 22,294,000 peasant farms with a total population of 112,593,000 persons; of whom, according to official terminology, "purely proletarian" were 1,841,000 peasant farms with 7,255,000 persons; "semi-proletarian," 4,643,000 farms with 18,383,000 persons; 14,914,000 farms with 81,096,000 persons producing agricultural commodities which they partly sell; and 896,000 farms with 5,859,000 persons belonged to the "well-to-do peasantry of small capitalistic character."

According to a special investigation which dealt with over 600,000 typical peasant farms in all parts of the Union, 19·8% of all peasant farms hired labourers, 17·3% hired arable land and 7·2% hired meadows from others (on the average, 2·8 hectares for each farm), 40·2% hired cattle and

agricultural implements (including 24.6% hiring machinery) from others, paying for such use on the average 15.4 rubles a year; 22.9% of all peasant farms were members of credit co-operatives (small peasants' banks) with an average debt of 61.3 rubles per farm; 10.9% of the farms have borrowed from private persons; 6.3% of all these peasant farms had no tillage or tilled less than one-tenth of a hectare; 13.1% tilled less than 1.2 hectares; 17.3% from 1.2 to 2.29 hectares; 17.1% from 2.3 to 3.38 hectares; 13.5% from 3.39 to 4.47 hectares; 16.2% from 4.48 to 6.66 hectares; 7.7% from 6.67 to 8.84 hectares; 3.7% from 8.85 to 11.03 hectares; 3.7% from 11.04 to 17.59 hectares, and only 1.5% of all farms tilled more than 17.59 hectares.

In these peasant farms an average family consisted of 5.1 members, of whom 1.1 members were the actual workers of the family; 13.6% of the farms had no actual agricultural worker among the members of their family. The average area of agricultural land in use by a farm was 6.1 hectares, of which 4.0 hectares were actually sown; meadows in use showed on the average 1.2 hectares. The percentage is very large of farms which have no live-stock, *viz.* 31.3%, and farms which have no cows of their own 23.8%. On the average the live-stock possessed is 1.0 horse and 1.1 cows. More than a third of all farms, *viz.* 34.1%, had no tilling implements whatever, 47.5% had tilling implements but no machinery, and only 18.4% of the farms had tilling implements and machinery as well.

It is reckoned that in 1927 the value of agricultural implements in all farms of the Union totalled about 2,600,000,000 rubles, or 104 rubles on the average for each farm, and the value of the cattle about 8,200,000,000 rubles, or 328 rubles per farm (including 144 rubles the average value of horses).

From one of the latest special investigations of the economic situation of the peasantry for 1925-6, a year of good harvest, we get the following figures concerning 931 typical peasant farms of the Central Black-earth region of Russia, which is a typical agricultural district. On the average these farms had 6.05 persons living on a farm.

Per head of their population they had 1.25 hectares of land, of which 1.07 hectares is their own arable land, and 0.13 hectare hired land; 0.81 hectare was actually sown in that year (including 0.67 hectare sown with cereals); 0.5 hectare was rented to other people. The value of agricultural implements and tools was reckoned at 18.90 rubles per head, and of the cattle, 52.35 rubles. The gross value of their agricultural produce and other income was 107.32 rubles per head (including 62.13 rubles from tillage, 3.98 rubles from meadows, 32.81 rubles from cattle) and deducting expenses (seeds, etc.), a *net revenue totalling 86.90 rubles per head for the year* (about £9, or \$45), of which 63.63 rubles were derived from agriculture, 8.32 rubles from artisan work and 9.42 rubles from labour done elsewhere. Of this income, direct taxes absorbed 1.36 rubles per head. In actual *cash* for produce sold and money wages received these farms *realised on the average 46.66 rubles per head for the year* (about £5, or \$24).

They spent in the same year in cash on the average (per head): 13.85 rubles for buying agricultural produce from other peasants (including cattle and poultry), 6.29 rubles for manufactured agricultural products, 1.43 rubles for agricultural implements and 16.25 rubles for manufactured industrial goods in the year, including 1.10 rubles for clothes, 3.52 rubles for boots, 3.74 rubles for food products, 1.03 rubles for alcoholic beverages, 0.49 ruble for tobacco, 0.62 ruble for lighting. Of manufactured industrial products these farms bought per head a year: 0.32 kilogram of iron plate; 0.10 kilogram of nails; 4.48 bricks; 0.09 sheet of window glass; 3.36 metres of cotton cloth, 0.9 metre of woollen cloth, 9.80 kilograms of salt, 2.45 kilograms of fish and fish products, 0.02 kilogram of tea, 1.11 kilograms of sugar; 0.29 bottle of bitter Vodka (this is used by the peasantry for mixing with the illicit home-made spirit), 0.29 kilogram of "makhorka" (low-grade) tobacco; 3.15 kilograms of kerosene; 13.64 boxes of matches; 1.26 kilograms of ordinary soap.

An investigation of the food consumption of over 17,000 peasant farms in agricultural districts with a surplus grain

production in the autumn of 1927, has shown that on the average the daily consumption of food represented 4,171 calories (*viz.* 136.1 grams of albuminoids, 77.2 grams of fats and 706.2 grams of carbohydrates). On the average the annual consumption per head includes 239 kilograms of bread-stuffs, 41.1 kilograms of meat, 3.6 kilograms of fats, 2.7 kilograms of vegetable oil and 4.3 kilograms of sugar. The consumption of sugar has risen sharply in the last few years, but is still below the pre-war level. The quantity of bread-stuffs consumed on the average, according to the data of October 1927, was the same as in pre-war times, *viz.* 278 kilograms of grain a year (all bread-stuffs reckoned in grain). For agricultural districts with insufficient grain production the quantity of consumed bread-stuffs now is 97% of the pre-war average consumption, *viz.* 233 kilograms of grain in comparison with 241 kilograms according to similar pre-war investigations. Now they consume in these districts greater quantities of milk products and potatoes, and the number of calories is 4,196 a day. It is difficult to give comparable figures for other countries: in 1925-6 an average Frenchman consumed 236 kilograms of wheat and 28 kilograms of rye; an average Englishman 158 kilograms of wheat, an average German 75 kilograms of wheat and 124 of rye; but bread-stuffs do not constitute the chief food among these nations, and in Russia the figures given above relate to the agricultural population only.

We see from these figures that *on the average a Soviet Russian peasant family of six members has a yearly income of about 522 rubles (or £55, or \$280), of which total 382 rubles are derived from agriculture (less 11 rubles paid on the average in direct taxes).* In Ukraine, richer on the average, in the same year an average peasant family had 4.94 members with a total yearly average income of 540 rubles, and in White Russia 520 rubles. It should be noted that the value of their own agricultural produce consumed in their homes was valued at ordinary market prices, and such investigations usually include peasant families rather above the average, where alone such data could be collected with sufficient trustworthiness.

In other words, an average Russian peasant in a comparatively abundant region derives from agriculture in a year of good harvest only about 62 rubles per head a year [382-11]: 6, or 17 copecs (about 4d., or 8 cents) a day, and from all sources about 85 rubles per head or 23 copecs, (6d., or 12 cents) a day. A similar investigation for the whole Union for 1924-5 has shown that in this year a Russian peasant family had from all sources on the average a yearly income of 410 rubles (259 rubles from agriculture), or 69 rubles per head less 3.77 rubles per head for taxes. In this investigation of 1924-5 peasants with no tillage had an average yearly income from artisan work, etc., of 57.39 rubles per head; peasants tilling not more than 2.18 hectares, 74.10 rubles; tilling from 2.19 to 4.37, 66.67 rubles; tilling from 4.38 to 6.55, 65.16 rubles; from 6.56 to 8.74 hectares, 66.68 rubles; from 8.75 to 17.48 hectares, 72.24 rubles; and tilling more than 17.48 hectares, 86.22 rubles per head. The last group paid on the average 9.08 rubles per head in taxes.

The total income from all sources of an average peasant in Russia in 1924-5 was exactly as high as the expenditure of an average Englishman on alcoholic drinks alone, i.e., £6 15s. 3d. in 1927.

The area of tilled land of individualistic, i.e. non-collectivist, peasants in the Union was (in hectares): in 1925, 103,791,000; in 1926, 109,728,000; in 1927, 112,452,000; in 1928, 112,270,000, not including 1,090,000 which perished through the severity of winter. It increased in three years by 8.2%; the total population increased at the same time by 7.2%.

The live-stock on individualistic peasants' farms of the Union was: (1) horses: in 1925, 26,004,000; in 1926, 28,290,000; in 1927, 30,578,000; in 1928, 31,979,000; (2) cows: 27,560,000; 28,844,000; 29,166,000; 29,609,000; (3) sheep and goats: 115,804,000; 123,097,000; 131,335,000; 136,190,000; (4) hogs: 20,939,000; 20,920,000; 22,445,000; 25,233,000.

These figures should be increased by the production on State farms (in 1928, 3,318 farms with 99,258 labourers and

1,400,000 hectares of tillage, 116,020 horses and 58,757 cows), and on collective peasant farms (in 1928, 33,179 farms with a population of 1,972,643 persons and about 1,381,000 hectares of tillage, 110,000 horses and 68,000 cows), but prior to 1928 their production was on the whole infinitesimal.

According to statistical information collected by the Central Statistical Department the total production of cereals in the Union was :

AGRICULTURAL PRODUCTION IN SOVIET RUSSIA

	1925.	1926.	1927.	1928.
Total area of land sown with cereals (000 hectares)	87,155	93,476	95,200	92,447
Average produce of cereals from one hectare (in metr. cwt.)	8.3	8.2	7.5	7.7
Total produce of cereals (in metr. decatons = 10 tons)	7,265,739	7,656,194	7,171,860	7,154,170
Area of land sown with rye (000 hectares)	28,719	28,342	27,958	25,736
Total produce of rye (in metr. decatons)	2,211,423	2,304,237	2,352,662	1,879,738
Area of land sown with wheat (000 hectares)	24,878	29,192	31,258	27,588
Total produce of wheat (in metr. decatons)	2,061,316	2,420,638	2,046,413	2,131,608

The State Planning Committee ("Gosplan") in their publication "Control Figures for 1928-9" (Moscow, 1929) give an interesting comparison of the present production of the Union with the pre-war production on the same territory.

Thus the total area sown with cereals in 1928-9 was only 92.6% of the area in 1913 within the present boundaries of Russia. If we take into consideration the increase of population we see that the total area sown per head is only 83.8% that of 1913. The total produce of cereals in 1928-9 was only 91.3% of 1913, or the per capita production of cereals in 1928-9 is 100 kilograms less than that of 1913.

	Fiscal years.					In percentages of the preceding fiscal year.		
	1913.	1925-6.	1926-7.	1927-8.	1928-9 (estimate).	1926-7.	1927-8.	1928-9.
Total population (in millions)	139.7	143.7	147.0	150.3	153.8	102.3	102.3	102.3
1. Total area sown with cereals (in million hect.)	102.7	89.1	95.4	97.2	94.7	107.1	101.9	97.4
Including:								
(a) Wheat	—	25.5	29.9	32.0	28.4	117.3	107.0	88.8
(b) Rye	—	29.2	28.8	28.4	26.1	98.6	98.6	91.9
(c) Oats	—	13.5	16.0	18.3	17.5	118.5	114.4	95.5
(d) Barley	—	6.3	7.2	6.9	7.1	114.3	95.8	102.9
(e) Maize (corn)	—	5.3	2.9	2.7	4.5	87.9	93.1	166.7
2. Total area sown with industrial plants (in thousand hect.)	5,475	7,132	6,759	7,185	8,501	94.5	105.3	118.5
Including:								
(a) Cotton	701	592	655	752	919	110.6	114.8	122.2
(b) Sugar beetroot	622	534	338	665	771	100.7	123.6	115.9
(c) Oil seeds	4,086	5,940	5,471	5,677	6,720	92.1	103.8	118.4
Including flax	1,857	1,703	1,689	1,687	1,757	99.2	99.9	104.1
3. Total area of other plants (in millions)	8.5	9.7	10.1	10.6	11.8	104.1	105.0	113.9
4. Total area sown	116.7	106.0	112.3	115.1	115.0	105.9	102.5	99.9
5. Total number of horses	35.5	26.0	28.2	30.6	32.0	108.5	108.5	104.6
6. Total number of horned cattle	60.3	59.6	63.0	66.0	66.7	105.7	104.8	101.1
Including cows	25.9	27.5	28.8	29.2	29.6	104.7	101.4	101.4
7. Total number of sheep and goats	122.0	115.0	122.0	131.0	136.0	107.0	106.5	103.8
8. Total number of hogs	20.3	21.0	20.9	22.4	25.2	99.5	107.2	112.5
Total production (mill. tons):								
9. Of cereals	81.6	74.5	78.3	73.6	74.5	105.1	94.0	101.6
10. Of potatoes	29.9	38.9	43.3	41.5	43.6	111.3	95.8	105.1
11. Of cotton	7,437	5,656	5,597	7,187	8,607	99.0	128.4	119.8
12. Of flax fibre	4,537	3,672	3,154	2,918	...	85.9	92.5	—
13. Sugar beetroot	10.9	8.8	6.4	10.1	10.6	72.7	157.8	105.0
14. Oil seeds	2,554	3,446	2,726	3,348	3,367	79.1	122.8	100.6
15. Milk products	26.4	28.6	30.7	31.0	31.0	107.3	101.0	100.0
16. Eggs (in millions)	13,000	8,000	9,000	10,000	11,000	112.5	111.1	110.0
Per head of population: ¹								
1. Area under cultivation (hect.)	0.84	0.74	0.76	0.76	0.75	101.3	100.0	98.7
With cereals only	0.74	0.62	0.65	0.65	0.62	104.8	100.0	95.4
2. Live cattle	0.62	0.53	0.55	0.56	0.57	102.8	101.8	101.8
3. Production of cereals (kilogr.)	584.1	518.5	532.3	489.6	484.4	102.7	92.0	98.9
4. Production of cotton (kilogr.)	5.3	3.94	3.81	4.77	5.60	96.7	125.2	117.4
5. Production of flax (kilogr.)	3.2	2.56	2.15	1.94	...	84.0	90.2	...
6. Production of sugar beetroot (kilogr.)	78.0	61.3	45.2	67.2	68.9	71.0	154.4	102.5
7. Production of oil seeds (kilogr.)	18.0	24.0	18.5	22.2	21.9	77.1	120.0	98.6
8. Production of milk products (kilogr.)	189.0	199.0	208.9	206.3	201.6	105.0	98.8	97.7
9. Production of eggs	93.1	55.7	61.2	66.5	71.5	109.9	108.7	107.5

¹ It should be noted that the Gosplan accepts for 1913 a somewhat larger population than is usually accepted (cf. p. 2); therefore, the per head production for 1913 is, no doubt, under-estimated in this table.

The crops of the year 1913 were somewhat above the average. Even taking for comparison the years 1904-13, the average production of cereals per head was: in 1925-6,

95.8%; in 1926-7, 98.4%; in 1927-8, 90.5%; in 1928-9, 89.5% of the ten years' pre-war average. But the great difficulty is that (according to a computation of the State Planning Committee) *the quantity of cereals actually supplied for non-rural consumption, i.e. sold to the industrial population, is steadily decreasing*: in 1925-6, 498 million rubles; in 1926-7, 538 million rubles; in 1927-8, 463 million rubles; in 1928-9, 431 million rubles (in prices of the year 1926-7), whereas the town population increased exceedingly rapidly. On the other hand, there is an increase in production of potatoes, but this signifies that the peasantry is abandoning production for the market. There is an increase of consumption of vegetable oil (sunflower-seed oil) in comparison with the substantially lower consumption of butter, and this means an increased consumption of lower-grade products.

Later, we shall see that the whole position is greatly influenced by the Government's price policy. The Government tried to keep the price of cereals at the lowest possible level in order to ensure profitable export and lower the cost of living for the industrial workman. Prices were actually lowered in 1926, but this had a disastrous effect in diminishing supply. Although the Government repeatedly declared that prices would not be increased, at last they have, in fact, been raised. The average price paid by the State organizations buying cereals was (the figures in brackets are the prices paid by private buyers), for a pood (36 English lbs.) of rye grain: in 1925-6, 93 (118) copecs; in 1926-7, 72 (110); in 1927-8, 76 (115); in 1928-9, 87 (. . . ?) copecs; for wheat grain: 129 (147); 104 (128); 109¹ (137); 117 (. . . ?) copecs.

In order to fight against the competition of private buyers the transport of cereals by rail from private people was practically prohibited (see *infra*). Naturally, the supply diminished. The peasants began to increase cattle-breeding, applying the surplus grain for feeding cattle, and increased thereby the supply of meat. According to a computation of the State Planning Committee the supply of meat in-

¹ 109 copecs a pood is about 3s. 10½d. (93 cents) a bushel.

creased as follows (in million rubles at the average price of 1926-7): in 1925-6, 472; in 1926-7, 506; in 1927-8, 569; in 1928-9, 591.

The increase in the number of cattle is given in the foregoing table. Although the number of live-stock is increasing, the percentage of increase is falling with every year. But especially characteristic is the sharp decrease in the number of cows in regions with dominating milk produce and an increase of cows where they are used for meat. The rising price in 1929 of cereals may again influence diminishing live-stock. Therefore the positions with regard to milk production and the insufficient supply of butter are considered to be alarming. It is proposed to take special measures, namely, to increase cattle-breeding on State farms and collective farms and conclude contracts with peasants for increased breeding of milk cows.

Thus the peculiar and one-sided policy in respect of prices of cereals not only resulted in a sharp decline of supply of cereals for the consumption of the industrial population, inflicting great hardship on the inhabitants of the cities, but produced a dangerous effect on the character of cattle-breeding and endangered the supply of dairy products.

Peasants resent low prices for cereals, since they are compelled to pay exorbitant prices for all industrial products of State industry, which works with a high cost of production. On the average, in Soviet Russia prices on manufactured goods are 140-150% higher than in Western Europe, and the prices on agricultural products about 25-30% lower.¹ Of course, there existed a very simple method of dealing with the situation, and a very profitable one for the peasant, by allowing free export of cereals abroad in exchange for cheap foreign industrial produce. This would have stimulated agricultural production by the peasants just as it did in 1916, in spite of the difficult war conditions. But the Government rejected all proposals of that kind, abhorring the idea of any concessions in respect of the monopoly of foreign trade on principle, and fearing a diminution of demand for the industrial produce of the State factories.

¹ *Kontrolniye sifri*, 1928-9, Moscow, 1929, p. 280.

Should special expenditure be made now for artificially increasing the milk production on State farms, it would mean simply a waste of State resources. Of course, this would not deter the Government from spending *à fonds perdus*, if some political end might be gained.

A slight concession has been made, and lately the prices on cereals have been raised (about 10 copecs a pood) after long hesitation.

Now, how was it that private traders did not intervene? *Their intervention was simply suppressed artificially.* The first step in the direction of subjecting the peasants' production to State influence was taken by issuing at the end of 1925 an order by which grain and other agricultural produce from private persons was to be ranked in the last category of goods transported by rail, and somewhat later the railway freight tariffs for such private consignments were increased by 50-100% in comparison with what is charged for similar consignments of the State. This meant that a private trader buying grain from the peasant and competing with the State was practically unable to send it by rail because all other goods had preference and he had to wait indefinitely. Usually no shelter is available for private grain on the railway stations. Transport by automobiles is impossible, because private people do not own lorries and are not allowed to buy them abroad. Before this order private grain amounted to 20-22% of all grain transported by rail. At the end of 1926 the transport of private grain amounted to only 1.5-1.9% of all grain transported by rail.¹

On the other hand, the Government ordered nationalization of all private mills, excepting the very smallest peasant mills. Those mills which remained in private possession had to pay a special high duty on grinding the grain of private persons (law of August 20, 1926) and an exorbitant turnover tax of 13.15%, or as high as the tax on luxury articles (order of November 2, 1928). Besides this, private trade in flour pays the exorbitant rate of 12.225% on turn-

¹ In the first quarter of 1928 no private grain was carried by rail; private people forward some oats (14%), hay and straw (32%) and potatoes (31% of all consignments).

over. The same high rate is applied to private persons engaged in pressing oil seeds or trade in vegetable oil. State mills do not accept grain for grinding from private persons. Further, it is prohibited to give any bank credit to private people buying grain and the like.¹

At the beginning of 1927 *the Government succeeded in becoming an almost monopolistic buyer of all peasant grain*, although no direct prohibition of private trade was issued. Private traders who ventured to compete with the Government agents were arrested in large numbers and punished by the political police under the pretext of speculation in the necessities of life.

The maintenance of low prices naturally influenced unfavourably the supply of grain, and the Government had great difficulties in collecting the necessary quantity of grain, in spite of the fact that three years running (1925-7) there was a good or excellent harvest. Export had to be discontinued. The peasant offered opposition and withheld his produce. Some rich peasants withholding large stocks of surplus grain were accused of wilful speculation and molested, although it was against the instructions. Some of them offered their stocks on condition that the Government should sell them a tractor, but then selling agricultural machinery to the richer peasants was contrary to official class policy against the "kulaks." As a matter of fact, in some districts for the use of a tractor collective farms surrender to the State 25% of the collected crops!

Such measures naturally increased the opposition of the peasantry, and more radical expedients had to be invented. These measures consisted partly in supporting co-operation of the poorer peasants and partly in introducing a system of "contracting."

Co-operation of the poorer peasants has for its aim not only the peculiar class policy of creating supporters of the Communist regime among "proletarians," but also the desire to make these masses directly dependent upon the Government. They get agricultural machinery, improved

¹ See P. Haensel, *Die Finanz- und Steuerverfassung d. U.S.S.R.*, 1928, p. 47.

seeds, fertilizers, credit facilities and tax reductions on the understanding that they surrender their produce to the Government. Because of these privileges, great numbers of peasants enter into these agreements, and the "co-operative movement" is rapidly increasing. Naturally there are a good many cases where peasants simply trick the Government, and the Control Department has great difficulty in eliminating "false co-operatives." . . .¹

Sometimes the creation of such privileged co-operatives encounters strong opposition among the "individualistic" peasants, especially when the "co-operated proletarians" demand increased allotments. There have been a good many cases when groups of peasants violently opposed the creation of such collective farms and hindered Government officers in the bestowal of allotments. But such opposition is immediately suppressed. Lately six men and several women

¹ A very interesting fact has been disclosed lately by one of the chief communist leaders, Molotov, in his speech of September 14, 1929: "A collective farm, called 'the Red Meliorator,' with 8,500 hectares of land, existing five years and known to be the best model of its type in all Lower Volga, was by a mere chance discovered to be a fictitious and anti-Soviet-minded collective. Among its members were six former traders, one big house-owner, one inn-keeper, seven kulaks, one former nobleman, one former bailiff of a noble landlord, one former police sergeant, etc. . . . They have mutually borrowed money from kulaks, allowed pasture of cattle of a kulak, rented meadows to a kulak and had an industrial establishment in company with a kulak; even anti-Soviet talk had more or less openly taken place there." These "almost incredible things after twelve years of revolution" were disclosed by a student of the Moscow agricultural school who went there in the summer for practical work and reported these facts to Molotov.

A great number of similar cases have been discovered lately in the Elez district (see *Isvestiya*, September 10, 1929). Usually the peasants are more prudent and the Government spies are unable to discover their real attitude. . . .

It should be noted that no definition has ever been given of who is to be known as a "kulak," and every well-to-do or supposedly anti-Soviet-minded industrious peasant is declared to be "kulak" and deprived of elementary rights. . . . Explaining to Russian readers such German organizations as the *Bauernbund*, etc., the Soviet Press calls them German "kulak organizations."

An Englishman who visited Russia published lately an article in the *Daily Herald*, where he praised agricultural progress on the collective farms in comparison with farms of individualistic peasants. But how could it be otherwise, when millions and millions, credit facilities and privileges, as well as machinery, etc., are given by the State to the "collective farms" in the hope of creating everywhere bulwarks of communism at the cost of the others? . . . On the other hand, it should be noted that the average sown area of a collective farm is only 38.5 hectares, and such a small area makes substantial improvements difficult.

were condemned to jail for from three to twelve months, and fines were levied on others, for opposing the creation of a collective farm. The court of appeal ordered revision of the sentence as being too lenient for "counter-revolutionary agitation against collective farm movement and for class struggle." A law was passed on April 30, 1928 (R.S.F.S.R.), by which allotments *must* be given to peasants' collectives, no consent by the local peasantry being necessary. . . .

The other measure is the so-called "contracting," *viz.* conclusion of special contracts for the supply of definite quantities of agricultural products against payment of more or less large advances. This practice began with contracts of the State trusts with peasants in relation to beetroot, cotton and tobacco; now millions are advanced for all kinds of agricultural produce. It is reckoned that contracts of this kind have been concluded in 1929 with about 7 million peasant farms, and about 300 million rubles have been allocated for this purpose.

Although the whole policy in respect of agriculture in Soviet Russia is directed towards creating socialistic and communistic forms of land cultivation, and war is waged against individualistic peasantry and the so-called "kulaks," still great fears exist as to the possibility of procuring the necessary quantity of grain for the supply of the industrial population.

As a matter of fact population increases with great rapidity, especially in the cities and the industrial centres. The socialization policy of the Government in supporting the rural proletariat is a costly measure; on the other hand, fighting against the well-to-do peasants and the many millions of individualistic peasants diminishes the supply of agricultural products. In many cases the peasantry feels its own class instincts. Lately, when the Government insisted on a special increase of taxation of the "kulaks," hundreds of local soviets reported that they had no such people, but special emissaries of the Government revealed that in every village where no "kulaks" were reported, scores of them in fact were actually found (*Isvestiya*, September 11, 1929). It is at times extremely difficult to overcome the

passive resistance of the peasantry who are not willing to sell their produce at a low price. The peasant "proletarians" gladly accept all the favours of the Socialist Government, but they have no grain surplus and themselves consume any increased output. . . . On the other hand, peasants are none too scrupulous in fulfilling their "contracts."¹

Of course, the supply of grain would have increased had the Government increased the supply of manufactured goods. But this is impossible under present circumstances of insufficient industrial output and incompatible with the big schemes of industrialization. All effort is directed towards increasing heavy industry, and the production of commodities for mass consumption is curtailed (see below, Chap. IV). This was one of the reasons why the Government hesitated to increase prices for agricultural produce, for such an increase would place more cash in the hands of peasants and increase their demand for manufactured goods. The State Planning Committee warned the Government as to the possible consequences. Therefore orders are given to insist on increasing subscription to State loans among peasantry and to exercise greater fiscal pressure.

Naturally, considerable efforts are made to increase the production of cereals by means of improving the technique of cultivation. Important results have been achieved in improving the quality of seeds. During the civil war the quality of seeds deteriorated disastrously, as all kinds of seeds were mixed up. Important and useful agitation for

¹ In the autumn of 1929 the collective farms of the Caucasus had supplied by September 15 only 32% of the quantity of grain contracted for, and many of them began speculating. For instance, the collective farm "Red East" resolved not to supply the grain contracted for and sold it to private persons. The collective farm "Forward" sold not only its grain to private persons, but also part of the agricultural implements received from the State. The Commissar for Trade declared that the Government would apply severe measures against delinquents and bring to trial the chiefs of collective farms "giving up their class position"; in such cases the collective farms may be discontinued. At the same time it is ordered that in no case should collective farms retain greater quantities of grain for the consumption of their members than constitute existing norms of average consumption (*Izvestiya*, September 27, 1929). In the Soviet Press many similar cases are reported. The collective farms of the Central Black Earth region supplied only 20% of the grain contracted for. One collective farm is accused of having borrowed 100 rubles from a "kulak" and of having paid its debt in grain at official (i.e. low) price!

better cultivation (early tillage, etc.) and for the introduction of some neglected special crops (maize-corn, etc.) has been carried out and the supply of fertilizers largely increased. The supply of machinery is increasing every year. A very important and useful measure was introduced according to an order of S.T.O. (Council of Labour and Defence) of September 27, 1927, by which peasants are allowed to exchange poor seed for that of better quality with no surcharge. At the same time fertilizers have been sold at prices below actual cost. A special fund has been created for applying measures to prevent crop failures from drought. Nevertheless, and in spite of the fact that the Government is spending large amounts on all these improvements, the results are not as satisfactory as they might have been, because political considerations (privileged treatment of the proletarian peasantry) dominate.

The Government hopes to overcome the difficulties of procuring the necessary quantities of agricultural produce by creating large State farms of thousands of hectares. American specialists are invited and large quantities of American agricultural machinery are imported. An enormous area is already covered by State farms (about 1,600,000 hectares of tilled land in 1929) and hundreds of millions of rubles have been spent. It is hoped that in 1932 these "grain factories" will be able to deliver about 2,000,000 tons of grain.¹ Some 60 million rubles have been allocated by the State budget of 1929 for organizing new State farms and some 20 million for the improvement of existing ones. Over 360 million rubles are already invested in capital funds of the State farms, and 154 million rubles will be invested in 1929, and, in addition, large credit facilities are available.

Only the future will decide whether this huge investment is economically sound. There are special considerations in creating State farms for sugar beetroot production, partly to counteract the refusal of peasants to supply adjoining sugar factories. So, too, in sheep-breeding, but the new

¹ In 1928-9 the actual production of grain in the State farms of the "Zernotrust" amounted to 115,000 tons. In 1929-30 an area of 2,265,000 hectares will be sown.

huge "grain factories" involve at present such an excessive expenditure of State funds, and especially of foreign assets for the purchase of machinery abroad, that they can never actually pay as capital invested. With a much smaller expenditure and with greater economic freedom the peasantry would have supplied the necessary grain in a much cheaper way by simply increasing their production per acre. However, for the Soviet Government this is a political issue of the greatest importance, and for this reason nothing will be spared and no arguments heard. . . . Up to the present time State farms as a rule have been run at a loss!

In the meantime severe pressure has been brought to bear to induce peasants to surrender all their surplus grain. In addition to the very high taxation of the well-to-do peasants (30 and more per cent. of their income is taken by taxation from a farm with an income of some 2000 rubles), special measures calculated to extract grain from the peasants have been ordered (decree R.S.F.S.R. of September 9, 1929).

In every village a special committee for procuring grain has to be organized, chiefly with the support of local groups of proletarians, *viz.* poor peasants, peasants' co-operatives, agricultural labourers, etc. These committees are obliged "to make provisional lists of well-to-do peasants, indicating the quantities of surplus grain to be surrendered by them to the State, and to submit these lists for approval of the local Soviet." They have also to control the distribution, by sale, through the local co-operatives, of manufactured goods, especially of those available in limited quantities, for the needs of villages and individual peasants, who have surrendered their surplus grain in the shortest time. The committees have to help the local administration in the "mobilization of public masses of peasantry for a drastic fight against the 'kulak' element and grain speculators . . . and to apply measures of public coercion against concealers and wilful resisters and speculators." To pay the peasants higher prices for their grain than that prescribed is absolutely prohibited, and "all, even the slightest, speculation should be radically suppressed."

A circular letter was issued by the Home Commissariat in September 1929 in which the police are ordered to "find out persons wilfully increasing prices of grain or flour by means of concealing its purchase and holding it, and also persons who buy grain in local markets, fairs, etc., and to prosecute them." The police are ordered to levy fines on those individual peasants who resist the surrender of their grain in villages where the local Soviet resolved to help in procuring grain (*Isvestiya*, September 20, 1929). A special order mobilizing all controlling apparatus of the Party and of the State for achieving the full programme of procuring grain has been issued by the Control Department, and war is proclaimed against delinquents. At the same time the Law Commissariat prescribed speedy intervention of the law-courts and the passing of the severest sentences on delinquents (*Isvestiya*, August 30, 1929).

The result of these coercive measures was an outbreak of violence on the part of the peasants affected by this outrageous grain order. The daily Press brings every day (October 1929) news of grain collectors killed or beaten by mobs, or of their offices and collective farms set on fire. In one day there were nine notices from different parts of the country reporting two cases of murder of grain collectors, three cases of their being beaten by mobs, and four cases of incendiarism in connection with procuring grain. In another Soviet newspaper it was reported that in the Briansk district 36 "kulaks" had been arrested for opposing State procuring of grain, and in their homes were found "short-cut" rifles (*obrezy*, viz. military rifles cut short in order to conceal them) and cartridges. In one village a "kulak" set fire to his own seven tons of grain in order to avoid its surrender to the State. A Soviet newspaper telegram says laconically that in connection with procuring grain "a wave of murders, attempts to murder and incendiarism swept over the Krasnoyarsk district."

A communist leader lately remarked: "Class fights in the village develop about collectivization and the procuring of grain. A violent campaign of terror against the leaders of the new culture evolves sometimes in forms which suggest

the Middle Ages. One agricultural labourer who reported where grain of the "kulaks" was hidden has been crucified by them on a tree, and in Bezhetsk district the beastly "kulaks" have set fire to the collective farm and killed an active young communist." And in fact, on October 4, 1929, an "active communist woman was burned to death on a pyre in the Samara district."¹

Unfortunately, all the coercive measures of the Government cannot increase production, and especially the produce per acre, which is a matter of the greatest importance in present circumstances. In the last few years the produce per acre of cereals diminished, *viz.* in 1925, 0.84 metric tons per hectare; in 1926, 0.82; in 1927, 0.76; in 1928, 0.76 and in 1929, 0.77 (estimate) in comparison with the pre-war average of about 0.87 tons in peasant farms. A great part of the agricultural area that was used in pre-war time for production of cereals is now used for production of other crops. In Russia proper only 88.1%, in the Ukraine 83.6%, in the Caucasus 87.2% of the area is now used for sowing cereals in comparison with 1913, although there has been an increase of the total cultivated area (102.1%).² On the other hand, in Turkestan 122.8% is used for sowing cereals in comparison with 1913, because peasants growing cotton fear to be left without a sufficient supply of wheat.

Some of the most important regions for the production of cereals have greatly diminished the acreage devoted to them, like the Northern Caucasus (63.3% of 1913), South Volga region (72.2%), Central Black Earth region (94.6%). They went over to other kinds of produce, especially potatoes. This is due to some extent to the inadequate stock of cattle and machinery, but at the same time low prices and the tendency of the peasants to become self-supporting have a marked influence on the production of cereals. The production of flax is in a desperate condition because of the low price paid by the Government (the production is 1.94 kilograms per head in comparison with 3.2 kilograms in 1913). On the other hand, the production of hemp and of

¹ *Isvestiya*, October 8, 1929.

² By a new decree all increases in area sown with cereals will be exempt from taxation in 1929-31.

sunflower seeds shows marked success and greatly exceeds the pre-war level, because of the comparatively high price and large demand from the private market, mostly from village artisans producing ropes and from private pressing factories. Therefore to fight against the latter the Government has ordered an exorbitant turnover tax for pressing factories. The production of wool is again increasing, but there are difficulties in procuring it from the peasants. The production of eggs, which were an important article in pre-war export, has greatly diminished and is still much behind the pre-war level, chiefly because of the defects of collection by the State apparatus.

We have seen that in 1927 on the average 34.1% of the peasant farms had no tilling implements whatever. This is, however, steadily improving. In the cereal-producing regions in 1925, 37.9% of all peasant farms had no tilling implements, and in 1926, 36.9, including the Lower Volga district with 47.2 and 45.4%, and North Caucasus with 61.6 and 59.3%, in the same years, where the consequences of the famine and civil war are still felt very severely. The ratio of primitive tilling implements (the so-called "*sokhas*" or primitive wooden ploughs) to other kinds of tilling implements (iron ploughs) is very high, viz. 57.4% of the total in cereal-producing regions and even as high as 69.2% in the Rjasan-Tula district, or even 80.6% in Viatka region. It is reckoned that *Russia is still using about five million sokhas*, whereas the State shops had on October 1, 1927, a stock of about 700,000 iron ploughs unsold. The total number of iron ploughs in the country now is about 11.3 millions, and was in 1924-5 only about 9 millions.

The area tilled by means of tractors is about 2% of the total area under cultivation, and on the 1st October, 1928, the number of tractors in Russia was reckoned to be 31,858. Still, this does not fully replace the total loss of traction force (horses and oxen) in comparison with 1916, the year when a census of live-stock was taken. In 1926-7 the supply of agricultural machinery amounted to 154 million rubles.

A remarkable feature of the post-revolutionary period is the great increase of the number of peasant dwellings (huts)

among the rural population. This is due to a marked tendency for the married sons to live apart from their parents, and to the fiscal pressure on large and well-to-do peasant farms. But perhaps there is another equally important cause, *viz.* the large illicit cutting of wood by peasants in State forests, which remain practically unprotected: the peasants cut wood clandestinely and use it for erecting new dwellings. The policy of selling wood at a greatly reduced price to privileged groups of peasants also increased artificially their purchases of wood, partly for speculation, *i.e.* for selling to others at an increased price; lately some preventive measures have had to be introduced to frustrate this.

The expenditure of the State on agriculture is enormous and increasing with every year. In 1927-8 the financing of agriculture absorbed about 601 million rubles, and in 1928-9 about 835 million rubles of State resources, not including administrative organs. The greater part of this expenditure is made for creating new State farms and developing the existing ones, for subsidizing collective farms and peasants' co-operatives. About 51 million rubles were allocated in 1929 for industrialization and the electrification of agriculture, *viz.* for erecting factories using agricultural products (dairy farms, canning industries, bacon factories, mills, etc.). About 330 million rubles are given in the form of long-term and short-term credits through the State Agricultural Bank. The system of "contracting" absorbs about 300 million rubles of recurrent expenditure every year.

On the other hand, there is hardly any revenue derived from the enormous area of agricultural land belonging to the State. The total rent paid to the State for the use of all its vast domain amounts to 13,747,000 rubles only (budget 1928-9). The best agricultural land is given to State farms free of charge, excepting lands allocated to the Sugar Trust. The latter pays for the use of land 8.2 copecks for each 100 kilograms of beetroot supplied to the factories of the Sugar Trust. This payment amounts to 7,780,000 rubles a year. The rest of the revenue (5,967,000 rubles) represents mostly rent

paid by non-co-operated peasants renting meadows and other agricultural land. In the Ukraine all lands belonging to the State have been divided among the peasants or given free of charge to the State farms, excepting lands given to the Sugar Trust. In the Caucasus only pastures in the mountains and meadows are hired for rent. Out of the enormous area of developed agricultural land, about 20,000,000 hectares (equal to about the whole area sown in the U.S.A. with wheat in 1925), in the direct possession of the Government of Russia proper (R.S.F.S.R.), only 8,000,000 hectares are in actual use, *viz.* about 4,500,000 hectares free of charge (by the Grain Trust, Meat Trust, Sheep-growing Trust, etc., and by State departments of Education, Agriculture, etc.), and about 3,500,000 hectares rented mostly by non-co-operated peasants. The average yearly rent is only 1.09 rubles (*2s. 4d.*) a hectare (about one shilling an acre!), and somewhat more for meadows, *viz.* 1.77-3.88 rubles a hectare. For the rest, amounting to 12,000,000 hectares of developed agricultural land (an area half as large as Great Britain), there is no demand at all and it is kept idle.

Analyzing all this enormous State expenditure with practically no revenue coming from it, one cannot help thinking that the "socialization of agriculture" in Soviet Russia is bought at an exceedingly high price and is accompanied with great privations for the majority of the urban population and with a large waste of State resources. The peasantry adapt themselves to the exigencies of the State and take its favours for granted. It is difficult to say how sincerely the "proletarian" peasant masses accept the communistic forms of life. No doubt many of them consider the obtaining of privileges purely as a means of self-enrichment in an entirely individualistic sense, as a means of enriching the poor at the expense of the rich. The erection of huge State "grain factories" in a country of over 20,000,000 peasant farms which wilfully reduce their grain production because they are artificially prevented from free disposal of their produce, is economic nonsense . . . All coercive methods of obtaining agricultural products at a low price and a monopolized supply of manufactured goods at a high price is simply

hidden taxation in addition to open high direct and indirect taxation of the peasantry !

Can such a system go on? I do not see any reason why it should not, unless the peasantry conceive that the continuation of such a system is less profitable than free production and free trade, and are able to offer opposition to the armed force of the State. The rapid increase of rural population may increase economic difficulties, if a sufficient absorption of superfluous population by increasing industry cannot be effected, or if emigration to Siberia and other places from the over-populated regions of European Russia prove inadequate. The class struggle between poor and well-to-do peasants¹ may divert attention from controlling Government action, and the Government may rule on the principle of *divide et impera*. In these circumstances the Government may win because the peasant cannot restrict his consumption of manufactured goods below a certain minimum, and he will be compelled to surrender his produce in increasing quantities, however "unprofitable" this may seem to him. In this case large quantities of cereals supplied by the peasant and produced in "grain factories" will be probably diverted to foreign markets and influence the whole economic position of many countries.

Before the war (in 1909-13) Russia in its present boundaries produced yearly on the average about 18.6 million tons of wheat, the rest of Europe 37 million tons, and the world 102.9 million tons; in 1928 the wheat production was 22.5, 37.5 and 125.1 million tons respectively. The rye production before the war was 18.7, 25.1 and 45.0 million tons, and in 1928 the rye production was 19.6, 22.4 and 44.2 million tons respectively. The rest of the world filled the gap produced by the falling out of Russia as a wheat supplier. In the production of rye Russia still keeps its former place. Substantial increase in Russian production and the resumption of export of cheaper Russian cereals may create new conditions in the agricultural situation of the world. The

¹ The Commissar of Trade Mikoyan declared in his speech of September 18, 1929, that "the kulaks are responsible for shortage of grain," and that "it is necessary to raise the united poor against the kulak obstructers." This is a common slogan in Russia now.

consideration of cost remains negligible as far as capital investment is made *à fonds perdus* and needs no reimbursement.

The post-war situation of Russian agriculture and the monopoly of foreign trade had grave consequences for Western Europe, depriving it for many years of the cheaper Russian agricultural products and of the possibility of exchange of industrial produce. *Now the policy of industrialization in Russia is aimed at the elimination of foreign industrial supply and great efforts are made to increase agricultural produce. Should this policy be successful it will have far-reaching consequences for Western Europe by means of the Soviet Russian monopoly of foreign trade* (cp. below, Chap. VII).

A very deplorable feature of the economic situation of the Russian peasantry is the enormous waste of time and the great superfluity of rural population for the actual agricultural work done in the villages. As we have seen, in the war year of 1916 the work of the women and of the old men and the youngsters, when the adult male population was under arms, was able to replace the usual agricultural work of those who went to the front. An investigation of 9,261 typical peasant farms in 1924-5 revealed that 41.6% of the available time of a normal worker is wasted,

A specialist in rural economics, Professor Oganovsky, has made a similar investigation for the whole Union in 1924-5. He came to the conclusion that efficiency in the utilization of man-power diminishes with the size of the farm. If we take as a perfect type the standard of utilization of man-power in the larger peasant farms (*viz.* having more than 16.3 hectares of land), Oganovsky reckons that in farms with less than 4.5 hectares the man-power of about 9.6 million adult people is wasted, and in the middle-size farms the man-power of about 10.3 million adult people, or that *there is in Soviet Russia a "superfluous" rural population of about 20 million adult persons, or 43% of the whole adult population engaged in agriculture.* Other investigators came to similar conclusions. Thus the Soviet Government policy of "proletarianizing" the well-to-do peasants aggravates the situation.

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In these circumstances there is a great influx of rural population into the cities, where the earnings under the existing régime are much higher. This produces an alarming situation of unemployment. There is no practical possibility of absorbing this influx into industry, and the Government from time to time warns peasants against entering the cities. Now, such rural immigrants are refused the unemployment dole, and in some cases they are simply prohibited access to the cities without special engagements (an order published in the official *Izvestiya* on April 29, 1929). This alarming rise in unemployment necessitated a reduction in the number of working hours and increased the number of shifts of workmen in the State factories. At the same time housing conditions in the cities are going from bad to worse in spite of much new building in progress (see below, p. 134).

CHAPTER IV

SOVIET RUSSIAN INDUSTRY

§ I. THE INDUSTRIALIZATION PROBLEM

THE watchword of the Soviet Government is "maximum *industrialization*" of the country. Industrialization is a natural desire of a Government aiming at introducing a socialistic order in a peasants' country. It is a very difficult task to persuade a peasantry, whose aspirations for many generations have centred in the desire for allotments in their own possession, to accept communism. It is only the industrial worker who will easily accept the new creed, and in a country like Russia, where there are more than 100 million peasants and comparatively very few industrial workers, the problem of giving all privileges and amenities of life to the latter, at the cost of the greater but scattered mass of rural population, is a comparatively easy matter. . . .

No doubt Russia is ideally fitted for industrialization, by reason of its rich natural resources. With an influx of foreign capital and the rising prosperity of the peasantry, Russia had every hope of rapid economic progress like that of the U.S.A. Indeed, the economic development of Russia in the last decade before the Great War was remarkable.

Socialistic tendencies and numerous limitations make the advent of private foreign capital in Soviet Russia an impossibility—for there is no security for a foreign investment. The capital actually invested by foreigners is hardly worth mentioning (see p. 170). For this reason the Government undertook the big industrialization scheme at its own risk by means of a most drastic financial policy. Crushing taxation was the most effective weapon by which the Soviet Government accumulated the necessary funds for further industrial investment.

In the three years (fiscal years 1925-6, 1927-8) in the whole State industry of Soviet Russia the Government has spent about 3,500,000,000 rubles (£370,000,000). The total capital investment, which at the beginning of this period was reckoned to be about 6,000,000,000 rubles, rose to about 8,400,000,000 rubles (including investment for workmen's dwellings) at the end of 1928. For the fiscal year 1928-9 the new investment sanctioned by the Government amounts to 1,659,000,000 rubles (£175,000,000), and, in addition, the new investment in State electrification amounted to 230 million rubles in 1927-8 and to about 327 million rubles in 1928-9.

How was it possible to amass these large sums?

There were many circumstances which helped this gigantic financial operation. (1) The bulk of Russian State industry is of pre-war origin, mostly built up by foreigners, and nothing is now paid for its use. New investment is made for the most part in the reorganization and improvement of the pre-war plant, since only about 4% of the whole output in 1928-9 was derived from entirely new factories. Large savings are therefore effected by using old plant and old sites. (2) The Soviet State saves large sums in comparison with the Tsarist Government by reason of the repudiation of all her State and communal debt; this was held largely by foreigners, and some 250 million gold rubles were yearly paid abroad on this account alone. It is very doubtful whether it was really wise to repudiate this debt, for Russia lost by it her credit abroad and the urgently needed influx of foreign capital; but at the present time this difficult "transfer problem," which heavily burdened Russian economics before the war, does not exist. (3) The Soviet Government saves a good deal by paying ridiculously low salaries to its officials (see above, p. 54) in comparison even with the modest pre-war salaries. Such low salaries are possible only because of the tyrannical attitude towards the official class. (4) The dictatorial character of the Soviet Government makes possible the highest (and still rising) *indirect* taxation known, which would hardly have been possible for any government with parliamentary representation or

even for a Russian autocrat. A turnover tax as high as 4.1% on the average for State retail trade and 5.5% for private enterprises! Even flour and baked bread are taxed as high as 2.5% in State enterprises and 3.15% in private enterprises, and other rates range from 1.6 to 17.15%. (5) The monopolistic character of all State trusts enables them to charge high prices for their products, and the greater part of their net profits thus derived is always left for further technical improvement and reorganization. About one-half of the new 3,500,000,000 rubles' investment represents such allocation of profits. (6) The whole credit apparatus of the State has been put at the service of the State industry, and even inflation was used for this purpose. About 6,000,000,000 rubles have been given in loans and advances to State industry and trade at a very low rate of interest—8–9%, which is practically "charitable" credit, considering that the Government pays even on the latest State loans about 12–14%, and about 3,000,000,000 rubles represent *net* indebtedness over and above their own deposits.

Out of the new investment of 3,500 million rubles, 3,200 million rubles have been invested in the industry directed by V.S.N.H. (Supreme Council of National Economy, practically Ministry of State Industry). The rest has been invested in the smaller local enterprises. The new investment (1925–6–1927–8) was divided among different branches as follows (in million rubles): metals, 823 (26%); naphtha oil 537 (17%); textiles, 490 (15%); coal, 347 (11%); food, 216 (7%); chemicals, 181 (6%); silicate, 145 (5%); paper, 104 (3%); timber, 95 (3%); leather, 67 (2%); electro-technical, 51 (2%); others, 108 (3%) = total 3,164 (100%).

The new investment for the year 1928–9 was sanctioned by the Government to the amount of 1,659 million rubles, as may be seen from the following table (in million rubles) :

Group "A" (*viz.* means of production) :

Fuel	{	Coal	.	.	.	.	161
		Oil	.	.	.	.	218
Mining	.	.	.	.	.	.	28
Metals	.	.	.	.	.	.	450

Electrotechnical	28
Building materials	97
Glass	15
Timber	74
Chemical, "A"	124
Textile, "A"	27
Exploration, etc.	25
	<hr/>
Total "A"	1,247
	<hr/>

Group "B" (*viz.* commodities for consumers) :

Textile	186
Garments	3
Leather	26
Paper	31
Chemical, "B"	23
Sugar	51
Other food	44
Other, "B"	13
	<hr/>
	377
	<hr/>
Total "A" and "B"	1,624
	<hr/>
Film industry	10
Reserve	25
	<hr/>
	1,659
	<hr/>

Of this item, 1,185 million rubles will be spent in industry belonging to the U.S.S.R. and 474 million rubles in industry of the Allied Republics (including 296 million rubles in R.S.F.S.R.). In the Allied Republics, building, metal, textile and food industries will be the chief recipients.

This expenditure (1,659 million rubles) will be applied : 9.3% for capital renovation; 49.6% for enlargement and reconstruction of existing plant; 29.4% for new factories;

7·6% for workmen's dwellings; 4·1% for exploration and scientific investigation.¹

The output of the State industry directed by V.S.N.H. was (actual figures for the fiscal year 1927-8 and 1928-9 and estimated for 1929-30) :

	1927-8.	1928-9.	1929-30.
Naphtha oil (in million tons) . . .	11·76	13·73	16·23
Coal " " . . .	35·4	40·6	51·6
Iron ore " " . . .	6·0	7·1	10·8
Manganese ore " " . . .	0·68	1·41	1·74
Pig iron " " . . .	3·30	4·01	5·50
Rolled iron " " . . .	3·30	3·80	4·70
Copper " " . . .	28·3	38·0	48·5
Ploughs (thousands) . . .	1,136	1,678	2,690
Timber (in million cubic metres) . . .	8·7	11·8	18·0
Cement (in million barrels) . . .	11·9	14·4	22·0
Window-glass (in thousand tons) . . .	325·1	376·5	480·0
Red bricks (billions) . . .	1,691	2,880	5,100
Superphosphate (in thousand tons) . . .	149·8	213·0	475·0
Cotton yarn (in thousand tons) . . .	322	353	394
Woollen cloth (in million metres) . . .	96·4	113·2	131·2
Boots (thousands of pairs) . . .	23·6	40·8	62·0
Goloshes (millions of pairs) . . .	36·6	42·2	53·0
Sugar (in thousand tons) . . .	1,340	1,280	1,070
Alcohol (in thousand hecto-litres) . . .	1,965	2,270	...
Beer (in thousand litres) . . .	3,131	3,420	...

The total value of production (wholesale prices) of all produce of factories directed by V.S.N.H. amounted to : articles of group A (means of production) in 1927-8, 4,177 million rubles, and in 1928-9, 4,993 million rubles; commodities of group B (for immediate consumption), 6,187 million rubles and 7,155 million rubles respectively; totals, 10,364 million rubles and 12,148 million rubles. The most important positions are held by the metal industry with a total production of 2,110 million rubles (1928-9), and the textile industry with a total production of 2,851 million rubles (1928-9). An important increase was achieved in the naphtha oil industry, where the production rose from 415 million rubles in 1927-8 to 510 million rubles in 1928-9; this was stimulated artificially to increase export.

¹ The actual expenditure amounted to about 1,764,000,000 rubles; for the year 1929-30 an expenditure of 3,423,000,000 rubles is planned (including 1,100,000,000 rubles for the erection of new factories).

In spite of these impressive figures all production is more or less insufficient. Considering the big increase of urban population and the curtailment of imports from abroad, the production should be much larger. Therefore of practically every commodity there is an insufficient supply, and most of the articles produced by the State industry have to be "distributed" among the consumers. A great many commodities are proclaimed to be "insufficient," and their distribution is conducted with special care. The co-operatives of workmen are usually privileged in this respect or the insufficient commodities are sent into villages on condition that grain shall be given in exchange.

The production of coal in 1928-9 will be quite inadequate, and some fears regarding the supply of fuel are expressed. The production of pig iron is insufficient, and an order has been issued to collect old iron wherever possible. The production of cement cannot satisfy the existing demand. Supplies of bricks, window-glass, iron roof sheets and timber for new buildings are also inadequate. Some kinds of textiles are never available on the open market and become usually an object of speculation. Often for days and weeks soap, butter, tea, coffee, boot-soles, etc. are not available in the State shops even of large towns. "Goods famine" is a common expression for such a state of affairs, and everybody is now accustomed to it.

The insufficiency of production is clearly seen from the *per capita* figures of the output in the last four years in comparison with pre-war production on the same territory :

	1913. ¹	1925-6.	1926-7.	1927-8.	1928-9.
<i>Per capita</i> production of:					
Mineral fuel (kilogr.) . . .	240·0	169·0	205·0	224·0	249·0
Pig iron (kilogr.) . . .	30·1	15·5	20·2	22·1	27·0
Bricks (number) . . .	15·3	7·2	9·5	11·9	15·9
Cotton cloth (metres) . . .	11·6	15·3	16·8	17·9	19·1
Woollen cloth (metres) . . .	0·68	0·45	0·56	0·64	0·73
Linen cloth (sq. metres) . . .	1·57	1·11	1·19	1·10	1·05
Sugar (kilogr.) . . .	9·20	7·40	5·99	8·80	6·80
Salt (kilogr.) . . .	14·2	10·7	14·0	14·9	15·8
Goloshes (pairs) . . .	0·20	0·17	0·20	0·25	0·27

¹ In this official computation the production for 1913 is somewhat underestimated; on the other hand, in pre-war times considerable quantities were imported from abroad.

From this table the insufficiency of supply for many years of the so-called "restored period" is clearly seen. Quality also has deteriorated in many instances. After years and years of insufficiency in all the most important articles, the pre-war *per capita* production is hardly restored, in spite of the fact that there is a greatly diminished import and increased demand on the part of a rising urban population. There is no need to compare a country so poorly developed as Russia with the leading foreign countries; but considering the big schemes of industrialization of which the Soviet Government makes so much fuss, it is really important to realize how much is wanting in Russia to achieve a comparable degree of industrialization.

Let us take figures for 1926-7 for the output of coal, steel and pig iron.

	Output in million tons.	In percentages of 1913.	Percentages of world's production.	Per head in kilograms.	How many times per head more than in U.S.S.R.
<i>Coal :</i>					
U.S.A.	589.6	114.0	47.7	5,080	23.9
England	226.2	77.5	18.3	5,027	23.7
France	53.7	120.3	4.3	1,319	6.2
Germany	155.2	110.3	12.5	2,451	11.0
Belgium	27.6	120.8	2.2	3,538	16.6
Soviet Union	31.0	106.7	2.5	212	—
<i>Steel :</i>					
U.S.A.	45.6	148.3	48.9	396	16.5
England	7.7	99.2	8.3	171	7.1
France	8.3	119.5	8.9	204	8.5
Germany	15.8	134.6	17.0	250	10.4
Belgium	3.7	150.9	4.0	478	19.8
Soviet Union	3.6	84.6	3.8	24	—
<i>Pig Iron :</i>					
U.S.A.	38.4	122.9	48.5	330	16.5
England	5.8	55.4	7.3	128	6.4
France	9.4	108.3	11.8	230	11.5
Germany	12.7	116.1	16.0	200	10.0
Belgium	3.8	151.3	4.8	482	24.1
Soviet Union	3.0	70.4	3.7	20	—

In comparison with other countries Russia is much behind, not only per head of the population but in the total of all kinds of industrial production, *viz.* for 1924-5 or 1925-6.

As far as the h.p. used in industry is concerned: Russia, 3.46 mill.; U.S.A., 40.5; England, 16.0; Germany, 18.1 mill. h.p.; number of workmen engaged in industry: Russia, 2,400,000; U.S.A., 8,300,000; England, 7,600,000; Germany, 12,700,000. The average output of coal per workman in the Ruhr district in Germany is 360 tons a year, whereas in Russia it amounts to only 150 tons a year; in other branches of industry efficiency is even less.¹ Still, the official Soviet report expresses the view that "considering the diminution of capital investment in capitalistic countries and the increase of its unproductive use, on the one hand, and the rapid rise of capital investment in U.S.S.R., which is invested according to a plan, on the other hand, there is no doubt that the slogan 'to draw level with the capitalistic countries, and then to go ahead,' will be fulfilled."²

In 1927-8 the total number of workmen engaged in the State industry directed by V.S.N.H. was 2,080,000, with an average production of 5,240 rubles for each workman. For 1928-9 it is estimated that there are 2,105,000 workmen with an average production of 6,153 rubles. It is contended that cost of production is steadily decreasing in all branches, *viz.* (1925-6 = 100): 99.20 in 1926-7; 93.19 in 1927-8, and 85.73 (estimate) for 1928-9. The price at which the produce has been sold has also decreased, but at a slower rate, *viz.* (1925-6 = 100): 97.40, 93.70, 92.67 for the respective years. Nevertheless, in spite of strict orders prohibiting increase of wages where there is no adequate increase of efficiency of labour, in 1927-8 the wages' bill rose by 11% instead of 7.2% as had been planned, whereas the efficiency of labour (average output per workman) increased only by 14.3% instead of 17.2%, as had been planned. Therefore, rationalization was achieved in a lesser degree than was expected, and usually the rise of wages went somewhat ahead of the intentions of the Government.

In the official Soviet Statistical Year Book (in Russian) for the year 1928 is given a detailed analysis of the present situation of all State industry separately for each branch.

¹ Cf. *Kontrolniye ziffri*, 1928-9, Moscow, 1929, p. 375 *seq.*

² *ibid.*, p. 383.

According to this information for 1927-8, the number of all State industrial establishments in the Union was: 1,625 establishments belonging to the Union; 975 establishments belonging to the Allied Republics; 2,420 establishments directed by different State departments, and 4,149 establishments belonging to local administrations, or a total of 9,169 industrial establishments. The average number of workmen engaged in these establishments was: 1,295,000, 319,000, 145,000, and 601,000, or a total of 2,360,000 workmen. The gross production of these establishments was (in million rubles): 6,337, 1,457, 1,135, 3,393, or a total of 12,322. It would be impossible to reproduce any of these details here.

It should be noted that practically all industrial establishments with an invested capital of more than 250,000 rubles (£26,300) belong to the State. There are very few private or concessionary industrial establishments of a similar size. And also the position of the State industry is overwhelming. According to the census of 1925-6, to the State belong 86.8% of all industrial establishments (including 14.6% of co-operative type), having 98.6% of the capital invested (including 1.9% of co-operative type), engaging 98.0% of all workmen engaged in industry (including 3.9% in establishments of co-operative type), and with 97.7% of all turnover (including 4.3% of establishments of co-operative type).

The total number of persons engaged in all industry (State and big-scale private) in the year 1926-7 was reckoned at 2,849,702 (including clerks),¹ and the total turnover at 15,839,712,000 rubles; 40.5% of all workmen are skilled, 34.1% semi-skilled and 25.4% unskilled. In the same year in the petty industries (*viz.* artisans, etc.), all of which practically belong to private persons, 3,994,962 persons were engaged (76.2% of them in rural districts), and the total turnover of these small establishments amounted to 4,614,787,000 rubles (57.5% of them in rural districts). By

¹ On January 1, 1928, the total number of persons engaged in all industry was 2,924,900, of whom 2,531,900 were workmen, 265,900 clerks, and 127,000 servants, etc.; 28.7% were women and 4.8% persons under eighteen.

far the greater part of these were shoemakers, tailors, smiths and carpenters.

A peculiar feature is that the *real* wages of the workmen in Russia have increased in the last two years much more quickly than in other countries; *viz.* In 1929 they were 109.5% of the 1927 level, whereas in U.S.A. they were 101.4%, in England 100.2%, in Germany 102.2% and in France 105.0% of those of 1927. There has been given in a publication of the League of Nations the index of real wages for many towns for April 1928, including U.S.S.R. (London, July 1924, taken as 100): here for U.S.S.R. the index is given as 52 (according to information supplied by Soviet Government), in Berlin 75, London 106, Paris 61, Brussels 52, Rome 45, Philadelphia 195, Lodz 43. Nevertheless, the Russian Commissariat of Labour contends that the real wages of a Moscow workman are now 3% higher than those of a Berlin workman if consideration is taken of additional bonuses (especially expenditure on clubs, etc.) and shorter hours of work (!?).

In Soviet Russia the wages bill naturally influences the cost of production to a great extent. At any rate, the relative share of wages in the production cost is much higher now than it was in pre-war times. According to an investigation of the Gosplan, at present the price-index of means of production is 170 (1913 = 100), the index of prices paid by industry for agricultural raw materials is 143, whereas the index of wages is on the average 261. The expense of fuel has also risen substantially: from 5.4% of cost of production in 1913 to 7.8% in 1926-7, in spite of great technical improvements in this respect achieved during and since the war. The price level for agricultural raw materials was on the whole very favourable for industry except in a few instances.

Taking cost of production in the State industry at 100, the census of 1925-6 reveals that the cost of raw materials, fuel, amortization and repairs absorbed about 70% of the cost, and the wages bill over 30%. In private industry wages absorbed only 20% (but this is naturally not quite comparable). In the industries of group "A"

the wages bill absorbs about 40%, in group "B" about 19-20%. At present a very important item of cost of production consists in taxes, turnover tax and numerous excise duties especially. At the same time, prices at which manufactured goods are sold are kept at such a height as to guarantee a certain necessary accumulation of funds for further industrialization.

This is a most peculiar feature of the whole system, and the monopolistic character of State industry makes it quite possible to "squeeze" the consumer for the benefit of the industrialization policy of the Government. Naturally, the possibility of extracting net profits in group "A" are very limited, because it would react unfavourably on other branches of State industry. Therefore the turnover tax, railway tariffs, royalties, etc. are especially low for all branches falling under group "A." An opposite policy in this respect is applied as far as group "B" and the general consumer are concerned. This is also one of the reasons why group "A" is more liberally subsidized than group "B."

The Government regulation of prices of different manufactured goods is based on these peculiar considerations. On the other hand, there is a special bank institution collecting a part of the net profits of the State industry and redistributing them among the individual State trusts. A special Industrial State Bank has been created for this purpose and for all financing of State industry. The policy of this bank is co-ordinated with the policy of the State Bank of U.S.S.R.

§ 2. THE FINANCING OF STATE INDUSTRY

All State trusts and other State enterprises distribute their net profits in the following way. After deducting 10% for income (corporation) tax and 3% for subsidizing technical education, 10% of the net profit is left as a reserve fund; 10% must be given to the fund for the improvement of the welfare of labourers and other employees (usually such funds are applied for the construction of dwellings for labourers or of workmen's clubs, etc.); 10% is given to the

special fund for long-term credits to State industry¹; 25% is left for further development and reorganization of the respective trust, and not more than 0.25% can be applied to bonuses for the employees. This gives a total of 55.25%; the residue (44.75% of the net profit after the deduction of 10 + 3%, or 38.9325% of the total net profits) has to be surrendered to the Treasury as dividend.² On the other hand, the Central Communal Bank, which is a State bank chiefly for financing municipal trading and housing, applies a part of its funds to financing State industry (chiefly for erecting dwellings for labourers). The State Insurance monopoly, the State Savings Banks and the State Social Insurance apply part of their funds to the same purpose. In addition to direct grants of the Treasury (in the fiscal year 1928-9, 811 million rubles from the State and 80 million rubles from local budgets) the State trusts receive large sums for covering losses from the export of their manufactured goods abroad (see below). In these items special grants for electrification are not included. In the fiscal year 1928-9, for this purpose 185 million rubles have been assigned from the State Treasury and 36 million rubles from the local budgets.

In these circumstances *there can be no question of "profit" or "loss" in the Soviet Russian State Industry.* There are no such considerations and no such conceptions, and nobody can calculate the real "profits" or real "losses" in the sense of a capitalistic society. A great part of the profits are simply some kind of taxation because of the absolute monopoly of the big trusts protected from foreign competition by an absolute monopoly of foreign trade. Prices of manufactured commodities are regulated by the Government and there is no fair play of the law of supply and demand. Wages are kept at an artificially high level for

¹ This fund is administered by the Industrial State Bank, and about 375 million rubles have been redistributed during 1928-9.

² The actual amount to be surrendered to the Treasury is somewhat lower because there are some further deductions, *viz.* 4 million rubles for sheep breeding, 0.9 million rubles for improvement of flax culture, 2 million rubles for special electrification, and 1.1 million rubles for increase of output of platinum. The dividend (38.9325% of net profit) is paid into the Treasury in four equal instalments during the first four months after the confirmation of the report.

purely political considerations and contain a hidden dole. Agricultural raw materials supplied to the State factories are bought at an artificially low price through special devices of the Government (see above). The interests of the ordinary consumer are simply neglected and a "goods famine" is a common occurrence.¹ New investment of capital is applied preferably to the development of the less profitable group "A" than to the more profitable group "B" industry. International political and financial considerations prevail in export policy, and the State trusts get orders to export a certain part of their production even at a loss, in order to procure foreign currency for the State Bank. "Charitable" credit is given to the State trusts, and State loans are contracted with more or less compulsory subscription for the same purpose. The royalties,² rents, railway tariffs, etc. charged are ridiculously low for the State trusts. In matters of taxation the State trusts enjoy important privileges, e.g. lower rates of turnover tax, etc. The State retail trade is organized in such a way as to guarantee full profit to the State industry and very little is left to the State trade (see Chap. VI). Heavy expenditure is incurred by the State Treasury for the benefit of the State industry, on refrigeration, the commercial fleet, electrification, canals, cheap foreign imports, etc., with no adequate compensation. Some of the trusts have frequently delayed in surrendering to the Treasury the collected sums of excise duty, paying hardly any or very low interest for these arrears. For instance, the Sugar Trust's arrears have been simply cancelled.

Therefore *real* profit and *real* losses cannot be ascertained. In some cases the Government prescribes intentionally low prices (i.e. runs certain trusts at a loss and covers their direct losses by special subsidies) in order to provide with cheap means of production other branches of State industry;

¹ The Russian newspapers lately announced that the newly-built hostels for students could not be opened because there were no pipes for water and gas available.

² For instance, the "Grozneft" (Oil trust in Grozny) pays a royalty of 4 r. 21 cop. a ton of oil output; the "Embanett" (Oil trust in Emba district), 1 r. 22 cop. As a rule, the chief coal, iron, salt and other trusts pay a royalty of only 31 cop. for each ton of actual output.

for example, with regard to fuel, or timber, or metals for the State railways. All trusts keep account of their capital officially invested in their factories. But the real value of the "capital" can never be ascertained with sufficient precision. The makers of these inventories were usually unable to estimate the true value of all pre-revolutionary investment in existing machinery, etc. Occasionally they were interested to over-estimate the capital in order to get an increased amount of amortization, which is deducted from gross profits. On the whole, amortization is comparatively high (*viz.* in 1925-6, 7.6%; 1926-7, 7.1%; 1927-8, 6.8%, and 1928-9, 6.5% from capital), and the Commissariat of Finance had to fight against exaggerated deductions for amortization, for such deductions diminish dividend paid to the Treasury. The value of land is not included in the amount of invested capital of the trusts and its use is free of charge.

How confusing the figures relating to the accounts of State trusts can be (they are published in the official Press) may be illustrated by the following example. The net profit of the Paper Trust amounted officially to 23.2% of its capital; however, this high profit was derived to a considerable extent from selling at an increased price foreign paper received from abroad!

The Textile industry and the Oil industry are responsible for the largest profits, the Sugar Trust and the Rubber Trust ranking next. The actual net profit realised by the different branches of industry in 1927-8 may be seen from the table on page 97 (in million rubles).

The Timber and the Leather industries of the Union are not included, being run at a loss. Although the Coal, Mining and Building industries show a small net profit, they are in fact run at a considerable loss, in view of all special privileges they enjoy. Still, one has to take into account the limitation of prices for their products. The net profit derived from the Metal industry is quite inadequate considering the huge new investment (823 million rubles in the three years 1925-6—1927-8) and the large grants it gets. As a matter of fact, only those industries which supply

AMOUNT OF NET PROFITS OF STATE TRUSTS OF THE UNION

Textile industry	251·0
Naphtha oil industry	85·0
Sugar industry	68·7
Metal industry	65·0
Chemical and Rubber industries	43·0
Electro-technical industry	21·0
Paper industry	12·9
Coal industry	5·0
Mining industry	1·3
Building industry	0·3
	<hr/>
	553·2
State industry of the Allied Republics and local industry	81·5
	<hr/>
	634·7 ¹

directly the general consumer show sufficiently large revenue, *viz.* the Textile, Sugar, Rubber and in a smaller degree the Paper and Electro-technical (electric lamps, etc.) industries. In addition, sugar, the textiles and rubber goods pay a high excise duty. A large new investment in the Naphtha-oil industry has taken place in the last three years (537 million rubles), partly for supplying foreign markets and to undermine antagonistic foreign magnates. No doubt many technical improvements in the Oil industry in comparison with the chaotic pre-war conditions have been achieved. Of course, only the future will show if all this investment was sound and necessary!

The State industry of the Allied republics and local industry yield a surprisingly low revenue considering the magnitude of capital investment. In the years 1925-6—1928-9 the total revenue from industry belonging to the

¹ According to the existing rules, of this amount of net profit after the deduction of 10 + 3%, only 44·75% (see above) is paid as dividend to the State; besides, there is a further deduction of 8 million rubles for special subsidies; or only 237·4 million rubles were actually due as dividend to the State Treasury. As a matter of fact, there have been some arrears from preceding years and some payments from electric generating stations, and therefore the total revenue of 270 million rubles only was expected as dividend of the State industry in the Budget of 1928-9.

Allied republics amounted to 90 million rubles and the capital expenditure in the same years to 516 million rubles (in R.S.F.S.R., revenue 40 million and expenditure 296 million rubles; in the Caucasian republics, revenue 5 million and expenditure 58 million rubles).

Thus the Soviet State spends year after year enormous sums on industrialization, but covers this expenditure largely by means of indirect taxation and by more or less compulsory loans. The rôle of "normal net profits" of the industry itself is very small indeed, and the "excessive profits derived" are simply the result of the monopolistic position of the industry with its manifold privileges.

At any rate, the State industry, with its total invested capital of 10,176,000,000 rubles (not including 4,132,000,000 rubles operating funds) at the end of the fiscal year 1928-9, was for the State a very great financial burden, requiring a total capital expenditure of 1,659,000,000 rubles (in 1928-9),¹ and actually paying to the State Treasury in the same year a dividend of only 237 million rubles (see footnote on p. 97). On the other hand, "charitable" credit, low royalties, free use of valuable sites, tax privileges, etc. have been liberally given. The capital expenditure rises very quickly every year,² and this is quite natural, because the expansion of one branch demands adequate expansion of the others. In turn, expenditure on railways, housing, shop premises, municipal trading, etc. rises too.

Still, it should be noted that the State industry pays an income tax (10% from net income or 90 million rubles in 1928-9) and invests another 10% of its net profits in State loans as a reserve fund (see p. 93), and only 946 million rubles will be paid in *cash* by the State (1928-9) as direct subsidy to the State industry.³ But even if we credit the

¹ To this item representing capital investment in the industry directed by V.S.N.H. (see above) should be added 184 million rubles in industries directed by other State departments.

² In 1925-6, 834; 1926-7, 1,113; 1927-8, 1,450; 1928-9, 1,843 million rubles, whereas the dividend due to the State Treasury and local budgets: in 1925-6, 108 to the Treasury + 35 to local budgets = 143; in 1926-7, 205 + 63 = 268; in 1927-8, 243 + 45 = 288; in 1928-9, 270 + 85 = 355 million rubles.

³ *Viz.* 811 million rubles direct grants in cash from the State Treasury and 55 million rubles for covering losses of "unprofitable export"; the remaining 80 million rubles are paid in grants in cash to local industry from local budgets.

State industry with all its payments into the Treasury (the full amount of income tax, 90 m. r.; subscription to loans, 90 m. r.; dividend paid by the State and local industry, 335 m. r.; repayment of advances 9 m. r.), we find that all these payments amounted to 544 million rubles, whereas the direct grants of the State and local Treasuries paid in cash amounted to 946 million rubles. Thus in the budget of 1928-9 the State industry has received from the Treasury a net grant of 402 million rubles in cash,¹ to which should be added the net grant for electrification, 210 million rubles,² or a total net grant of 612 million rubles paid in cash over and above all payments received by the Treasury from the State industry.

We shall see later that in 1928-9 the State trade apparatus required also a net grant of 138 million rubles, the transport and postal service net a grant of 425 million rubles (including State railways, 283 million rubles), housing (this being chiefly expenditure on dwellings for labourers) a net grant of 148 million rubles. The total amount of all net grants of the Treasury to State industry, State trade, State transport and State housing amounted to 1,322,000,000 rubles in the fiscal year 1928-9 (1,035 million rubles in 1927-8). Moreover, the net expenditure on agriculture amounted to 499 million rubles in 1928-9 (340 million rubles in 1927-8). Thus, the whole net expenditure of the Treasury on the different branches of national economy, allowing for all revenue derived from it, amounts to 1,821,000,000 rubles (1,239,000,000 rubles in 1927-8).³

The whole State domain was able to cover this enormous expenditure only in a small degree, *viz.* the net revenue derived from the State forests (223 million rubles), municipal enterprises (107 million rubles), royalties, rents and concessions (96 million rubles), and net profits of the State banks and State insurance monopoly (26 million rubles), or a total of 452,000,000 rubles (489 million rubles in 1927-8). To cover this deficit of 1,369,000,000 rubles (1821 m. r. minus

¹ In 1925-6, 82 m. r.; in 1926-7, 106 m. r.; 1927-8, 216 m. r.; thus with every year the net grant increases rapidly.

² In 1925-6, 75 m. r.; 1926-7, 117 m. r.; 1927-8, 167 m. r.

³ *Kontrolniye sifiri*, 1928-9, p. 518.

452 m.) an issue of State loans to the net amount of 507,000,000 rubles was necessary, and taxation pure and simple to the amount of about 862,000,000 rubles had to be applied (in 1927-8, deficit 885 m. r., covered by loans 407 m. r. and by taxation 478 m. r.; in 1926-7, 217 338 m. r. respectively).

This situation cannot improve in the immediate future, and increased taxation and new loans will follow (cf. Chapter IX).

The above items do not include financing of national economy by the credit apparatus of the State. The net financing, *i.e.* new advances over and above deposits, amounted to 683,000,000 rubles in 1928-9 (852 m. r. in 1927-8), *viz.*, 348 m. r. to industry and electrification, 100 m. r. to trade, 10 m. r. to municipal enterprises, 120 m. r. to housing, 125 m. r. to agriculture = 703 m. r. In addition, the Industrial State Bank (cf. above, p. 94) advanced about 375 million rubles to the State industry.

In short, this policy of the utmost industrialization where the greater part of any further investment is covered by taxation is a very difficult and artificial process, especially because the expansion of industry naturally creates multifarious and heavy additional expenditure for the State. Under no circumstances can this huge investment yield a revenue large enough to meet the interest actually paid by the State on loans contracted for industrialization (*viz.* 11.4-14.4% per annum, which was the actual cost of the last loans of 1926-28), unless the balance is to be covered sooner or later by further increase of taxation. There is no chance even of paying the full amount of interest charged for credits given by the State credit apparatus, although the 8-9% per annum charged in this case is very low and means charity under Russian economic conditions. Yet a net revenue of 8-9% on the present investment of the State industry is hardly credible in the near future. This charity was possible only because millions of "chervontzi" (notes of the State Bank) were issued with practically no cover behind (see below) for granting credits to the State industry. The same charity exists in the tax privileges of the State industry. The 10% income tax yielding about 90 million rubles a year is a

ridiculously low amount considering the fact that the State department administering the State industry (V.S.N.H.) alone requires a yearly expenditure of 35 million rubles, and the professional schools of the State industry 11 million rubles. Moreover, the State Planning Commission (4 m. r.), Statistical Department (20 m. r.), the Control Department (7 m. r.), Commissariat of Trade (21 m. r.) and the Commissariat of Labour (10 m. r.) are State departments which devote by far the greater part of their work to serving the requirements of the State industry—a work which in a capitalistic society would have been paid for by the industry itself.

There is no other fund out of which the necessary means for capital investment can be collected as savings of the nation, be it a communistic or a capitalistic state. Savings of the nation may be collected by a free process of capitalistic accumulation, or by compulsion, *i.e.* taxation, as is done in Soviet Russia. But even here there exists a certain limit, for the standard of life of the population cannot be reduced below a certain minimum. The economic history of the Great War has shown that artificial expedients can help for some time or even for three or four years, but no Government is able to extract from the national economy more than a certain and very limited amount of annual income and annual saving. Only borrowing abroad out of foreign savings became the *ultima ratio* or mobilization of foreign assets belonging to its own nationals. Now the Soviet Russian Government tries to convince the whole world that it is able to increase industrialization to fabulous dimensions without foreign help, by its own financial skill of manipulation and rational planning, creating happier conditions for all workers.

In a country like Russia, where the average income of the population is only 186 rubles (£19) a year and no big private fortunes exist, more or less large savings can be obtained only at the cost of great hardships and privations. Taking away on the average about 27 rubles a year per head of the population in taxes pure and simple, and applying a substantial part of this revenue for schemes of rapid industrialization, the Soviet Government inflicts great privations on

its population. No doubt, to a great extent it is achieved only by rigorous measures of military force, namely, by the fiercest taxation of the middle and well-to-do peasant, by under-paying the terrorized salaried class and by robbing all other non-privileged classes. By squandering doles to the factory workers (and they constitute a small minority)¹ and by bribing another minority, *viz.* the "poor" peasants or communist satellites, the Soviet Government is able to pursue its great socialistic schemes of rapid industrialization. The neglected or oppressed part of the urban population, though in the majority, is powerless to resist or is taken up with the anxiety of eking out a mere existence. From time to time "counter-revolutionary plots" are discovered by the political police and are suppressed in bloodshed. The many fires which mysteriously occurred in some of the big State factories lately are explained in the official Press (*Izvestiya*, September 19, 1929) as probably acts of "counter-revolutionaries." The peasantry is too widely dispersed for united action, but one often reads in the Soviet newspapers that "beastly Kulaks" ("*ozvereloje kulachyo*") kill the collectivists, or set fire to collective farms, or instigate the "unconscious" masses against Soviet measures.

The peasantry resist subscription to State loans or entrusting their savings to the savings banks. In spite of this opposition the Government is able to collect the necessary funds for its industrialization schemes. We have seen that a total deficit of some 1,369,000,000 rubles a year had to be covered. It will rise in the next few years. But there is still an actual possibility of forcibly extracting such sums from the non-privileged classes without totally ruining them and without lowering favours to the satellite minority.

This is the peculiar position of Russia, with its great natural resources and enormous unorganized masses of peasantry. The latter can be easily exploited for the benefit of a privileged minority. . . .

Of course, the great question remains : *would not the whole*

¹ The total number of workmen in all State factories is 2,360,000 (see above, p. 91); including members of their families they represent a population of about 7,500,000 persons or about 5% of the total population of the Soviet Union.

Russian national economy prosper much better, i.e. total national income rise, the peasantry have substantially larger and better-paid production, industry employ more labourers, achieve larger output and satisfy more completely the needs of the population, the population have access to cheaper foreign goods, etc., if there were a Government which, instead of attempting tremendous experiments at home and assuming an arrogant attitude towards all other Governments of the world, could gain the support of the "capitalistic" nations. The Russian experiment is not only a set-back to the economic welfare of the Russian nation—in twelve years of Soviet rule hardly the pre-war standard of per head production is maintained, and no sufficient food in the towns or any other commodity in general is available in the pre-war "granary of all Europe"—it is a great economic blow to Western Europe as well. The whole policy of industrialization is directed towards eliminating European industrial supply in the immediate future at whatever cost, and Soviet Russian dumping and monopoly of foreign trade are used for aggravating the economic troubles of Western Europe from purely political considerations!

The economic difficulties and the burden of industrialization would have been much less if the Soviet Government had, in the first instance, increased production of consumers' goods (industry of group "B") and given access to agricultural machinery, etc. to all groups of peasantry. But political considerations prevail, and the Soviet Government hopes to overcome these difficulties by means of drastic measures and terrorism.

However, from a purely technical standpoint the Soviet Russian industry is rationalized to a great extent, and many improvements have been introduced. The output is rising very quickly, but is hastened artificially and is effected by terroristic pressure. It is a new and common expression in Russia now that the Red directors "force quantities" (*gonyat poody*), because insufficient output will be considered as sabotage by the directors and engineers, and this may mean years of prison or even capital punishment. Almost every day the Soviet newspapers publish accounts of wholesale trials of

these "responsible" people "undermining" industrialization. Three big trials of this kind were held at the same time in respect of officials of the largest Soviet enterprises (September 1929) : the Shipbuilding trust, the "Red Profintern" in Briansk and the Leather trust. In Briansk defective locomotives and railway cars have been supplied to the State railways, and many similar abuses going on for two years have been discovered. The directors "forced quantities," and 22 persons were put on trial. . . . The Railway department reported lately that 11.2% of locomotive axles and 11.7 of boiler iron supplied by State metal factories in 1928-9 were discovered to be defective, and railway disasters have resulted. . . .

The quality of production is decreasing alarmingly, and many times the official Press insisted on drastic intervention. Still, here not only "forcing quantities" influences deterioration of quality, but also the incessant orders "to lower cost of production."

We have seen the disastrous results of the abolition of differentiation in workmen's remuneration by the law of 1918. The number of skilled labourers diminished greatly. The communist leaders understood their mistake long ago, and with the NEP great stress was laid on artificially stimulating the efficiency of labour and quantity of output. Therefore, wherever possible the system of piece-work wages has been introduced. This was the most powerful device for increasing production, although it was, of course, contrary to socialistic conceptions. At any rate, the constant increase of output and consequently higher earnings of the working class is a direct result of piece-work wages. Moreover, special funds have been created for additional remuneration in return for output which is over and above planned figures, and for improvements in production. Unfortunately quality has naturally suffered by these measures. Therefore special contests are organized by which individual workmen receive prizes for best achievements. Considering all these devices, one cannot help thinking that in Soviet Russia exploitation of the workman is practised in various and most ingenious forms. . . .

Labourers are invited to suggest all kinds of improvements and inventions. As a matter of fact, some very fruitful suggestions have been made, but at the same time hundreds of useless proposals are constantly pouring into the offices of the factories. Often this means a burdensome matter for the engineers, because insufficient attention to labourers' inventions is dangerous. Lately, after four days of hearing, the Moscow Court sentenced a highly qualified engineer to six months' imprisonment (probational for two years) because he had sent a sealing-wax purifier invented by a labourer for test to a State distillery and did not take pains to pursue further inquiry about this useful invention. Three other people, among them one professor and one jurist, have been tried together with this man for not having paid sufficient attention to labourers' inventions in the Central State Distillery office.

Nevertheless, the chief difficulties are not with the technical side of production. The terrorized *spetzi* engineers try to do their best, but there are plenty of Red directors and ordinary workmen fully devoted to the Soviet regime and willing to sacrifice themselves for the communist cause. The chief difficulties are much more with the economic side, namely, with the impossibility of lowering cost of production beyond very narrow limits. The great crusade for low cost had disappointing results. Partly this is due to the decrease of workmen's discipline and to absenteeism, for which drunkenness is largely responsible.

Now (October 1929) the chief Red directors have been given dictatorial powers over all matters of workmen's discipline and all administration. They will not be obstructed any more, in case of dismissals, etc., by the opposition of the local "cells" or the trade unions, who may only appeal to the superior organs. It will be seen whether this reversion to hated capitalistic methods will help much or create new dissensions. . . .

Another measure of the greatest importance is the introduction of an uninterrupted week and a seven-hour day. An uninterrupted week means permanent production with no Sunday or fixed holiday. The different shifts of workmen

work five days and get a free day, and the shifts are arranged in such a way as to guarantee permanency of production. An important consideration in introducing this measure was, that it was an attempt to decrease unemployment, which is abnormally large, and to help to reduce cost.¹ On the other hand, the half-day on Saturdays was the least productive, and the new five, or rather seven full days a week are naturally more economical. The number of holidays has been reduced too and all religious holidays have been abolished. The workman's earnings are not lowered by this measure, and on the average he has not actually to do more work in the course of a year, although such questions have been raised in some factories.

The same system of an uninterrupted week is now gradually being introduced in State departments, but here again the office workers came off worst with a prolonged day. The State shops will be open seven days a week too. Now there are shops open twelve hours a day with an uninterrupted week.

It is planned to adopt a similar system in schools (with holidays after each third and second day alternately), and thus educate all children "at a smaller cost and more rationally." By this means in Moscow alone 75 school buildings will be saved. An old Russian proverb says rightly "*Golj na vydumki hitra*" (the naked, *i.e.* he who has nothing, is inventive), which is more drastic than the English: "necessity is the mother of invention"!!!

The seven-hour day is gradually being introduced in Russian industry as a means of reducing unemployment, and the six-hour day has been projected for many industries, thus necessitating three and four shifts,² where more people can be employed and better utilization of working capital

¹ An official circular letter of the Central Committee of the Communist party (September 1929), ordering introduction of an uninterrupted week, recommends that it should be explained to workmen that this system "increases utilization of working capital, economizes new investment, accelerates lowering of cost of production and helps to better the position of the labouring class and the cultural education of the masses. It will reduce unemployment and increase the number of skilled labourers." . . . "The class enemies of the proletarian dictatorship will undoubtedly try to discredit this measure by arguments of old habits and prejudices, including religion," and an energetic fight against such class enemies is ordered.

² For instance, in cotton mills with the eight-hour day, 75% of the labourers worked in *two* shifts; since the introduction of the seven-hour day, 61% of the labourers worked in *three* shifts (March 1928).

achieved. But there is the great difficulty of getting the necessary number of *skilled* labourers and engineers, and fears are expressed that the situation will become acute.

Already, the President of the State Planning Committee of the R.S.F.S.R., Levin, has declared in his official report (September 1929) that there is a shortage of 35% of highly qualified engineers and 37% of lower grade engineers, and next year (1929-30) there will be a shortage of some 80,000 skilled labourers. Therefore he proposed to introduce measures for the training of great numbers of skilled workmen in the shortest possible time.

The percentage of qualified labourers has decreased from 1925 to 1927 (from 42.7% to 40.6% of all labourers), and this is especially noticeable in those branches of industry where the present remuneration has risen in a lesser degree in comparison with 1913, or where it has been difficult to raise it substantially (chiefly group "A," where low prices are ordered). On the other hand, from political considerations increase of wages for "not sufficiently remunerated" (*otstaliye*) branches has been widely advocated and some levelling for all workmen aimed at. The natural result is that the difference in wages in various branches is less pronounced than in pre-war times, except miners, who are comparatively worse off. But difficult and skilled employment becomes less and less attractive. Being compelled to accept labourers through the official labour exchanges, factories often prefer to apply for temporary labourers, whereas highly skilled workmen usually avoid temporary employment. Moreover, many skilled labourers have been promoted to higher posts in administration, or having entered the workmen's faculties (special universities for selected labourers)¹ are lost for manual work. At the same time, figures concerning training of qualified and semi-qualified engineers show a reduction in the last few years.

The dependence of industrial administration on the workmen is one of the most serious obstacles to genuine rationalization. The new regulation by which the chief Red director has dictatorial rights is very difficult to apply fully in practice

¹ See Harper, p. 244 f.

in present Soviet circumstances. At any rate, in branches of industry where the wages bill plays an especially important rôle in cost of production, a reduction of such cost, if possible at all, was especially difficult. Such was the position with group "A." For some time cost of production even increased, but later decreased, so that in the last three years there was a decrease of about 2%. With group "B" cost of production decreased about 9%. This achievement is much below official expectations and instructions.

Therefore, serious achievements in reducing cost of production for the immediate future are not likely, and all devices of an uninterrupted week, seven-hour day, prizes, etc. cannot have any appreciable effect because saving in fuel, etc. will be counteracted by lower quality, difficulties with raw materials, unskilled work, etc. A further increase of wages in group "A" will probably be necessary in spite of the policy of raising wages only where cost of production has been lowered.

In these circumstances prices will remain probably just as high and as exorbitant as they are now. On the average, wholesale factory prices of consumers' commodities are 198.5% of pre-war level, and for goods of group "A"—164.0%; of coal 170.3%, of machinery 226.4%, of textiles 192.4%, of timber 237.6%, of window-glass 261.1%, of building materials 204.5%. According to an investigation of the Moscow Conjunction Institute, wholesale prices in Russia, taking 100 for the year 1913, differed from those in foreign countries as follows:

WHOLESALE PRICES IN OTHER COUNTRIES IN COMPARISON WITH PRICES IN RUSSIA

Countries and Year.	Agricultural products.	Industrial products.	All commodities.	
England	1913	140	62	93
	1927	140	42	77
	1928	140	39	74
Germany	1913	143	55	89
	1927	134	36	70
	1928	140	39	74
U.S.A.	1913	142	59	91
	1927	129	40	72
	1928	129	43	74

It follows from this table that in post-war years the difference in price of agricultural produce abroad and in Russia in comparison with pre-war prices altered comparatively very little, *i.e.* abroad they are about 40% (in America 29%) higher than they are and were in Russia. On the other hand, in respect of industrial products the position has altered substantially, wholesale prices in Russia being much higher than they used to be. In other words, for an industrial product for which a Russian paid in pre-war times 100 units, an Englishman paid 62 units, or about two-thirds; now for an industrial product for which a Russian pays 100, an Englishman pays only 39, or about one-third.

Of course, all such comparisons are very conditional, but perhaps even this calculation is too optimistic, because wholesale prices in Russia are often prices for privileged consumers only.

Analyzing Russian prices we should not minimize the hidden taxation or artificial monopolistic increase; but in fact they are contained almost exclusively in retail prices, chiefly in group "B." On the average, retail prices were in 1928-9 about 207 (1913 = 100).

§ 3. CONCLUSION

In conclusion, we may say that the Soviet Government is running its huge industry at a loss, taking into account the many privileges, free use of land, "charitable" credit, low royalties, etc. At any rate, the actual dividend paid into the State Treasury is ridiculously low in comparison with actual investment and working capital. Moreover, this dividend is derived from a very few branches of industry and represents to a great extent high indirect taxation of the general consumer (about half of this dividend is derived from the textile industry). The wholesale factory prices are exorbitant and compare unfavourably with pre-war Russian prices and with post-war foreign prices. Great pressure is brought to bear to reduce prices of agricultural products supplied by the peasant, whereas that unfortunate individual has to pay comparatively high prices for industrial products. The industrialization policy is a great

economic and financial burden for the country, and the interests of the general consumer are neglected. The supply of most indispensable commodities is absolutely insufficient. In a great many branches of industry even the pre-war standard of production per head has not yet been attained.

No great improvement in the situation is likely in the immediate future. Real wages are higher than in pre-war times, but in spite of reduced hours of work, exploitation of the workman is very marked. Unemployment is extremely high and absorption of superfluous workers is achieved to a very small extent. The Government was compelled even to apply such extraordinary measures as an uninterrupted week with no Sunday or other fixed holiday and with increased shifts, although in the long run they will probably become quite economical and yield larger profits. There is a great lack of skilled labourers, and especially of qualified engineers, and the situation in this respect is alarming. The position of qualified engineers is precarious. The output is often of bad quality, and sometimes the system of "forcing quantities" prevails. The workmen's discipline is greatly complained of and the prevalence of drunkenness. Competition of private capital, although not forbidden since the introduction of NEP, was crushed by exorbitant taxation.

Still, there is a great enthusiasm among the working classes and a real interest for the socialistic cause. The communist leaders understood how skilfully to agitate among these masses and to convince them that in no country in the world do the great masses of the people live under happier conditions.¹ The severest censorship in Press, literature and kinema prevents the spreading of true information about the "capitalistic states." Mr. Ramsay MacDonald and all other Labour leaders in foreign countries who have not accepted the communist faith and directions

¹ How strong is the belief even among Russian university students of the perfect subjugation of the Labour class in capitalistic countries may be demonstrated by the fact, that they hardly believed in the existence of a high income tax in countries where "the capitalists rule," like England, U.S.A., etc. "Well," exclaimed one communist student girl in my class, "by taxing themselves the capitalist rulers simply aim at collecting money for the police force." . . .

of the Third International are every day denounced as traitors to the Labour class in the official Press, meetings, university and broadcast speeches. Russian workmen and peasants are taught every day that the capitalists of the whole world and their Governments plot military intervention and subjugation of the Russian labourers and peasants, and they are invited to rally round the only true protector of all toilers, the Communist Government, and to defend it to the last drop of their blood. Military preparations are going on on the largest scale, and the Russian workers are admonished every day to help increase military protection. . . . The present sufferings are always described as temporary, and the Communist Golden Age is promised very soon, namely, with the imminent fall of the capitalist regime in the rest of the world. . . .

The communist leaders have shown great skill in arranging clubs and entertainments for the workmen and peasants coming into the cities. Millions are spent for this purpose, and intensive agitation is carried on by this means. All the best that the Russian theatre is able to produce is shown to the labour masses, and they fill the houses in big crowds. Entertainments and kinemas are free of charge or as cheap for a workman as a couple of eggs or as a bottle of milk, but very expensive for the non-privileged classes. Every effort is made to show respect and reverence for the new Sovereign, the Workman, who reigns . . . but does not rule. For insufficient respect shown to a humble labourer, inventor of a sealing-wax purifier, highly qualified engineers may be sent to jail for months!

The great new faith is propagated: those who do not follow are excommunicated, and the political police administer the necessary purification. . . . On the other hand, proselytes of the masses are, as are all ignorant proselytes, fanatic.

It would be a calumny to say that the communist leaders themselves are forcing their experiment for selfish motives. As a rule, they honestly believe that they are striving to save humanity and to improve the lot of the "masses" throughout the world. Most of these leaders have sacri-

ficed their youth and their health and sat for years in Tsarist prisons for their ideals, and there can be no question of selfishness—if it be conceded, that ambition and desire for power are not attributes of selfishness. . . . Naturally, they understand the insincerity of their agitation and mass propaganda, but they consider it as a means to achieve better and everlasting ideals.

Nevertheless, people with the best of intentions may do great harm and inflict terrible hardship when they are in power and have at their command the deadliest weapons of a twentieth-century army. The Soviet communists care not for tradition, for individuality, for private freedom, for free thinking, for evolution, for private initiative, or even the right to breathe, if it is not advancing their ultimate aim. . . . They want socialism, and nothing else interests them: *fiat socialismus, pereat mundus!*

§ 4. THE PLANNING OF NATIONAL ECONOMY

• Their most convincing argument is the planning of national economy as opposed to chaotic capitalistic production. Unfortunately, the Soviet Government has not shown how rational planning can be successfully carried out, even in Russia, economically poorly developed, yet so richly provided with natural resources! And if not in Russia, how much less in the whole world! . . . It is not because the Russian bureaucracy is much too inexperienced or unprepared for the gigantic task. No, the problem is really so utterly insuperable that perfectly rational planning would cost almost as much as its execution. It is not only a question of simple calculation and so-called "Control figures" prescribed by the Government, it is a task of executing all details according to a definite plan. Moreover, such a plan must be based on the strictest calculation of the future demand, and this demand *must* be strictly standardized and reduced to very simple units (so much per head for each commodity). No individual saving or individual prodigality would be tolerated. In a capitalistic society demand and supply are reduced or stimulated according

to the rise or fall of prices. Of course, in case of a sudden mishap disturbing the equilibrium of the plan, orders might be given to reduce supply or to stimulate increased consumption, or, as is done in Soviet Russia (unfortunately, sufficient supply of commodities is a rare occurrence there), to lower prices. But money exchange and planning of the whole national economy are incompatible. There might be and always will be some saving on the part of one and postponed but increased spending on the part of another. In a capitalistic society, adaptability, and especially responsibility for excessive supply or reduced demand, lies with the individual, with the *homo sapiens economicus*. In a socialistic State this adaptability is, as is shown by the Russian experiment, extremely difficult, and one asks oneself if the capitalistic State, with all its defects and wrongs, does not solve in a better way the problem of rational supply than in practice is possible by "State Planning." And, above all, planning must in the first instance prescribe a strict amount of agricultural produce and raw materials, and here humanity has not yet solved the problem, for great fluctuations in production are inevitable for many generations to come in spite of the erection of big "grain factories."

At any rate, the Russian experiment proves that State Planning is very seriously affected by the vicissitudes of crops. It is true that in Russia good or bad harvests always affected the whole economic life of the country in a most decisive manner. The fiscal year in Soviet Russia is therefore fixed according to the agricultural year, viz. from October 1 till September 30. For a long time the Commissariat of Finance strongly opposed these dates because correct planning of the State budget becomes an impossibility. The budget is planned at a time when the results of the harvest are not yet known. The obstinacy of some of the Soviet rulers, who contended that only an agricultural year represented an economic unit for Russia, prevented any alteration in this inconvenient date.

As a matter of fact, even the State budget of Soviet Russia was never ready in time to serve as a "plan." The

budget for 1925-6 was confirmed by the Government on the 25th April, 1926, viz. seven months after the beginning of the year; the budget for 1926-7 was five months late and was confirmed on February 23, 1927. Now the State budget will pass much quicker, but only because a law was passed in 1928 ("for speeding the State budget") prescribing that all figures in the projected budget were to be inserted without producing detailed plans, and that the plans were to be adapted to lump-sum grants sanctioned in the budget law. All expenditure on the different branches of national economy will henceforth be given in lump sums; expenditure on administrative departments will be given in the figures of the preceding year with lump-sum cuts (for instance, the salaries bill to be reduced by a certain percentage); explanatory memoranda should be shortened and simplified. Naturally, with such approximate planning the budget bill can be sanctioned without too great delay. . . .

In spite of the fact that the budget for 1926-7 was sanctioned five months after the beginning of the year, the error in calculating revenue was 4.7%, or 232 million rubles. The expenditure was 44 million rubles less than had been provided for in some grants and 299 million rubles more in other grants, including additional grants of 125 million rubles for railways and 42 million rubles for additional financing of national economy. In 1927-8 additional estimates amounting to 216 million rubles were required, chiefly for financing national economy and railways.

Even the State budget could not be drawn up with reasonable accuracy! In no way is the Commissariat of Finance to be blamed, because perfect planning with the big item for financing national economy is hardly possible. According to law the Commissariat of Finance could simply refuse all additional grants, and the State industry and trade might have applied for greater appropriations from the State banks; but the logic of facts is stronger than all laws and provisions. . . .

In the budget the Commissariat of Finance had a comparatively simple planning problem to solve, simply a question of maximum lump-sum grants for certain kinds

of expenditure. Often these sums are very large. For instance, "Financing of State Industry of the Union planned by V.S.N.H.—614.7 million rubles."

The planning of the State industry, showing quantity of output and relations between different branches, is a most complicated task. As far as the industry directed by V.S.N.H. is concerned, these plans are worked out by V.S.N.H. and reconsidered by the State Planning Committee ("Gosplan"). Such "Control figures of national economy" elaborated by the State Planning Committee for all branches of national economy, including private trade and industry, are ultimately confirmed by the Government, naturally not without considerable delay. They serve as "the fundamental economic plan of the country to which all other partial economic plans are subordinated" (see preface to "Control Figures," 1928-9).

Such "control figures" are published every year and represent an interesting and important publication of about 700 pages, containing valuable statistical information and detailed surveys of different branches of national economy. For each of them there are given statistics for the last three years and the "control figure" for the planned year; for instance, "the output of coal: 41,110,000 tons in 1928-9." Explanations are given as to the actual position of the leading industries; hopes or fears are expressed about the situation, and the attention of the Government or the responsible departments is called to desirable improvements. All the necessary information is received from the respective departments.

To call these "control figures" a plan such as would be elaborated for a socialistic society is a great mistake. They are interesting and useful "estimates," and hardly anything else. Those who, like myself, for years have watched the technique of compiling "control figures" know that the greatest importance in official circles is attached to the question, "Will the total industrial output rise by 16 or 20 or 22?" and this question will be debated in endless meetings. Another question of the greatest importance is, "How much per cent. should the average cost of pro-

duction decrease?" The third question is, "How many millions should be assigned in the given year for industrialization and electrification?"

Prolonged debates and endless meetings requiring hundreds of *spetzi* experts follow. Many experts saw their position depending upon the accuracy of these "control figures," and had to rely upon their gift of prophecy!

However, some of the estimates are surprisingly correct. For instance, the value of all output of the "Census" industry (industrial undertakings with over 15 labourers) had been predicted for 1927-8 to rise in comparison with the preceding year by 14.3%, and in reality it rose by 21.6%; the value of production of large-scale State industry by 15.8%, and in reality it rose by 22.3%; the transport of goods by rail to rise by 14.8%, and in reality it rose by 11%. Mistakes of such a small percentage are quite natural, and calculations of the value of actual output can never be exact, although in predicting lump sums the economic law of long figures helps. Happily, these mistakes are perfectly harmless.

Only with the budget and the State credit apparatus serious mistakes in estimates have grave consequences, because they necessitate additional unforeseen expenditure and even inflation; and especially in this respect the Gosplan was much less fortunate in its predictions. For instance, the Gosplan estimated the increase in the State net budget at 16.3%, while the actual rise was 34.2%; the increase in the issue of bank-notes was predicted as 14.3%, and in reality it was 19.8%, and instead of the predicted increase in the bank deposits by 17.6% they actually rose 9.0% only.

The greatest practical importance of "control figures" consists in indicating the maximum amount of State subvention and of maximum financing of the State industry through the State banks. Over this issue there is a constant struggle between the Commissariat of Finance, which is naturally optimistic and interested in lowering its share, and the Supreme Council of National Economy (V.S.N.H.), which is pessimistic and continually insisting on increased

grants and finance. The Gosplan usually holds the golden mean, but is inclined to support rather the views of V.S.N.H., and for some time even advocated inflation.

A few persons of the highest official standing in the Government and the Communist party decide "control figures" after listening to the declarations of the interested departments, and they ultimately become law. But the practical value of this law consists chiefly in the financial dispositions, and V.S.N.H. and other departments have to accept the Procrustean bed and adapt their plans accordingly.

Of course "control figures" cannot have the meaning of a socialistic plan, in spite of all the solemn declarations of the communist leaders to the contrary. These figures simply *estimate*, and as a matter of fact in many instances they simply prophesy, because no real "estimate" of a peasants' produce a year in advance is possible under existing conditions. They estimate the future probable output, calculate the future economic outlook and suggest possible improvements. This differs from the usual estimates and plans of big concerns, leading banks, conjuncture institutes, departmental surveys, etc. of capitalistic countries in one respect only: they are usually less reliable (*e.g.* future harvest estimates), and for practical purposes, less important, but they are collected in one central department and published in a handier form and are invaluable for reference purposes.

More in the nature of a real plan and more important in practical use are the partial plans of V.S.N.H. and its subordinate sections and trusts and other departments regarding their future output. As a rule, they are kept secret, and their disclosure to foreigners might result in capital punishment for those in charge. This material is used and criticized by the Gosplan. At the same time, the confirmation of these plans often results in the dangerous practice of "forcing quantities." The Red directors are responsible for the execution of the ratified plan. The possibility of a further increase of wages is dependent on obtaining an output larger than that estimated, and also on lower cost of production. Moreover, it would seem that

a socialistic plan would begin with establishing the necessary demand and then adapting the supply accordingly. Instead, the Soviet Russian attitude towards the balance of possible demand and supply surpasses all Machiavellian devices. The Gosplan recommends, for instance, in order to decrease the possible demand from the middle and well-to-do peasants, an increase for them in the membership fee of consumer co-operatives. These fees would vary according to their income, and by this means "extract surplus money from them." Agricultural machinery should be sold to the middle and well-to-do peasantry on less favourable credit conditions according to their income; and it is further recommended that the purchasing of cattle for meat be decreased in districts with a good harvest and increased in districts with a poor harvest, or the Gosplan recommends the State to speculate! It is recommended that this policy with reference to other agricultural produce be carried on in such a way "as not to give to the population excessive money incomes,"¹ i.e. they should be prevented from increasing their demands for manufactured goods. . . .

As a matter of fact, the present Soviet Russian "plan" has for its aim the speediest industrialization as a solution of the political problem for internal purposes, by creating working masses depending on State industry, and for international purposes by liberation from foreign economic dependence. There is very little real planning, but such as there is really represents merely orders directed to responsible quarters for a minimum output and for a lowering of cost of production as far as possible. Therefore, every increase of output above estimates is hailed as a great achievement, prizes are given for it and the newspapers are exuberant in their rejoicing. Nothing gives more satisfaction than news that the "plan" has been surpassed. This is exactly the opposite of all socialistic conception, which considers the weakest point in the capitalistic society its "planless" production and recurrent over-production!

Under existing conditions in Soviet Russia all production

¹ *Kontrolniye siffrs*, 1928-9, p. 293.

beyond the estimates is quite harmless. There is a shortage of supply in practically every commodity, so that any improvement on the plans is simply a blessing, and means some small reduction in the sufferings of the population. On the other hand, there exists an extremely convenient device for doing away with any superfluous stocks, should such ever exist, namely, disposing of surpluses in foreign countries regardless of price, which the monopoly of foreign trade makes possible. There is such a great difference in prices in Russia compared with those obtaining in capitalistic countries in regard to practically all commodities that the Soviet Government can always export on dumping principles and cover the losses of such export by importing at a fabulous profit cheap foreign goods, of which a great shortage exists in Russia. This happened with the production of matches, and a decree was even issued prohibiting the erection of new match factories. Now the surplus of production is invading the British, German and other markets, and doing more or less perceptible harm to the match industry of these countries (cp. below, Chap. VII).

Therefore we cannot speak of seriously "planning" industrial production in Soviet Russia. The Soviet Government has not proved that the planning of national economy advocated by the socialist doctrine as opposed to chaotic production of a capitalistic society can be achieved successfully, even in an industrially undeveloped country with rich natural resources. Therefore it is still an open question, whether the planning of all State economy in a highly developed country, especially one with insufficient natural resources and raw materials, may not encounter greater practical difficulties than and give no appreciable advantages over modern high capitalistic arrangements spreading over several countries. As a matter of fact, the artificial customs tariffs of capitalistic countries stand more perhaps in the way of rationalization of international production than the capitalistic order as such.

§ 5. THE FIVE-YEAR PLAN

Much more interesting and serious is the great five-year plan of industrialization of Soviet Russia, namely, the brightly outlined scheme of future development of Russian industry, transport and agriculture. The outlining of this plan began about three years ago, and its final form has been postponed every year since, and consequently the "last year" of the five-year plan has had to be postponed. It is not ready even now, although it has been solemnly approved by the Soviet Legislature, and partial reconstruction is going on according to the test of practical experience. Joseph M. Pavloff of the Soviet Russian delegation in the U.S.A. (Amtorg Trading Company) published in America in April 1929 a small pamphlet giving the most important facts and figures of this plan.¹

In outlining the five-year plan the compilers encountered great difficulty in arriving at the final figures. Each time the figures for the current year became obsolete before the manuscript could go to press.

The value of this five-year plan does not lie in the prophecy about exact figures, although the compilers (thousands of experts, including myself, in all departments and organizations have collaborated all these years) attached the greatest importance to "exact" figures of future production. The chief value of the plan consists in the detailed investigation of real possibilities, economic trends and imminent difficulties. The partial plans prepared by the V.S.N.H. and other departments were scrutinized, verified and brought together. A list of proposed new factories² and the reconstruction of

¹ See also the official publication: *The Soviet Union Looks Ahead*.

² The list of new factories planned during five years or already under construction is attached to the original "plan" and contains in sixty pages the names of about 2,000 new factories; the location of these factories is given and the cost (about 6,000,000,000 rubles) and the date of completion are indicated. Before the war about 100 industrial public companies (corporations) with a capital of about 200,000,000 gold rubles were created each year. Considering that since the Revolution Russia has lost important industrial regions (Poland, etc.), the plan of erecting about 2,000 new factories cannot be considered too ambitious, because it simply fills up a gap due to the war and revolution during a period of some twenty years. It may be questioned if group "A" should not be preferred and too great a waste avoided by closer co-operation with

existing plant has been elaborated and the necessary preparations made. Great stress has been laid on eliminating future foreign supply and on making Russia industrially self-supporting. Political considerations in outlining future economic policy, especially in respect to peasant produce, naturally played also a very important rôle.

Now is this five-year plan a real plan of a socialistic society? Not at all! It is rather a programme of future economic policy and a calculation of the probable and maximum possible output. The fact that the Soviet Government elaborated a large programme of new factories is only the natural consequence of the abolition of private capitalism. The nation would succumb if new factories were not built on a large scale, but it is a question whether the Soviet Government and Gosplan will be more successful in this respect than private capitalists might have been. If foreign or domestic capitalists had invested their money, they would be the first to suffer the consequences of an unsatis-

foreign countries. . . . Some of the largest new factories now under construction include:

Type of factory.	Where located.	Date of completion.	Total cost in million rubles.
Electric generating station	Moscow city	1933	50
Automobile	N. Novgorod	1933	100
Central chemical combine	Moscow prov.	1933	60
Glass	N. Novgorod	1933	35
Cotton mill	Iv. Vosnesensk	1930	33
Paper combine	Syassj	1931	35
Coal mines	Donetz	1933	430
Metallurgical works	Krivoi Rog	1933	192
Metallurgical works	Zaporozhye	1933	140
Heavy machinery	Kramatorovka	1933	60
Fertilizers combine	Ukraine	1933	144
Metallurgical works	Kerch	1933	150
Machinery	Ural	1931	38
Railway cars	N. Tagil	1933	65
Tractors	Chelyabinsk	1933	80
Metallurgical works	Kuznetzk	1933	116
Ridder copper combine	Kazak Republic	1933	45
Chemical combine	Uzbek Republic	1933	63
Cotton mill	Uzbek Republic	1933	75
Cotton mills	Fergana	1933	42
Oil	Tuapse	1933	73
Agricultural machinery	Rostov on Don	1932	56

factory investment. Now, for the mistakes of a few Gosplan prophets the already heavily-taxed Russian people will have to pay. Let us hope that this "plan" may be successful and useful, for the Russian nation has already endured endless sufferings and privations through the socialistic experiments of its present government.

J. M. Pavloff shows in his pamphlet what a tremendous increase of production Russia would achieve in the five years (till 1932-3). The production of tractors will be 46 times that of the 1927-8 output, of automobiles 13.1 times, of zinc 24.6, asbestos 5.56, coal 21.1, pig iron 21.4, rubber tyres 7.1, etc. The marvel of such a fabulous increase can be explained very simply. The number of tractors produced in 1927-8 was only 1,150, and in five years the yearly production will be 53,000. Russia had hardly produced automobiles at all, and in five years, with the help of Mr. Henry Ford, a production of 105,000 (in the lately revised plan even 140,000) a year is planned; 65,000 rubber tyres were produced in 1927-8, and 460,000 will be produced in 1932-3. The output of pig iron will increase in five years, from 3,277,000 tons to 8,010,000 tons; of coal from 35,300,000 tons to 75,000,000 tons, etc.¹

J. M. Pavloff says in the foreword to his pamphlet that the industrialization policy "calls for large imports of industrial, mining, and agricultural equipment from the most industrially developed foreign countries," and that "these countries in turn must shape their trade policies toward the Soviet Union in conformity with the five-year plan, if they seriously desire to utilize fully the rich potentialities of the Soviet market." Unfortunately, J. M. Pavloff does not make the most important explanation, that in Soviet Russia every import depends on the consent of the Government, and political considerations decide if any import will be allowed at all. There is no need and no possibility for foreign countries to "shape their trade policies toward

¹ It should be noted that there are two variants of the five-year plan: (1) the minimum, and (2) the "optimal" plans. J. M. Pavloff gives only the latter. However, many details have been changed already in the new edition. The introduction of an uninterrupted week will naturally sweep away the whole plan!

the Soviet Union," because the necessary directions are given by the Soviet Russian Foreign Office!

Is this bold five-year plan outlining capital investment of 9,305 million rubles (£940,000,000, or \$4,750,000,000) for heavy industry (group "A") and of 2,449 million rubles (£260,000,000, or \$1,350,000,000) for light industry (group "B")¹ during five years, realizable?

Mr. Schaeffer, a well-informed correspondent of the *Berliner Tageblatt* in Moscow (June 12, 1929), is simply overwhelmed by such a far-reaching and most original scheme. "Poor old Europe," he says: "If this experiment succeeds only by three-quarters, there is no doubt about final victory. This would be a victory of socialistic methods achieved by the power of a young, self-reliant and gifted nation."²

I do not doubt in the least that this plan will be achieved, and that it is perfectly realizable, unless some serious international or internal political crisis prevents its execution to the full extent. If realization of this scheme be considered as "a victory of socialistic method," I am inclined to think that this socialistic method is much behind what undoubtedly would have been achieved in the ordinary course of events under a capitalistic order in Russia.

There is nothing supernatural in increasing the output, for instance, of pig iron from 3,277,000 tons to 8,010,000 tons in five years in a country with rich natural resources and rapidly rising town population. Russia will still be one of the poorest of poor countries in this respect, reckoning per head of the population. After about twenty years of insufficient supply and with an increase of about 18,000,000 population in the next five years, and especially with a great increase in urban population, there is ample ground for fear of further insufficiency. An increase of output by

¹ The "optimal" plan provides 10,640 million rubles for heavy industry and 2,860 million rubles for light industry (*Pyatiletniy Plan*, Vol. II. p. 1, 2nd ed., 1929, p. 265), including investment in entirely new factories of 5,167 million rubles in group "A" and of 1,266 million rubles in group "B." In fact, the new edition of the five-year plan estimates an expenditure of 16,400,000,000 rubles in five years!

² In the meantime Mr. Schaeffer was forbidden by the Soviet Government to return to Russia.

144.4% in five years naturally strikes the imagination, but quantitatively it is nothing supernatural. In the five years which preceded the Great War, Russia increased her production of pig iron by 1,625,000 tons (exclusive of Polish districts; some quantities were imported), and in 1927-8 the production was only 3,328,000 tons (rectified figure, not yet known to Pavloff) in comparison with 4,207,000 tons on the same area in 1913. The output of coal increases in five years from 35.4 million tons to 75 million tons, or by 112.5%. In the last three years before the war the chief Donetz region alone increased production of coal by 9,000,000 tons,¹ and many new achievements were secured during the war. On the other hand, Russia used to import large quantities of coal for her industry in the north-west districts.

Still, the great increase of output of pig iron, coal, etc. is no doubt a comparatively marvellous achievement and therefore should not be minimized. However, there is a weak spot, namely, high cost and poor quality. Hundreds of millions have been invested and will be invested over again with an overstrain of the people's resources, and nobody knows if it is really sound and necessary! In the five-year plan the State budget will supply the State industry with subsidies amounting to 6,522 million rubles,² the State bank apparatus (partly by means of inflation) with 1,000 million rubles, foreign credit and the State Industrial Bank with 1,000 million rubles, or with a total of 9,422 million rubles. During all these five years the State industry will be run at a loss. Group "A" is to be endowed with increased capital in spite of its low profit. The interests of the general consumer will, as usual, be neglected in the next five years. In other words, real improvement in the supply of the Russian nation with ordinary consumer's

¹ In a five-year plan, 1914-18 (such also existed in Tsarist Russia before the war) the output of coal would have risen in Donetz by another 9,000,000 tons, especially in anthracite coal, and an export of some 5,000,000 tons anthracite per annum to Italy was planned.

² *Viz.* 903 m. r. in 1928-9, 1,085 m. r. in 1929-30, 1,254 m. r. in 1930-31, 1,543 m. r. in 1931-2, and 1,737 m. r. in 1932-3, or a total of 6,522 m. r. It should be noted that this is an optimistic variant presuming considerable achievements in lowering cost of production. It can hardly be doubted that the financial strain will be much greater.

commodities cannot be expected for many years to come. . . .

Should this five-year plan fail (happily it will be more than successful, I believe) it would be a serious calamity and mean the continuance of even greater privations for the Russian people. Through the obstinacy of their Soviet Government, year after year the Russians have been deprived of foreign supplies of the most important commodities and have never had sufficient cloth, glass, nails, bricks, building materials, needles, thread, sole leather, iron, paper, soap, lamps, vegetable oil, sugar, or even bread and other foods. Even after the execution of the five-year plan an average Russian will have in a year only very small quantities of manufactured goods, as may be seen from the following table taken integrally from the official Plan, Vol. II, Pt. 2, 2nd ed., p. 46 :

QUANTITY OF COMMODITIES AVAILABLE FOR CONSUMPTION
PER HEAD PER ANNUM IN SOVIET RUSSIA

Commodities.	Measure.	1927-8.	1932-3.	
			Minimum variant.	Optimal variant.
1. Vodka	Bottles	5'7	4'5	3'5
2. Salt	Kilogr.	11'9	13'3	13'3
3. Makhorka (tobacco of low quality)	Kilogr.	0'56	0'60	0'68
4. Cotton cloth	Metres	15'2	20'4	21'3
5. Cigarettes		302	435	435
6. Matches	Boxes	29'9	38'6	47'3
7. Kerosene	Kilogr.	6'2	9'4	10'7
8. Goloshes	Pairs	0'22	0'31	0'38
9. Gran. sugar	Kilogr.	7'7	11'9	13'9
10. Boots	Pairs	0'40	0'65	0'74
11. Woolen cloth	Metres	0'48	0'84	1'17
12. Sunflower seed oil	Kilogr.	1'73	3'77	4'33
13. Tea	Kilogr.	0'17	0'45	0'592
14. Agricultural imple-ments	Rubles	0'94	3'50	4'07
15. Fertilizers	Copecs	4'1	112'3	130'0
Value of these commodities in rubles	Rubles	28'9	43'5	48'3

The poorness of this supply is evident, especially after

years of under-supply. Privation will go on, and perhaps the great majority of the Russian people will have become so accustomed to such a low standard of life that they will not strive for better conditions, for even now they are accustomed to stand in queues for everything, and consider this practice almost natural. . . .

The Soviet Government does not pay much attention to bettering the supply of commodities to the general consumer. This may be seen from the fact that even in the current year (1930) the under-supply will be aggravated in many instances. The quantity of commodities available for consumption per head of the population, *including foreign import*, will be in sugar 86.8%, in roof iron 94.9%, in makhorka (low-grade tobacco) 87.9%, in textiles 111.8%, in vodka 106.7%, in soap 105.2%, in beer 99.4%, in sunflower seed oil 112.7%, in boots 111.9% of the supply of the preceding year.

There is no victory of socialistic methods, as Mr. Schaeffer is inclined to think; it is a display of fanatic force only. Nevertheless, we can exclaim with Mr. Schaeffer: "Poor old Europe!" And for two reasons:

(1) If European democracies would consent, if only for a few years, to let their broad masses undergo even somewhat mitigated privations, such as the Russian masses undergo and will undergo for many years, and would apply the resultant savings to great measures of social welfare, the gloomy miseries of the capitalistic society would be mitigated very quickly and in a drastic manner. However, in modern European parliaments, even a simple turnover tax or a tea duty is considered too "undemocratic." Everybody expects that great social betterment will fall from heaven, and the necessary funds, so easily found for a war, are not found for social betterment!

(2) The Russian experiment has affected, and will affect still more in the future, the economic and political situation in Western Europe very unfavourably. Everything is done by the Soviet Government to avoid co-operation in the economic revival of Europe and to eliminate as far as possible industrial import from Europe. Moreover, the

monopoly of foreign trade is used chiefly as a means of political pressure and of economic dumping, and big military preparations are going on. . . .

Mr. Schaeffer seems to be under the impression that State capitalism is an impossibility and can never survive. No doubt, in free competition with private capital, State capitalism may become unprofitable and untenable. But the Soviet Russian Government has a *monopolized* system of State production supported by armed force and taxation, and has at its disposal the greatest imaginable riches and natural resources in an area comprising one-sixth of the earth's surface and embracing all climates. All losses are covered by ever-increasing taxation. Industrial production may cost much and might have been secured with capitalistic methods with less waste and better quality. Consequently, the average man of a communist society like Soviet Russia may have a smaller quantity of goods at his disposal in comparison with an average man in a capitalistic society, but why should increased production become an impossibility? As a matter of fact, the five-year plan expects a rise of national income per head of population from 177 cherv. rubles (£18.6, or \$91) in 1928-9 to 240 cherv. rubles (£25.8, or \$123) in 1932-3.¹ The pre-war per head income was about 104 *gold* rubles, which corresponds to about 215 cherv. rubles if we take into consideration the retail price index of 1928-9. Even the pre-war standard of national income has not yet been achieved!

From an economic point of view it may seem ridiculous to increase capital investment to such an extent in a country with little savings and immense labour reserves, but why should increased investment become impossible so long as increased taxation will suffice to cover all such expenditure?

From a technical standpoint the Russian Government introduces the most perfect equipment for "economizing" manual labour, and there are plenty of foreign specialists

¹ *Pyatiletniy Plan*, Vol. I, 2nd ed., 1929, p. 163: national income 27,466,000,000 rubles for 154.8 million inhabitants in 1928-9, and 40,674,000,000 rubles for 169.2 million inhabitants in 1932-3. The "optimal" variant expects an average income of 256 cherv. rubles in 1932-3 (cf. *ibidem*, Vol. II, Pt. 2, p. 22).

who receive fees which are fabulous, from the Russian standpoint, for necessary instruction. Everything can be bought that is obtainable in a capitalistic society, and the Commissariat of Education proposed lately to invite a great number of foreign professors (among them twenty professors from Germany¹) at a time when native-born professors of long standing and experience are deprived in large numbers of their chairs simply for political reasons. . . .

This system of monopolized State capitalism can go on and will go on so long as the majority of the Russian people, and especially the peasantry, are unable to oppose successfully the armed force of the Government, and do not demand cheaper foreign produce in free exchange of their free labour and the restoration of private initiative. Another menace to the existing monopolized State capitalism consists in the inability of the Russian State to absorb the huge masses of the Russian peasant proletariat, amounting to a score of millions of "superfluous" rural adult population (cf. above, Chap. III) without the help of foreign capital.

The five-year plan provides that the number of industrial workmen in the "Census industry" (*viz.* in industry coming under the Census, or all industrial undertakings having more than 15 labourers) will rise from 2,602,000 in 1927-8 to 3,250,000 in 1932-3, or by 648,000 persons only.²

It seems that a favourable opening for the Soviet Government is offered now by America and England. Even Mr. Henry Ford supplied the Soviet Government with large means and equipment for an enormous automobile factory. It is a surprising fact that this factory will be built in Nishni-Novgorod, where for hundreds of miles around neither coal nor iron is produced. However, there is a general tendency in the Soviet Government to move many important branches of industry to the eastern parts of European Russia and the Urals, and lately the existing programmes have been reconsidered, with the result that large new industrial investment in the eastern regions has been ordered (chemical, metal and other works). Over 300 million rubles (£30,000,000)

¹ *Vechernyaya Moskva*, September 13, 1929.

² *Pyatiletniy Plan*, Vol. II, Part 1, 2nd ed., 1929, p. 68.

will be spent in 1928-9 for this purpose, involving about 1,000 million rubles in following years. This will at the same time greatly improve the military equipment of Russia and serve as a military precaution, because the Great War has demonstrated very clearly the dangers of concentrating industry in the north-west and south of Russia only.

CHAPTER V

THE ECONOMIC POSITION OF THE WORKING CLASS IN SOVIET RUSSIA

THE average real wages of manual workmen in Soviet Russia are higher now than in pre-war times. Nominally, they are about 216% of the pre-war level and in purchasing capacity about 20% higher than the pre-war wages. But there are great differences in the various branches of industry. Miners get only 91%, metal workmen 113%, carpenters 140%, textile workmen 162%, chemical 164%, leather 169%, food and tobacco workmen 195% of the pre-war wages. As has been explained above, light industries (group "B") are much more disposed to comply with the demands for further increase of wages, and their financial position is on the average easier. Although the Government insists on yielding to these demands only in case of an adequate increase of production and lowering cost, actual conditions usually force it to yield to a greater extent. Thus, according to Government plans the rise of labour wages during 1928-9 was anticipated at 7% upon condition of increasing the efficiency of labour by 17% and lowering costs by 7%. Provisional figures for 1928-9 show that in reality wages rose by 9.3% and efficiency increased by 16% only.

On the whole, in 1928-9 the average wages of a workman in State industry were 73 rubles 10 copecs a month (£7 14s. 6d., or \$36.62) in comparison with 66 rubles 90 copecs (£7 1s. 5d.) in 1927-8. The largest rise of wages last year occurred in the paper industry (16.9%), metal industry (11.7%), food 9.5%, mining 7.9%, textile 7.6%. Reviewing these results, the official Press complains that again light industry went ahead, and explains that this is chiefly due to an insufficient allowance for new technical improvements auto-

matically increasing production: in other words, wages should have been lowered per unit of production accordingly. The five-year plan expects that the average real wages of industrial workmen will amount in 1932-3 to 209% of the pre-war level (1913 = 100), or 98 rubles 28 copecs (£10 8s.) a month.¹

Taking into account irregularities in the supply of food and occasional surcharges of the workman's budget in this connection, the rise of real wages in 1928-9 has been less effective than might be concluded from the above figures. On the other hand, the Soviet authorities point out that the fund for bettering the welfare of the workmen has been increased substantially (30 million rubles more than in the preceding year), and 112 million rubles have been spent on the erection of workmen's dwellings.

It is planned to increase wages in the next year (1929-30) by 9%, under the "strict pledge of increasing efficiency" by 23%, and orders have been given to overhaul the existing wages contracts accordingly. The fund for the welfare of the workmen will be increased again and reach some 200 million rubles, and for housing 300 million rubles.

The welfare of the working class is improved also by the State insurance of workmen and other employees in case of sickness, accident, old age and unemployment, for which the employer pays the necessary premiums. This costs over 1000 million rubles a year. In pre-war times an employer was obliged to provide employed workmen with medical help only, and was responsible for accidents. Two weeks' leave every year is now guaranteed to every employee.

In 1927-8 the average wages in the "Census" (large-scale) industry alone amounted to 75 rubles (£8) a month; in other industries 50 rubles a month; in the building industry 81 rubles a month; in railway service 70 rubles a month; household servants received on the average 18 rubles a month. It should be borne in mind that the cost of living in the Russian cities is very high!

¹ 209% is the optimal variant, including expenditure on labour clubs, etc. (*Pyatiletmiy Plan*, Vol. I, 2nd ed., 1929, pp. 137 and 190).

There is a great deal of unemployment in Soviet Russia besides the score of millions of "superfluous agricultural adult population." Exact figures about unemployment cannot be secured, because the State Labour Exchanges do not register all persons applying for work, and Labour Exchanges do not exist everywhere. The influx of adult persons from the villages seeking employment is very large, and increasing with every year. According to Labour Exchange statistics, on the average among unemployed 13.7% in 1925-6, 11.9% in 1926-7 and 10.0% in 1927-8 were registered as persons arrived from villages; but it should be noted that there was an order given not to include in the registers unskilled peasants,

The figures of registration by Labour Exchanges and the trade unions may be here noted :

THE AVERAGE NUMBER OF REGISTERED UNEMPLOYED PERSONS (000'S OMITTED)

Fiscal year.	At the Labour Exchanges.			At the Trade Unions.	
	Total number of unemployed.	Including Non-members of a trade union.	Members of trade unions.	Including agricultural workmen.	Excluding agricultural workmen.
1925-6	1017	532	485	1085	931
1926-7	1241	555	687	1504	1250
1927-8	1290	423	867	1873	1535

Taking both sources of information, the official computation of all unemployment is : 1,463,000 for 1925-6, 1,805,000 for 1926-7, and 1,958,000 for 1927-8. In fact, it should be taken at a higher figure. Unemployment is especially great in food, sugar, dressmaking, leather, building and the printing industries, amounting to 20-25% and more of all trade union members. It is noteworthy that light industry is conspicuously represented. According to a special investigation of the Central Union of trade unions for 1927, a large proportion of workmen were out of work for one and

a half and more years, as may be seen from the following table :

PERCENTAGE OF WORKMEN WITHOUT WORK

Trade Union.	For 1½-2 years.			For over 2 years.		
	Men.	Women	Both sexes.	Men.	Women	Both sexes.
Metals . . .	4.6	9.3	5.8	4.0	19.6	7.9
Textile . . .	5.8	8.8	7.6	5.5	12.6	9.5
Mining . . .	1.9	2.9	2.1	1.9	7.0	3.3
Chemicals . . .	4.6	6.3	5.4	5.3	17.6	11.0
Leather . . .	6.5	5.6	6.3	10.5	23.8	13.6
Printing . . .	9.3	12.0	10.6	7.3	20.9	13.8
Paper . . .	2.8	6.2	4.5	3.5	23.9	13.7
Dressmaking . . .	6.2	7.6	7.2	13.5	34.8	29.9
Building . . .	0.7	2.8	1.2	0.6	4.3	1.4

Such prolonged unemployment among some categories of workmen is partly due to the mechanization and rationalization of the respective industries, making manual work less necessary. On the other hand, it is contended that among those registered by trade unions a certain proportion is fictitious, *i.e.* they are receiving doles and avoiding work, although regular and drastic steps to suppress this are taken from time to time.

77% of unemployed men and 71% of unemployed women have families, the rest are single. A sum of 147 million rubles was provided in 1928-9 for unemployment relief, *viz.* 7.2 million rubles by the State budget, 11 million rubles by local budgets, and 129 million rubles by State social insurance; on the other hand, trade unions allocated about 30 million rubles for this purpose. The State social insurance assigned for the first time in 1928-9 a sum of 8 million rubles for old age pensions in order to lessen unemployment among the younger generation; for this reason it is planned to increase old age relief, *viz.* to dismiss and to pay pensions to men at 60 and women at 55 years, the pensions being only four-ninths of their former wages.

It should be noted that not all unemployed or insured persons receive relief, and not always to the full amount. In case of illness only a limited sum is paid.

In October 1928 the total number of pensioners receiving relief amounted to 932,700 persons (including 532,200 invalid workers and 351,500 families of dead invalid workers). On the average, monthly relief to an ordinary invalid worker amounted to 22 rubles and to a worker incapacitated through industrial accident to 28 rubles (£2 19s. 2d.). Only 642,700 persons received unemployment relief, which amounted to 14 rubles (£1 9s. 7d.) a month on the average. Over 70,000 persons received unemployment relief in Moscow alone.

In spite of considerable State investment in new housing, *viz.* about 900 million rubles in the last four years, it was absolutely insufficient for the large increase of population in the cities. All privileges given to the labour class in occupying available housing space and compulsory lodging have resulted in terrible congestion of many families in one flat or house. There is hardly any house where one and the same kitchen is not used by several families. Private people were allowed to build their own houses, and some privileges were given to new-built houses (liberation from taxation, etc.), but there was not enough confidence in the security of ownership, and great difficulties in obtaining building materials were experienced. Co-operative building provided houses chiefly for State officials. But all this building, however, was absolutely insufficient, and housing conditions and the shortage of housing space in Soviet Russian towns surpass all imagination.

The average housing space available for use by the families of working men fell as low as 4·8 square metres per head (52 square feet), or a space just sufficient for a bed only! In some towns and for some branches of industry, where the factories do not provide their labourers with housing, housing conditions are especially bad. For instance, in the centre of the Russian textile industry, namely, Ivanovo-Voznesensk, about 200 miles from Moscow, the labourers live in their own houses or in houses owned by private people, and enjoy on an average 2·7-2·8 square metres (about 30 square feet) per head. Extremely bad are housing conditions in the Ural and Donetz regions. In some places labourers live in slums, and whole families occupy

two- and three-storied shelves ("nary") instead of rooms. About 7,500 families of railway workmen live in old railway cars or simple huts made from earth, and the number of such cases has increased even in the last few years. According to the census of 1926, 28% of all industrial workmen (and 43% of miners) occupy a housing space of less than 3 square metres (32 square feet) per head.¹

Plans were made to increase the building of dwellings for labourers with the aim of achieving in five years' time an average housing space of 6 square metres per head of the population. This, although still insufficient for ordinary health requirements, will necessitate an expenditure of over 1,500,000,000 rubles, and will hardly be possible from the point of view of available building materials. Therefore, the new housing planned will be much behind the actual demand, and housing conditions will remain extremely bad for many years to come. At any rate, the enormous new building of factories will not be accompanied by adequate increase in housing. Private house-building can hardly alleviate the existing calamity, because all available building materials will be kept for the needs of industrialization. Thus, here again the industrialization scheme goes before the interests of the consumer!

An investigation of 1,380 typical family budgets of industrial workmen in the chief industrial districts of Moscow, Leningrad, Ural and the Ukraine in November 1926 revealed the following living conditions of the *élite* of the Russian industrial working class.² On the average, among these better-situated labourers, the total income of a family was 103 r. 90 c. (£11), or 25 r. 91 c. (53 shillings) per head a month. This income consisted of 77 r. 49 c. in wages of the chief worker of the family, and of 8 r. 17 c. in wages of other family members. The rest consisted in casual earnings, insurance relief, selling of old things, and as to 6 r. 20 c. in borrowed sums. These families spent on the average 102 rubles (£10 15s. 7d., or \$52.50) a month, as may be seen from the following table:

¹ *Pyatiletniy Plan*, Vol. II, Pt. 2, 2nd ed., p. 282.

² *Statisticheskoye Obozreniye*, May 1927.

THE AVERAGE MONTHLY EXPENDITURE OF A MARRIED
WORKMAN IN SOVIET RUSSIA (IN NOVEMBER 1926
IN FOUR PRINCIPAL INDUSTRIAL DISTRICTS)

	(In cherv. rubles; 1 cherv. ruble = 2s. 1d.)		%
	On the average for each house- hold.	On the average for each member of the family.	
House rent	6·84	2·54	6·7
Fuel and light	7·06	2·62	6·9
Food	46·89	17·39	46·0
Including: At home	45·69	16·95	44·8
Outdoor	1·04	0·38	1·0
Sundries	0·16	0·06	0·2
Alcoholic drinks	2·54	0·94	2·5
Tobacco, cigarettes, matches	1·46	0·54	1·4
Clothes and boots	19·64	7·28	19·3
Including: New ones	16·38	6·07	16·2
Sewing and mending	1·87	0·69	1·8
Materials and articles for sewing and darning	0·65	0·24	0·6
Laundry	0·74	0·28	0·7
Household articles	2·75	1·02	2·7
Health	0·60	0·22	0·6
Medicine	0·35	0·13	0·3
Tools, etc., for production at home	1·58	0·59	1·5
Cultural and educational expenses	1·93	0·72	1·9
Including: Books and magazines	0·77	0·28	0·8
Theatres, entertainments, etc.	0·76	0·29	0·7
Political purposes	2·92	1·08	2·9
Including: to the trade union	1·38	0·51	1·4
Help to absent members of the family	1·04	0·38	1·0
Religious matters	0·03	0·01	0·0
Repayment of debts	3·14	1·16	3·1
Sundries	3·23	1·20	3·2
Total	102·00	37·82	100·0

Food, fuel and light, house rent and clothes and boots absorb the greater part of the budget of a worker's family consisting on the average of 2·1 members (1·22 actual workers).

THE MONTHLY CONSUMPTION OF THE PRINCIPAL KINDS OF FOOD AMONG ADULT WORKMEN ON THE AVERAGE IN FOUR CHIEF INDUSTRIAL DISTRICTS OF SOVIET RUSSIA IN NOVEMBER 1926

	Quantity in kilograms. (A kilogram = 2 lbs. 3 oz.)	Price in cherv. copecs. (A cherv. copec = a farthing.)
Rye flour	5·883	71·7
Wheat flour	14·401	338·3
Farinaceous food	1·037	27·9
Potatoes	14·393	73·0
Vegetables	5·610	88·5
Meat	6·912	496·9
Fish	1·099	61·9
Milk	6·088	141·1
Butter	0·306	59·8
Vegetable oil	0·495	29·9
Eggs	0·180	23·9
Sugar	1·536	108·7
Tea	0·033	26·3

We see from these figures that on the average an adult workman consumes in a month about 32 lbs. of potatoes costing 1s. 6d., about 15 lbs. of meat costing 10s., about 2 lbs. of fish costing 1s. 4d., about 11 oz. of butter costing 1s. 3d., about 4 lbs. 5 oz. of sugar costing 2s. 4d., and about 1 oz. of tea costing 7d.

These figures are noteworthy, because the industrial workers' food is bought as a rule in their co-operative shops, where the prices are lower. "Black" (rye) bread was bought at 10·9 cop. a kilogram and rye flour at 8·4 cop. a kilogram; "white" (wheat) bread was bought at 24·8 cop. (3d. a lb.) and wheat flour at 17·5 cop. a kilogram. Meat was bought at 72 cop. a kilogram, or 8d. a lb.

A worker's family buys on the average 12·391 metres of cotton cloth, costing 10 r. 27 c. (£1 1s.) a year, and 1·541 metres (1·4 yards) of woollen cloth costing 14 r. 68 c. a year, and 1·241 pairs of boots costing 11 r. 28 c. a year. In other words, a metre (39·37 inches) of cotton cloth costs the workman on the average 83 cop. (1s. 8d.), a metre of woollen cloth 9·52 cop. (£1 0s. 1½d.), and a pair of boots for a grown person 18 r.

An interesting item is the expenditure on alcoholic drinks (2 r. 54 cop., or about 5s. 4d., per family a month) in comparison with the expenditure on the so-called "*opium of the people*,"¹ viz. religion, 0.03 rouble (three-farthings!) a month. The expenditure on alcoholic drinks absorbs every year a greater amount of money and plays an increased rôle in the family budget, viz. 73 cop. in 1924; 1 r. 94 cop. in 1925 (or 2.1% of all expenses of a workman's family), 2 r. 33 c. in 1926, and 2 r. 97 cop. in 1927 (2.8%), a month.

As far as calories consumed in food are concerned, an average workman in the cities is somewhat better off (3.448 calories a day per adult person) than an average adult State official (3.246 calories). A labourer consumes somewhat more vegetable food, and an average State official somewhat more meat.

In some cases the nourishment of workmen is very bad indeed. Lately the official Press revealed the fact that in two principal coal districts the greater number of unmarried miners, who constitute about 40% of all miners, for weeks do not get any hot meals because there are no public inns: miners leave these districts in large numbers (*Isvestiya*, November 4, 1929).

There is no doubt about improving the standard of life of workmen under the existing regime in comparison with pre-war conditions. The social standing of a workman now is of course incomparable with the old regime, where no democratic liberties were tolerated. But economic improvement is true only in relation to the new "*beati possidentes*" employment. Up to the present time, not to speak of the horrible privations during the socialistic regime pure and simple in the first years of Bolshevism, the workmen as a class have not gained much in comparison with the opportunities of such development under the capitalistic order with a democratic regime. The working class of Russia has to pay a terrible price for further industrialization, and heavy taxation and forced loans damage the whole

¹ On one of the chief buildings in Moscow, opposite the famous Chapel of the Iberian Holy Virgin, destroyed in 1929, is an inscription, "Religion is the opium of the people."

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national economy and general prosperity. Consumers' interests are neglected, the housing situation is awful and the national income per head of population, which is the most important condition for general welfare, is increasing only at a lamentably slow pace, and chiefly by enforced saving. At any rate, comparative welfare of the working class is achieved by aggravating the economic situation of great masses of peasantry and by the terrible exploitation of other classes. The absorption of "superfluous" rural population is bought at a high price by one-sidedly increasing heavy industry, and the working class suffers from the fact that there is no entry of foreign capital, which is not willing to undergo the risks of the ruthless Soviet regime.

Curiously enough, in spite of the introduction of the five-days week, the number of working days increased in comparison with pre-war conditions by ten days, because in former times many official and religious holidays were celebrated.

CHAPTER VI

INTERNAL TRADE IN SOVIET RUSSIA

As a rule, the State trusts do not dispose of their produce through their own trade apparatus. They use as their intermediary, especially for wholesale trade, the so-called "Syndicates" (Textile Syndicate, Paper Syndicate, Match Syndicate, Oil Syndicate, etc.), while the retail trade is further entrusted to the Co-operative Centres with their sections and numerous shop apparatus. Of the total production of the "Census" State industry ("Census" industry—all industrial undertakings with over 15 labourers), 98.2% is disposed of through these channels, *viz.* the Syndicates and the Co-operatives. Some of the Syndicates have besides contracts with industrial Co-operatives and buy the whole production of the latter. The prices are regulated in such a way as to leave to the Syndicates only the necessary minimum commission, and some syndicates return all their net profit to the respective State trust, as, for example, the Oil Syndicate. The Co-operatives may add a certain percentage of price for covering their expenses and for the accumulation of reserves, and are thus restricted in their profit-making.

Some branches of trade are administered by special State joint-stock companies where the stocks are subscribed by various interested State organizations and enterprises, as, for instance, *Khleboprodukt* = State Grain Company; *Gosmedtorgprom* = State Medical Drug Company; *Sherstj* = State Wool Company, etc.; and special State trade organizations, such as *Kartmonopoliya* = Playing Card monopoly; *Burobin* = Bureau for attending on foreigners, *i.e.* hotels for foreigners, supply of foreign legations, etc., and the *Zentrospirit* = Central State Distillery.

The State trade apparatus possesses about 30,000 State shops and the Co-operatives have about 85,000 shops. Further, the State trade apparatus possesses a net of grain mills, grain elevators (the number of which has been greatly increased in the last few years), large bakeries (restrictions in the sale of flour necessitated the creation of large "bread factories" in a great many towns), refrigerators, bacon factories, egg stores, etc. By means of the same State trade apparatus goods are also provided for export abroad.

The Syndicates possess their own working capital, which has been steadily accumulated. On October 1, 1929, the whole working capital in State trade amounted to 1,126,800,000 rubles, with an invested capital of 559,000,000 rubles, and in Co-operation to 1,254,200,000 rubles (invested capital, 641,500,000 rubles). However, the greatest rôle in financing State trade is played by bank credit, *viz.* 3,408,000,000 rubles for State trade and 3,076,600,000 rubles for Co-operatives, and usually the financial position was strained. Net profit derived from State trade amounted to 54,400,000 rubles, and from Co-operative trade to about 247,900,000 rubles.

The dividend paid by the State internal trade into the Treasury was surprisingly small, being only 23,800,000 rubles in the budget of 1928-9: the explanation being that the remuneration left to the State trade apparatus has been reduced intentionally with a view to allowing the maximum share of profit to the State industry. For this reason the State revenue derived from this source diminished in comparison with the preceding years (26.5 mill. r. in 1927-8 and 28.1 mill. r. in 1926-7). In 1927-8 the greater part of the net profits of State trade organizations of the Union was derived from the Central State Distillery (15 mill. r.), Union Textile Syndicate (3.5 mill. r.), Union Leather Syndicate (3 mill. r.), Playing Card monopoly (1.7 mill. r.); the net profit of the State trade apparatus belonging to the Allied Republics amounted to about 27 mill. r. According to existing regulations, about 40% of net profits devolves to the State Treasury, *viz.* 23.8 mill. r., and the rest remains for further development, etc. Also, the trade apparatus set

apart specially for the monopoly of foreign trade yields a net revenue of about 3 mill. r. a year (profits of trade representatives abroad, local agencies in U.S.S.R., bacon factories, etc.):

The much bigger net profit of Co-operative trade depends chiefly on important tax privileges—lower rates of turnover tax and other advantages, such as low rentals. After the payment of 10% income tax, all net profit is left to the Co-operatives for increasing their working capital and investment.

On the other hand, the State Treasury spends every year enormous sums for developing the State and Co-operative trade apparatus. In the budget of 1928-9 a sum of 182,500,000 rubles (£19,200,000) is provided for this purpose. The greater part of this huge expenditure—about two-thirds—is connected with an outlay almost entirely for developing export, but there is, however, no possibility of definitely separating these items. About 47 mill. r. from the Treasury grant are to be spent for capital investment, in constructing refrigerators, bacon factories, steamers, etc. (including 34 mill. r. chiefly for export trade). Also, from sources other than Treasury grants (accumulated profits, local subventions and bank financing), a sum of about 143 mill. r. will be given for further capital investment (1928-9). A further sum of 120 mill. r. has been allocated as Treasury grant for financing export trade; 13 mill. r. is allocated for covering losses of sending grain and flour to the cotton-growing districts in Turkestan in order to counteract the tendency of the cotton-growers to revert to sowing wheat. The dislocation of the grain supply inflicted great hardships on cotton-growers, who in considerable numbers began sowing wheat, as has been mentioned above. And lastly, 2.5 mill. r. are allocated by the State budget 1928-9 as reserve.

The Co-operative trade apparatus received a Treasury grant of 17.7 mill. r. (1928-9) chiefly for financing grain trade and bakeries and for increasing the working capital of Co-operatives collecting raw materials for export trade.

The expenditure on the Commissariat of Trade amounted in the budget 1928-9 to 22.4 mill. r., not including expenditure

on trade representatives abroad, which from 1929 will be paid out of profits of the respective agency.

It is clear from these figures that State trade is run at a considerable loss, although part of the expenditure is applied for capital investment, but the very character of the latter in most cases precludes repayment in full. "Charitable" credit is employed to a large extent (about 4,000 mill. r. in 1929), and this makes the financial results the more unsatisfactory. The planned future development of industry will undoubtedly increase the financial strain on the State trade apparatus. As far as export trade is concerned, its heavy losses are discussed below in the chapter on State monopoly of foreign trade.

The comparatively large revenue derived from Co-operative trade represents to a great extent indirect taxation applied by this privileged State institution to the general consumer—monopolistic prices on the one hand, and reduced taxes, low rentals, etc. on the other. This state of affairs is permitted in order to help the accumulation of the necessary working capital. Co-operation gets the same "charitable" credit, and about 4,000 mill. r. are given in loans and advances by the State bank organization. Taking into consideration these peculiar circumstances, we may conclude that the Co-operative (*i.e.* chiefly retail) trade is run at a loss as well; but it should be noted that the prices in Co-operative trade are regulated by the Government.

The Co-operative retail trade presents an extremely complicated problem. The necessity of limiting prices, the policy of intervention and the desire to place some kinds of Co-operative shops in a specially privileged position (workmen's Co-operatives attached to State factories and peasant consumer Co-operatives supplying grain, etc.) require the utmost centralization. Drastic measures against private trade resulted in a catastrophic decrease in the number of private shops. The Co-operative network was unable to fill this gap, and considerable difficulties in the supply occurred. However, further increase of the network is a costly matter. The decrease of highly taxed private shops diminished State revenue, and higher rates in the taxation of Co-operative

shops (turnover tax) became necessary, and this was actually effected by a law passed on September 25, 1929.

On the other hand, endless orders to lower cost of management compelled reduction in the number of shop attendants. Naturally, this seriously affected the service in the Co-operative shops, and in many places it became abominable from a West European point of view. Long queues have been got rid of only by artificial measures; for example, by introducing consumers' cards, which limit the quantity of commodities sold to each person and by ordering definite shifts of purchasers.

Consumers' cards limiting the sale of bread exist now in practically all cities. In Moscow, from September 20, 1929, meat (beef, mutton and pork) is sold only on producing the meat card. Meat is sold to each person only every second day; to workmen 200 grams a day, and to members of their families and to other workers 100 grams (3½ oz.) a day. Eggs are sold in a similar way: the monthly ration is 25 eggs for a child of a worker and 15 eggs for an adult worker who is holder of a Co-operative booklet—it means, as a rule, 15 eggs for all adult persons in a family a month, because very few families have more than one booklet. By these means it is hoped not only to reduce consumption, but to avoid queues as well. As a matter of fact, in spite of the introduction of consumers' cards, from time to time in the State shops (and in the newspapers) appear announcements declaring laconically: "*No milk (or other commodity) available to-day.*" . . .

Tremendous efforts have been made to avoid all these abominable defects of State retail trade. Numerous meetings and conferences discussed measures to improve the situation, and drastic intervention of the Control department, party organizations and of the "light cavalry"¹ followed. Special apparatus for quicker weighing of certain commodities has been introduced; the cashier service has been improved. Many shop managers and attendants were dismissed. Still the technique of the Co-operative retail

¹ "Light cavalry" is a term meaning the occasional voluntary detachments of Communist party workers controlling grievances and abuses.

trade remains deplorable, and the public is compelled to undergo considerable inconveniences. Naturally, such a thing as the delivery of goods to homes is absolutely unknown.

It is an interesting feature that hardly any advertising is done in Soviet Russia. This is also a means of lowering cost, and it is even strictly prohibited to spend large sums on advertisements. This is partly due to the absence of competition and to the shortage of stock. On the other hand, the Soviet agencies abroad (*Inreklama*) try to get advertising from foreign firms, although it is evident that such advertising is practically of no effect. . . .

All these difficulties relating to centralized supply gave rise to proposals of decentralizing the supply of certain commodities of "secondary importance," such as potatoes, vegetables, poultry, fish, etc. Unfortunately, some experiments of that kind did not succeed. For instance, the Commissariat of Trade allowed a free hand to some Moscow Co-operative organizations regarding the supply of potatoes. The results have been unsatisfactory and there occurred a shortage of potatoes in Moscow. The two Red directors of these supply organizations were sentenced by the Moscow Criminal Court to eight months, two to six months and two to four months forced labour for "bureaucratism and carelessness," and deprived of the right to be appointed in future in any State or public organization.¹ On the other hand, private traders who tried to intervene in the fish market in Astrakhan and clandestinely bought fish at a higher price than was offered by the official organs were brought to trial for speculation and for "counter-attack of the private sector against the socialized sector."² Many other people were put in jail for similar offences.

¹ *Isvestiya*, September 20, 1929.

² *Ibid.*, September 15, 1929.

CHAPTER VII

THE SOVIET RUSSIAN MONOPOLY OF FOREIGN TRADE

THE monopoly of foreign trade introduced by the decree of April 22, 1918, is the only economic institution which has remained intact, from the socialistic organizations of the first years of Bolshevik rule to the present time, and for two reasons: (1) as a weapon by which the Soviet Government hoped to strike at foreign countries, and (2) as a weapon with which to control the peasants' production. Nobody can export from or import into Russia without the special permission of the Government. Purely political international considerations have always prevailed in this connection.

The Soviet Russian leaders advocate that such a monopoly is vitally necessary for the purpose of protecting Russian economics from foreign competition, and for preventing a passive trade balance. However, for these purposes, protective and partly prohibitive tariffs would suffice, and it would be absurd to hamper export in such circumstances. The excuse of a "planned" economy and "regulated" foreign trade are common slogans for the uninformed only. In fact, planning in this field was the worst of all Government planning, and endless alterations were made and conflicting orders were incessantly given with the changing of the international or internal state of affairs, of gold reserves and of political relations with foreign Governments. As far as export is concerned, superhuman efforts have been made to achieve a maximum export of everything that could be secured, but this had been always allowed only through the official channels of the "socialized sector." In fact, there existed only one kind of "planning": to secure the maximum of State export! Lately a jeweller being tried for

clandestine selling of his diamonds abroad through an official of a foreign Legation naively alleged as plea that he had in so doing served the State, having increased the quantity of dollars in the country: needless to say, he and his accomplices were sentenced to capital punishment!

The monopoly of foreign trade has required enormous expenditure from the Treasury and has inflicted terrible economic losses on the Russian nation. Nevertheless, for purely political considerations it was proclaimed to be the most inalienable and fundamental institution of the Soviet economic system.

With the introduction of the New Economic Policy I elaborated a project proposing mitigation of this monopoly so injurious to the Russian nation. This project was published in the Soviet Press at the end of 1922 and at the beginning of 1923. The Government was to declare which commodities could be freely exported by private persons with the right to import for an equal amount useful commodities enumerated in a list approved by the Government. For instance, importation of agricultural implements, bicycles, automobiles, typewriters, should be allowed. Export of jewellery was to be allowed too, the idea being that such a commodity is not necessary in a proletarian State. This would have stimulated export and increased useful import. However, not only were all such proposals rejected, but later it was strictly forbidden even to discuss all such questions connected with this fundamental institution called "State monopoly of foreign trade." . . .

As a matter of fact, the development of foreign trade dragged much behind the development of all other branches of national economy. At the end of 1927 export hardly reached 40% of pre-war standard. This is the more surprising in view of the fact that the new Border States used to import considerable quantities from Russia proper when they were part of the Russian Empire, and there were, moreover, three consecutive years of good crops (1925-7).

The communist leaders explain this shocking condition as being due to the diminished agricultural production and the difficulties encountered in extracting grain from the peasants,

who consume the surplus themselves. However, the fault is with the obstinate policy of the Government in respect of the peasantry. Only a sufficient supply of cheap industrial goods would have stimulated peasant production, and only foreign countries could have offered them in sufficient quantities in exchange for agricultural produce, to the advantage of both parties. Even if we assume that there were *real* difficulties in collecting export goods, liberation of exports from administrative and bureaucratic fetters could be the only logical expedient. But here again political considerations prevailed.

Now, export is rapidly rising, but chiefly by artificial measures which cost enormous sums, and also by dumping, causing great losses. As far as import is concerned, the policy of the Government is to provide chiefly the State industry with cheap foreign equipment and help industrialization. Here the monopolistic apparatus of the State is working unsatisfactorily, and foreign commodities are bought at a higher price than the average free export price in ordinary circumstances. On the other hand, the peculiar policy of the Soviet Government on the home market in respect of peasant production brought about the collapse of the food supply in the cities, and considerable quantities of cereals had to be imported. In 1927-8 278,000 tons of cereals costing 27 million rubles were imported into Russia, and this in a year of good crops!

As a matter of fact, in a country with a score of million small producers, the collection of grain can profitably be done only through the medium of small collectors living among the producers and operating with their own small capital. Centralization of this business and the existence of special agents procuring large quantities are costly because of the high travelling expenses, interest on the working capital, etc. This was the reason why even in pre-war times in Russia small firms competed successfully in the grain trade with big enterprises, and banks were compelled to use the intermediary of the small grain collectors. Of course, peasants could oppose co-operation and get better prices. On the other hand, the centralized State apparatus with its

limited prices is costly and exercises severe pressure. At the same time scarcity of industrial commodities on the market paralyzes the selling of grain and other agricultural produce. The Government intentionally kept prices of grain at a low level, fearing too large a demand on the part of the peasantry if the grain fetched considerable sums. The natural result was a great reduction in agricultural produce. It should be noted that in pre-war times adaptability of the Russian peasantry to favourable market conditions was surprising and the development in the production of poultry, eggs, butter, etc. even in a few years became quite striking. Therefore, when in the last decade before the war prices of cereals on the international market went down, a remarkable increase of other kinds of agricultural produce took place. Consequently, important changes in the structure of Russian export could be noticed. In 1909 eggs were exported to the value of 62,212,000 rubles, and in 1913 to the value of 90,639,000 rubles; butter, 48,401,000 rubles and 71,159,000 rubles; meat and bacon, 3,089,000 rubles and 9,398,000 rubles; poultry and game, 5,179,000 rubles and 7,041,000 rubles respectively.

The centralized system of Soviet export cannot adapt itself sufficiently to the peculiar conditions of small peasant production; and now the peasant tenures have a tendency to split still more, again partly as a result of Government policy in respect of the richer peasantry. In future the production of the large State "grain factories" will probably be chiefly used for export purposes. In pre-war times there was an export of grain over the present Russian frontier of about 13 million tons, whereas the quantity of home-produced grain bought by the non-agricultural population of Russia amounted to about 6 million tons only. Therefore, export was one of the most important items of agricultural economics in pre-war times. Having captured the home market and the foreign market, the Government dominates now the whole peasant production.

The Commissariat of Trade issues licences for any export or import of commodities. In order to avoid the possibility of an unfavourable trade balance, an estimate ("plan") of

the prospective export is made, and the amount of import will be limited to the amount of the expected export. A fight is always going on in the respective Government and party quarters about the distribution of the import quotas.

All foreign currency (bills, etc.) realized by an export organization must be surrendered to the State Bank in exchange for chervontzi currency at par. On the other hand, all import organizations get the necessary foreign currency from the State Bank at the same par exchange. Considering high prices in Russia and low prices abroad, this means that export will be as a rule run at a loss and import will give profit. In this arrangement export losses are covered by the State Treasury, whereas the State industry gets full profit from cheap import, less the amount of custom duties paid for such goods. Of course, such mutual payments and losses and profits should not be taken too seriously, because they represent simply mutual disbursements of different State departments. But in reckoning net profits of State industry, account should be kept of this peculiar arrangement by which the producer of exported goods is deprived of the possible benefit of re-import; indirectly he is taxed in favour of State industry.

The chief agricultural products, *viz.* grain, oil seed, flax, hemp, skins, etc., are supplied by the respective State (or Co-operative) organizations procuring them on the home market. The so-called *Gostorgi* (State trade organizations) procure all kinds of export materials, mostly of secondary importance. The task of procuring manufactured goods for export purposes is usually allotted to the respective Syndicates or some of the large Trusts. For the actual disposal of all these goods special monopolistic export organizations exist, *viz.* the "Exportkhleb" for export of grain, the "Exportles" for export of timber, "Promexport" for export of manufactured goods, "Masloexport" for export of butter, etc.

The highest possible concentration of the work of these State export organizations was ordered by the Commissariat of Trade on February 6, 1930, and all separate export organizations and companies are to be liquidated excepting

those exporting oil, coal and matches. The export of these articles will be left in the hands of the respective Central State industrial combines, *viz.* the Oil Combine, the Coal Combine and the Matches Combine.

On the other hand, the whole import trade will be concentrated in the hands of special import organizations for the separate branches of import, *viz.* the "Metalimport," the "Electroimport," the "Selkhosimport" (for agricultural implements), the "Khimimport" (for chemical products), etc. The import of consumers' goods is entrusted to the "Centrosoyus" (Central Union of Consumers' Co-operatives, which is, in spite of its name, a State institution). The whole foreign trade with Oriental countries is entrusted to a special State organization, the "Vostgostorg." The freight business is concentrated in the hands of a special State organization, the "Sovfrakhttransport."

The work of all these organizations is controlled by the Commissariat of Trade and its representatives in foreign countries.

Soviet Russia is exercising a very sharp control over the quality of export goods, and it is hoped that better quality will increase prices received from abroad. This was a grave question with pre-war export. Nevertheless, peculiar conditions of dispersed peasant produce make this problem extremely difficult, and too rigorous measures may become a two-edged policy.

The centralization of all purchasing done abroad, and of all selling, was done with a view to exercising pressure on the foreign firms and concerns. Nevertheless, as a matter of fact, the average price of Russian purchases abroad is a good deal higher than the ordinary export prices. This, at any rate, is true in respect of Soviet purchases in Germany, as has been repeatedly pointed out by the Soviet authorities. Similarly, the average price realized abroad for Russian goods is usually considerably below the prices paid for similar products of other countries.

This deplorable fact can be partly explained by the risk which is taken into consideration by foreigners when dealing with the Soviet Union, in spite of the fact that up to the

present time the Soviet Government has fulfilled its obligations. But there is also another circumstance which is partly responsible for it: the uncertainty of the capricious Soviet Russian customer! Under various pretexts or from a simple caprice or extraneous political consideration, orders are transferred to other firms and to other countries! In other words, the instability of the Russian orders, coupled with almost incredible formalities and bureaucratic procedure, naturally results in less favourable terms for Russia. The necessity of controlling and supervising this formidable apparatus, and the enormous sums involved, necessitated an incredible number of formalities, and the decisions are usually very protracted.

Soviet Russian foreign trade development may be noted as follows:—

(In mill. cherv. rubles; for 1911 mill. gold rubles.)

	Import into Russia.			Export from Russia.			Excess of import over export.
	Over all frontiers.	Over European frontier.	Over Asiatic frontier.	Over all frontiers.	Over European frontier.	Over Asiatic frontier.	
1911	1,162	1,023	139	1,591	1,514	77	-429
1924-5	724	644	80	556	508	48	+168
1925-6	756	674	82	677	589	88	+79
1926-7	713	624	89	771	678	93	-58
1927-8	945	820	125	774	636	138	+171
1928-9	836	697	139	878	723	155	-42

The development of export is very poor, and an unfavourable trade balance is the rule. The industrialization policy necessitated new large increases in imports in 1927-8 (especially electric installation, machinery, hardware), and at a time when import of food-stuffs had to be increased (from 30 million rubles in 1926-7 to 68 million rubles in 1927-8 over the European frontier). Soviet Russia does not possess any foreign assets, and an unfavourable trade balance means an efflux of gold or a rise in foreign indebtedness. The German credits of Rm.300,000,000 (£15,000,000, or \$75,000,000), given, one half for two and the rest for four

years, helped to divert a number of orders from England to Germany as "punishment" for the severance of diplomatic relations, but on the whole they simply postponed difficulties of repayment and soon necessitated exceptional measures of dumping and *Schleuderexport*. Germany was herself hit by this reversal, as may be seen from the following figures :

EXPORT FROM SOVIET RUSSIA TO GERMANY

In cherv. rubles.

	1928-9. ¹	1927-8.	1926-7.
Total export	208,537,000	186,152,000	167,284,000
<i>Food-stuffs</i> . . . . .	...	63,667,000	81,822,000
Including : Wheat	—	1,983,000	20,780,000
Poultry and game	4,080,000	2,370,000	593,000
Butter	9,939,000	12,090,000	10,618,000
Fruits	2,075,000	660,000	643,000
Eggs	19,830,000	26,151,000	19,314,000
Peas and beans	10,051,000	3,513,000	7,672,000
Caviare	4,526,000	3,447,000	2,169,000
Oil-cake	1,389,000	1,553,000	6,446,000
Sugar	400,000	523,000	—
Wine	575,000	197,000	—
<i>Raw materials and semi-manufactured goods</i> . . . . .	...	55,266,000	47,966,000
Including : Lumber	18,597,000	3,185,000	3,660,000
Timber . . . . .	...	7,043,000	4,392,000
Seeds	275,000	1,492,000	173,000
Medical herbs	2,393,000	1,476,000	728,000
Down and feathers	3,087,000	1,834,000	988,000
Flax	19,000	27,000	866,000
Manganese ore	1,885,000	1,285,000	2,237,000
<i>Furs</i>	53,891,000	60,579,000	36,368,000
<i>Manufactured goods</i> . . . . .	...	4,663,000	843,000
Including : Woollen carpets	270,000	682,000	34,000
Cloth	6	29,000	6,000
Matches	2,876,000	315,000	1,000
Kustar (peasant) home-ware	227,000	119,000	13,000
Cosmetics and toilet soap	6,000	30,000	—
Other (partly luxury) . . . . .	...	3,333,000	426,000

¹ The incompleteness of the table is due to the changing of classification.

We see that the most vital kinds of export from Russia from the German point of view, *viz.* wheat, oil-cake, manganese ore, flax, etc., diminished sharply. On the other hand, poultry and game, caviare, seeds, wine, medical herbs, peas and beans, down and feathers and fruits increased. Import of furs increased by 50% in one year; in weight the

increase was from 1,405 to 1,810 tons only, so that the average price per unit has fallen. Manufactured luxury articles, woollen carpets, cosmetics, Kustar home-ware, etc., show a considerable increase. It is really surprising that the Germans did not stipulate the mode of repayment, *viz.* the kind of commodities which will be imported in payment of credits granted to Russia! In consequence, dumping exports, such as the export of matches, sugar, cloth, timber, etc., are rising. There was a terrible shortage of butter and eggs in Moscow and other towns at this time, and people paid 12 rubles (30s. or \$6) for a kilogram (about 2 lbs. 3 oz.) of butter in private shops.¹ And still the Soviet Government hastened to increase the export of these articles abroad!

The Government influences prices of export articles on the domestic market by centralized action of all export organizations. These strict price limits cannot be passed by agents collecting export goods, and only agents accepting the directions of the Government may supply articles for export, and they are not allowed to supply anybody else except the State, or they will be taxed at extremely high rates. This system has naturally the great disadvantage of lessening the incentive to supply goods, and the export of articles of secondary importance is much behind the pre-war level also. The tragedy is that not only producers and agents collecting export goods get low profits, but they are precluded from the most important benefit, directly exchanging their produce for *cheap* foreign commodities. They get little profit and cannot even find a sufficient quantity of commodities on the home market!

There are three articles which constitute now the most important items of Soviet Russian export over the European frontier: furs, oil and timber. Butter and eggs are beginning to play an important rôle also. The considerable export of furs is not only the result of Western fashion, but it is also an important achievement of Soviet trade. There was a large increase of wild fur-bearing animals in Russian forests during many years of interrupted hunting. Now

¹ Railways were forbidden to transport butter from Vologda and other butter-producing districts to Moscow and other towns, and the produce was diverted abroad.

it is feared that the present scale of hunting may endanger future fur output. In 1927-8 export of furs reached the high figure of 3,422 tons, valued at 119 million rubles, mostly to Germany, England and Latvia. In the year 1928-9 the quantity of furs exported increased and reached 3,527 tons, but it was sold at a substantially lower price, viz. for 109 million rubles only.

The export of oil and its derivatives is the result of the great efforts of the Soviet Government to intervene in the international market of a commodity of the utmost world importance. Political considerations played a decisive rôle, and nothing was left undone to bring the severest pressure to bear on the European oil market. We have seen that in 1925-6—1927-8 the Soviet Government invested 537 million rubles in the oil industry, or 17% of all net investment. From the standpoint of industrialization policy this was not necessary. There is hardly any automobile transport in Russia, and this made the production of petrol a problem of secondary importance. Kerosene supply was sufficient, at any rate for the market; it was chiefly a problem of transport only, and the price of kerosene is much below pre-war level. For instance, in Stalingrad (Zarizyn) the price was 8.25 cherv. rubles for 100 kilograms in 1927 and 7.95 gold rubles in 1913. Utilization of naphtha oil for fuel purposes is against rationalization policy, and there are even difficulties in the disposal of oil in the home market. Consequently all efforts were concentrated on the international supply, although evidently this could not repay the enormous outlay, especially at a time when the world market for oil was very dull.

Let us consider a few figures concerning the supply of oil over the European frontier (1927-8) and compare them with pre-war conditions (1913). In 1927-8 Russian export of kerosene amounted to 697,878 tons, valued at 23,814,000 cherv. rubles; the pre-war export was 404,261 tons, valued at 20,364,000 gold rubles, so that in 1913 the export of kerosene was much more profitable. Soviet Russian export of lubricating oils amounted to 181,630 tons, valued at 10,262,000 cherv. rubles; the pre-war export, 289,165 tons,

valued at 17,544,000 gold rubles; here not only was the pre-war export much larger, but it was also much more profitable.

Petrol is a product which only became important in post-war times, and therefore comparison is hardly possible; in 1927-8, 749,171 tons were exported, valued at 44,030,000 cherv. rubles, whereas in 1913 export amounted to 151,958 tons, valued at 8,225,000 gold rubles, that is, the quantity exported was much less, but the price was still more profitable! Of other kinds of naphtha products Soviet Russia exported: crude naphtha, 169,243 tons, valued at 4,032,000 rubles; and mazut oil, 644,597 tons, valued at 11,381,000 rubles; in pre-war times, 63,654 tons, valued at 2,370,000 rubles.

To sum up all oil products: in 1927-8, 2,442,519 tons, valued at 93,519,000 cherv. rubles; in 1913, 909,038 tons, valued at 48,503,000 gold rubles. Considering the difference in purchasing power of money, the present total export of oil products is hardly more valuable than the pre-war export and much less profitable. As a matter of fact, in view of the enormous additional expenditure, this export is certainly run at a loss. Export of oil products over all frontiers amounted to 2,782,749 tons, valued at 107,021,000 cherv. rubles in 1927-8, and to 3,042,114 tons, valued at 132,614,000 cherv. rubles, in 1928-9.

It should be noted that Soviet Russia is dumping oil chiefly as a means of fighting against the British oil interests. In the year ending September 30, 1929, oil products were exported from Russia (in English tons): to England, 714,014 tons; to Italy, 510,920 tons; to Germany, 477,005 tons; to France, 350,448 tons; to Spain, 303,003 tons; to Egypt, 234,526 tons; to Turkey, 179,614 tons; to British India, 171,403 tons; to Africa, 83,881 tons; to Persia, 47,100 tons, and even to U.S.A. 16,177 tons. Russian oil fetched a much lower price than in the year before, yet a further big increase of export is planned for next year. In the first five months of the fiscal year 1929-30 the export of oil was 22.5% greater than in the same period of the preceding year, and amounted to 52,652,000 rubles.

With the same view of damaging British interests, great efforts have been made in Russia in dumping export coal, although Russia is very poor in coal and some difficulties were experienced on the home market. The total export of coal for 1928-9 has risen to 1,150,629 tons, chiefly to Italy, China, Turkey, Greece and even to U.S.A. (165,561 tons), England (26,910 tons), France (74,937 tons), Germany and Argentine! In spite of the losses on coal export a further increase is planned, and Mariupol harbour is going to be rebuilt accordingly. In the first five months of the fiscal year 1929-30 the export of coal was three times as large as in the same period of the preceding year, and amounted to 5,023,000 rubles. Hardly any export of coal existed in pre-war times, and Russia used to import considerable quantities, chiefly from England.

The export of timber was also a great international issue. Here Soviet Russia could not only influence the world market by its immense resources, but could also exercise great pressure on the former border States of Russia. However, there was the great difficulty that the most accessible forest regions were terribly devastated by premature cutting during the war. Nevertheless, the Government gave drastic orders for the preparation of the greatest possible quantity of timber for export purposes and large sums have been allocated. The Leningrad district was hit especially hard by this order and the devastation will be increased. This policy is particularly noteworthy, because it has been estimated beyond any doubt that considerable shortage of timber will be experienced on the home market, and even new building is threatened by an insufficient supply of timber.¹ At the same time the home market index price of timber (wholesale price in comparison with 1913 = 1000) is higher than for any other commodity, *viz.* 2,457 in 1927-8 and 2,376 in 1928-9 (estimate).

However, timber export was considered to be the most important expedient for equalizing an unfavourable trade balance. The timber industry is run at a loss, and

¹ The Control figures for 1929-30 estimate a shortage of about 3,000,000 cubic metres (3,700,000 cubic yards).

special subsidizing became necessary. The Leningrad port was partly rebuilt at considerable outlay for the purpose of facilitating timber shipping.

Unfortunately, comparisons with pre-war conditions are impossible, because considerable export of timber was carried on from the border States which are now separated from Russia. The timber export rose from 79.8 million rubles in 1926-7 to 93.9 million rubles in 1927-8, and to 137.1 million rubles in 1928-9, mostly to England, in spite of the sharp decline of prices on foreign markets. In the first five months of the fiscal year 1929-30 the export of timber increased by 43.6% in comparison with the same period of the preceding year, and amounted to 52,600,000 rubles. The Leningrad port was piled with timber almost beyond capacity and countless timber ships floated in the docks.

The Chicago Tribune, May 12, 1929, has described the effect of Russian timber export in the following way :

“ The latest developments in Russia are causing the Baltic States more alarm than the activities of the agents of the Communist Internationale, whose continued efforts to overthrow the newly-formed governments have failed. The new threat from Moscow originates in the Soviet Government monopoly of foreign trade. The economic future of Russia's next-door neighbours is threatened. The foreign trade monopoly has adopted a dumping policy. Large amounts of Russian raw materials and manufactured products are being sold abroad at prices which make it impossible for the Baltic states to compete. Finland, Esthonia and Latvia balance their budgets with timber exports. Prices in the European timber market were shaken in the last week, when the Soviets sold 360,000 cubic feet of timber below the cost of production. Riga, which has gained the reputation of being the largest Baltic timber port, reports the timber industry in a chaotic condition, and a financial crisis affecting Latvia is likely to result. Finland is also hardly hit. Besides timber, thousands of tons of Russian flax were sold under the market price in England and Belgium, causing large losses to the Government flax monopolies of Latvia, Esthonia and Lithuania. The Russians are also dumping sugar, cotton goods, tobacco and other manufactures into the Baltic markets in order to realize foreign currency, which is needed to meet their bills abroad, especially in the United States, where the Soviet Government is making the greatest purchases.”

Considerable shipments of Russian timber reached U.S.A. too, and the Soviet Russian Agency, the *Amtorg*, in New York had to explain (*Economic Review of Soviet Union*, April 1, 1929) that there was no dumping on the part of the Soviet Union, such being really a necessary expedient for payments in America!

Qui s'excuse, s'accuse! The *Economic Review of Soviet Union*, February 1, 1929, explained that the Soviet Government would not impose any customs duty on American coal because the American Government did not impose duty on Russian coal! This explanation is evidently given for naïve people who do not know that Soviet Russia has a monopoly of foreign trade by which no import is allowed except by special permission of the Government for each consignment, and customs duty has no real importance, as it can be, and often is, suspended in particular cases, if necessary.

The Russian Government exports now, and can export, everything: matches, mineral water, cloth, laces, coal, sugar, rails, etc., since no consideration is paid to financial loss, or to much higher internal price, or to shortage of the respective commodity in Russia. The labels on Russian matches are printed in *ten* languages, and they even reach Australia, although such export can be carried on only at a considerable loss.¹ Russian coal is shipped to Mohammerah in the Persian Gulf, although high cost of production and shortage of coal in Russia is annoying the Soviet Government. Cloth has been sent to Mohammerah and sold there at as low a price as $4\frac{1}{2}d.$ a yard, a thing unheard of in the Soviet Union, and greatly to be envied by Soviet citizens. Even in London Russian cloth has been sold successfully, at a time when Russian housewives deplored the terrible shortage of cloth on the home market. Granulated sugar is sold in Soviet Russia at 62 copecs a kilogram, being highly taxed by an excise duty (24 copecs a kilogram), but never-

¹ Total export of matches in 1928-9 was 18,040 tons, valued at 6,107,000 rubles, chiefly to Germany, England and U.S.A. Russian dumping induced the German Government to create a State Match Monopoly. In the first five months of the fiscal year 1929-30 the export of matches reached 4,700,000 rubles in comparison with 2,312,000 rubles in the same period of the preceding year.

theless it is sold in considerable quantities abroad, *viz.* 124,000 tons in 1928-9 and 133,000 tons in 1927-8. Latvia got 19,262 tons of sugar in 1928-9, where it is sold at a somewhat lower price than the Czechoslovakian sugar. And this is done in spite of the desperate situation of the sugar industry in Russia (see p. 87).

An ever-increasing shortage of cement is expected on the home market of Russia (see *Control Figures*, 1929-30, p. 516). Nevertheless, Soviet Russia managed to export over 74,000 tons of cement in 1928-9, chiefly to Greece, Turkey, Persia, Egypt and even to the Argentine.

Considerable quantities of salt were exported via Mariupol in the Black Sea, *viz.* 102,060 tons in 1928-9, chiefly to Japan and the Argentine, and even to U.S.A.

A terrible shortage of eggs and butter exists on the domestic market of Russia, and only very limited quantities are sold to the public on production of food cards. Nevertheless, Russia exported 477,367 boxes of eggs, valued at 27,763,000 rubles, in 1928-9 (the year before, 863,381 boxes, valued at 40,464,000 rubles, were exported), chiefly to Germany, England, Austria, Latvia and a small quantity even to U.S.A. (938 boxes). In 1928-9, 27,764 tons of butter were exported, chiefly to England, Germany and Latvia.

It is interesting to note that in January 1930 Russia resumed the export of cereals at the time of the deepest decline of prices and of the most depressed conditions in the European grain trade.

Naturally, such export causes considerable financial loss. The exact figure cannot be given, because many items of actual cost of export are hidden in the general expenses of the respective export organizations, or in Treasury expenditure on investment, or in financing the respective branches of State trading. The sums allocated by the State budget to cover direct money losses of the so-called "unprofitable export," and in premiums for aiding export, amounted to 68,000,000 rubles in the budget of 1927-8 and to about 114,000,000 rubles in the budget of 1928-9.¹

¹ This expenditure will be, in fact, larger, and additional sums will be provided for from the Reserve (secret) fund of the Government. All

Direct premiums are paid by the State Treasury to State-exporting organizations for export of wine, alcoholic drinks, sugar, oil and cotton cloth.¹

Of course, dumping and artificial export are of common occurrence in capitalistic countries also, and sugar used to be an article subsidized in a most abnormal way by many European nations until the Brussels Sugar Conference of 1902. Present-day Germany even exported rye lately to Canada as a result of the artificial pressure of Reparation payments! But Soviet dumping is quite peculiar; to a great extent it is simply a *political* dumping, and out of the range of categories given in Professor Viner's classification.

However, if we take for granted that the Soviet Russian situation necessitates wholesale dumping, still we must establish the fact that this is the result of a most unfortunate economic regime in the country itself. Its dumping may inflict some perceptible damage on foreign countries simply because this system is protected by a monopoly of foreign trade. In these circumstances extension of foreign credit for purposes which do not repay (industrialization *à fonds perdus*) naturally gives rise to artificial dumping, perhaps in a more destructive form than that created by Reparation payments. On the other hand, Soviet Russia inflicts considerable losses on other countries by sudden orders prohibiting import of certain commodities. For instance, lately Russia abruptly refused the import of some 1,500,000 scythes from Austria, which used to be the chief source of supply for many decades.

The Soviet Russian Government is very anxious to get the monopoly of foreign trade recognized, as a fundamental institution, a *sine qua non*. Germany solemnly accepted this principle in its treaty with Soviet Russia and cannot

the expenditure on financing State Trade out of the State Treasury provided for in the budget of 1928-9 amounted to 182,500,000 rubles, of which over two-thirds is directly designed for export purposes (see Chap. IX).

¹ See Haensel, *Finanz- und Steuerverfassung*, p. 213. Premium for exported cotton cloth is 5'6 copecs a metre (39 inches). The export of wine from Russia is rapidly rising, chiefly to Germany.

retaliate in a similar way. In international relations only retaliation is the *ultima ratio*.¹ In this respect the Governments of Persia and Turkey were able to meet the Soviet demands in a much more effective way and obtained relaxation and practically abolition of the principle of monopoly of foreign trade for their national products in trade over the Asiatic frontier. The Persian treaty was concluded in 1927 (along with a military convention) and expired on October 1, 1929; now *pourparlers* are going on between the two Governments.

Persia, being practically free in her export activities with Russia, exported in 1928-9 cotton wool to the amount of 17.7 million rubles; rice, 11.6 million rubles; wool, 6.2 million rubles; dried fruits to the considerable amount of 8.3 million rubles, and furs. It is interesting to note that Russia is superabundant in fruits, and exports herself considerable quantities of fresh and dried fruits abroad, chiefly to Germany, France, England and Latvia.

Thanks to the peculiar internal economic policy of the Soviet Union and its reaction on economic relations with foreign nations, the whole situation became quite abnormal: Russia, being overwhelmingly an agricultural country, with a comparatively very poorly developed industry (per head of population), is quickly becoming in her international economic relations with foreign nations a country with prevailing industrial export. In 1928-9 the industrial export amounted already to about 60% of all export. In the first five months of the year 1929-30, industrial export has risen by 33.4%, and amounted to 168 million rubles in comparison with 126 million rubles in the same period of the preceding year.

The abnormality of such a situation is evident, because Russia is unable to compete successfully with capitalistic

¹ In order to frustrate retaliation of other Governments by proclaiming monopoly of foreign trade against Russia, the latter insisted on introducing a special clause in her treaties by which "no restrictions of trade not applied to any other country could be directed against the other contracting party" (for instance, in the treaty with Esthonia of May 17, 1929).

countries in present circumstances, and export of agricultural products and raw materials in direct exchange for cheap foreign manufacture would have considerably stimulated Russian agricultural production and given much greater benefit to the country. However, this increasing industrial export is not yet felt by European countries very sharply because Russia's share in world economics is still insignificant. Further industrialization of Russia will probably influence European economics more perceptibly, at any rate in some branches, especially where Russia is backed by rich natural resources. It will certainly tend to throw out of equilibrium the European economic balance, already shaken by pre-war conditions. This is the more likely because the Russian home (mostly peasant) market cannot recuperate sufficiently quickly under the present political pressure and fiscal policy. On the other hand, increasing foreign credits will have to be repaid, and this will necessitate increased dumping, because Soviet industrial investment cannot be "profitable" and yield sufficient surpluses for repayment.

Should the planned production in State farms and bold industrialization scheme succeed, Russia will be able—and will be *compelled*—to diminish her import from abroad to a great extent. This is the chief aim of Soviet leaders, and all official instructions are given in this sense, notwithstanding all declarations of Soviet trade representatives to the contrary.¹ Important results have already been secured in the chemical industry, medical drugs, electrical implements, lead, tannin, paraffin and other production. It is impossible to say how far Soviet Russia will be willing to co-operate in future in stabilizing world economics, but naturally communist leaders will use the monopoly of foreign trade as an important political weapon. . . .

¹ All future policy in respect of foreign trade is kept in strictest secrecy. The five-year plan is silent too, saying, however, that the Soviet Union must strive for independence of foreign capitalistic countries. Only in a general table it is mentioned that export in 1932-3 (optimal variant) will amount to 1,172 million rubles (including 1,005 million rubles means of production and 167 million rubles consumers' goods). *Plan*, Vol. II, Pt. 2, 2nd ed., p. 79, Vol. I, 2nd ed., p. 101.

The system of import is based exclusively on the idea of helping State industry to procure cheap and up-to-date foreign equipment and necessary raw materials. Here again the interests of the peasant and general consumer are neglected. They are prevented from getting foreign supplies of commodities lacking in Russia, and foreign import is again serving the Moloch of industrialization.

Of course it was impossible to eliminate all foreign supply, especially in coffee, tea, cocoa and spices; still, great pressure is exercised in limiting imports of this kind, and people do not get them for weeks and months and are willing to pay exorbitant prices. For instance, tea, "middle" quality, costs 6.80 rubles (14s., or \$3.50) a kilogram (2.2 English lb.); best quality tea costs 10 rubles a kilogram, but hardly any is imported now.¹ Coffee costs about 7 rubles (14s., or \$3.50) a kilogram, and only 446 tons were imported in 1928-9. Oranges and lemons are chiefly imported according to special agreements with Italy, and herrings chiefly according to an agreement with Norway. The import of other consumers' goods has been allowed in very limited quantities, mostly as passengers' luggage or in postal parcels.

The list of articles which may be sent to Soviet Russia from abroad by post is very limited (for instance, all kinds of cloth are forbidden), and only from private persons to private persons for personal use, and only in limited quantities (see the new regulations in the official *Volks-wirtschaft U.S.S.R.*, No. 5, Berlin, 1930). Great numbers of parcels are returned to foreign senders as not complying with this regulation. Enormous customs duties and inspection fees render import by post almost impossible, even of articles which are allowed to be imported. Household articles which have been in use pay the same duty as new ones. The selling of goods received from abroad to others is prohibited, and may be punished by imprisonment as for

¹ Russia possesses its own tea plantations in the Caucasus, and their output is rising: 1.5% of turnover with foreign tea is allocated for subsidizing production of tea in the Caucasus.

smuggling. Money orders abroad cannot be secured. Foreign money sent to Russia through Soviet State banks (no other channels are allowed) will be paid to addressees only in Russian chervonetz currency. The import or export of Soviet Russian currency is strictly forbidden, and smuggling may have grave consequences. Foreigners should pay attention to this regulation when entering or leaving Soviet Russia: they are compelled to exchange their foreign currency into Russian chervontzi at par value, which means considerable loss to foreigners. This is done to prevent foreigners from selling foreign notes, which are in great demand among the Russian public within the country. Passengers are not allowed to import more than a very limited quantity of luggage; for instance, not more than two suits, two pairs of boots, etc., and they must have been in use.

The structure of the foreign trade of Soviet Russia over all frontiers may be seen from the following tables (from the official *Die Volkswirtschaft U.S.S.R.*, N. 3/4, 1930).

EXPORTS FROM RUSSIA

(export of platinum not included).

	October-September.			
	1928-9.		1927-8.	
	ooo metric tons.	ooo rubles.	ooo metric tons.	ooo rubles.
I. Food-stuffs	890	215,689	1,132	234,662
II. Raw materials and semi-manufactured goods	11,614	559,267	7,640	455,157
III. Live-stock	14	3,291	13	3,243
IV. Manufactured goods	100	99,349	82	84,787
Total	12,618	877,596	8,867	777,849

Detailed Statement of Export Goods.

Articles.	October-September.			
	1928-9.		1927-8.	
	000 rubles.	Per cent.	000 rubles.	Per cent.
I. Raw materials and manufactured goods for industrial use . . .	522,149	59·5	422,579	54·3
II. Raw materials and manufactured goods for agricultural use . . .	8,040	0·9	7,839	1·0
III. Raw materials and manufactured goods for transport service . . .	2,029	0·2	1,181	0·2
IV. Fuel	29,726	3·4	22,054	2·8
V. Consumers' goods :				
(a) Food-stuffs	207,673	23·7	229,396	29·5
(b) Other	82,439	9·4	73,034	9·4
VI. Pharmaceutical, hygienic, etc. goods	9,315	1·1	7,432	1·0
VII. Books, films, etc.	5,365	0·6	4,005	0·5
VIII. Other	10,860	1·2	10,329	1·3
Total	877,596	100	777,849	100

IMPORTS INTO RUSSIA.

	October-September.			
	1928-9.		1927-8.	
	000 metric tons.	000 rubles.	000 metric tons.	000 rubles.
I. Food-stuffs	244	72,091	444	108,184
II. Raw materials and semi-manufactured goods	1,059	455,867	1,057	507,946
III. Live-stock	33	11,012	39	10,447
IV. Manufactured goods	382	297,333	474	318,954
Total	1,718	836,303	2,014	945,531

Detailed Statement of Import Goods.

	Per cent.	000 rubles.	Per cent.	000 rubles.
I. Raw materials and manufactured goods for industrial use :				
(a) Machinery	20·8	174,325	22·8	216,026
(b) Raw materials	43·1	360,691	42·1	397,625
(c) Tools and semi-manufactured goods	10·4	87,316	11·4	107,976
II. Raw materials and manufactured goods for agricultural use	8·1	67,755	4·7	44,780
III. Raw materials and manufactured goods for transport service	4·6	38,263	4·1	38,651
IV. Fuel	0·1	488	0·1	657
V. Consumers' goods :				
(a) Food-stuffs	9·0	74,896	11·2	105,622
(b) Other	1·3	11,198	0·5	4,785
VI. Pharmaceutical, hygienic, etc. goods	0·9	7,360	1·2	11,517
VII. Books, films, etc.	1·5	12,180	1·4	13,589
VIII. Other	0·2	1,831	0·5	4,303
Total	100	836,303	100	945,531

IMPORTS INTO RUSSIA FROM THE PRINCIPAL COUNTRIES IN 1928-9.

Articles.	From Germany.		From England.		From U.S.A.		From France.	
	000 rubles.	%.	000 rubles.	%.	000 rubles.	%.	000 rubles.	%.
I. Raw materials and manufactured goods for industrial use :								
(a) Machinery	84,503	45·9	17,781	41·6	20,843	14·0	6,549	21·8
(b) Raw materials	31,989	17·4	12,286	28·8	87,759	58·7	9,718	32·4
(c) Tools and semi-manufactures	17,414	9·3	7,449	17·5	4,136	2·8	7,405	24·7
II. Raw materials and manufactured goods for agricultural use	20,100	10·9	434	1·0	29,948	20·0	1,114	3·7
III. Raw materials and manufactured goods for transport service	15,782	8·6	1,867	4·4	4,756	3·2	4,293	14·3
IV. Fuel	50	0·0	224	0·5	—	—	0·1	0·0
V. Consumers' goods :								
(a) Food-stuffs	114	0·1	2,401	5·6	206	0·1	44	0·2
(b) Other	659	0·3	68	0·2	51	0·0	148	0·5
VI. Pharmaceutical, hygienic, etc. goods	3,845	2·1	60	0·1	321	0·2	126	0·4
VII. Books, films, etc.	8,938	4·9	90	0·2	1,066	0·7	531	1·8
VIII. Other	649	0·3	51	0·1	462	0·3	61	0·2
Total	184,043	100	42,706	100	149,348	100	29,989	100

Machinery, electric equipment and cotton for State factories and agricultural machinery and implements for State farms or for peasant collective farms controlled by the Government are the chief import articles. The present-day import of machinery and other manufactured goods is much behind the pre-war standard. In pre-war times goods were imported from Germany to the value of 643 million gold rubles, Great Britain 170 million gold rubles and U.S.A. 74 million gold rubles.¹

These figures show how deeply degraded Russian economics have become since the advent of communist rule. Soviet Russian authorities used to point out that they are "*the* greatest buyers of machinery in present times." In fact, they are much behind pre-war Russia. This shrinkage of buying machinery etc. is not for lack of desire to import foreign industrial equipment, but simply for lack of sufficient foreign assets to pay for it. As a matter of fact, the Red directors and V.S.N.H. usually beseech the Government to increase orders abroad, but their "plans" are cut because of insufficient foreign assets, and long-termed credits are not forthcoming adequately. Russia lost its purchasing capacity chiefly through the fall of agricultural output, and for this the Soviet Government economic policy towards the peasantry is directly responsible.

Another peculiarity of the Soviet monopoly of foreign trade is the high protective tariff. One might well ask why they exist at all.

There is a necessity for tariffs for the occasional private passengers in respect of their luggage. However, high tariffs have been introduced chiefly with a view to rendering less attractive foreign purchases for State enterprises in cases where a certain commodity could be produced in Russia. In the Tariff Committee the representatives of the Department of State Industry (V.S.N.H.) in their

¹ The figure for import from U.S.A. is somewhat misleading because in pre-war times considerable quantities of cotton were imported via Germany and England and are included in the respective items of import from these countries. As a matter of fact, in 1913 U.S.A. imported into Russia cotton to the amount of 85 million gold rubles and other goods to the amount of 27 million gold rubles.

policy towards the protection of home industries are even *plus royalistes que le roi même*. On the other hand, by imposing high tariffs the Government limits the discretion of the Commissariat of Trade. Licence will be asked for only in cases where the height of the tariff does not bar import. Very often, however, the Government orders remission of tariffs in individual cases, and this makes the whole customs system rather illusory.

The existing tariffs are high, on the average 30–33% of the value of imported goods.¹ In many cases the rates are exceptionally high, indeed prohibitive, especially for consumers' goods, after the introduction of the new tariff which is in force from February 15, 1930.

For instance, hats, 50 rubles (£5) each hat: knitted and plaited articles, of silk or artificial silk, 200 rubles (£20) per kilogram; of other material, stockings and socks, 125 rubles (£13) per kilogram, and other tissues or linen cloth, etc., 75 rubles (£8) per kilogram. Haberdashery, brushes, combs, umbrellas, etc., 150 rubles (£16) per kilogram! Glasses, 100 rubles (£11) per kilogram! Such rates are prohibitive and will hit Germany especially.

It is interesting to note that tariffs are substantially lower in some cases according to special agreements, viz. with Italy (February 8, 1924), Latvia, Norway (March 3, 1926) and some other countries.² For instance, the ordinary duty on oranges is 60 rubles for each 100 kilograms gross; the duty under the agreement is only 9 rubles 60 cop.: ordinary duty on buttons, 1,200 rubles for 100 kilograms; duty under the agreement, 198 rubles: automobiles, ordinary duty, 50% of the price, duty under the agreement, 10%, etc. These special remissions had some influence on imports from the several countries concerned, inducing increased orders (oranges, automobiles, etc. from Italy, herrings from Norway, etc.), but only the licence policy of the Commissariat of Trade is decisive, as a matter of fact. Admission of certain commodities was often granted only after

¹ See all these details in Haensel, *Finanz- und Steuerfassung*, p. 207 f. The latest customs tariff is given in the *Volkswirtschaft U.S.S.R.*, No. 6, 1930, published in Berlin in German.

² See Haensel, *ibid.*, p. 209.

some special pressure on the part of the respective Governments.

Import from Persia, Turkey and Eastern countries is subject to a special tariff,¹ and the system of monopoly of foreign trade is applied in a less rigid manner. Import via the non-freezing port of Murmansk (near the Finnish-Norwegian frontier, about 600 miles from Leningrad) is taxed at lower rates to encourage long-distance railway traffic on the Murmansk railway.

There exist *export* customs duties for certain articles: furs (from 6 to 6,100 rubles for 100 kilograms), certain kinds of box-wood, santonin (150 rubles for 1 kilogram gross!) and rubber scrap. Export duty on caviare, flax and timber has been abolished because it hampered their export. In order to prevent smuggling many articles of foreign origin can only be offered for sale if sealed with customs stamps.²

The actual influx of foreign capital into Soviet Russia is very small, although hundreds of offers pour into the Soviet Chief Concession Committee. All capital invested in foreign concessions in Soviet Russia amounts to about 30,000,000 rubles only. The most important is the Lena Goldfields concession, which is practically a renewal of a former big English gold-mining enterprise, and the Japanese concessions in the Far East. Lena Goldfields work under the directorship of former English specialists, who know the fields from pre-war times. The Soviet Government was very anxious to renew this concession, and special privileges have been given (export of gold, etc.). Lena Goldfields pay to the Government a royalty of 857,000 rubles a year; its financial outlook was not unfavourable, but it is now in serious conflict with the Soviet Government. Other industrial concessions are of secondary importance.³ The largest American concession, belonging to Mr. Hammer, for the production of pencils, has been discontinued. Another American concession, namely, the Manganese Ore conces-

¹ See the new tariff in the *Volkswirtschaft U.S.S.R.*, No. 6, Berlin, 1930.

² See Haensel, *ibid.*, p. 211.

³ See *Soviet Union Yearbook*, 1929, p. 185 f.

sion of Mr. Harriman, failed (yearly royalty, 2,160,000 rubles). The German concessions especially have been, as a rule, not very successful or have failed, mostly because of lack of capital.¹ The German concession for the manufacture of tooth-paste, "Chlorodont," with an invested capital of 80,000 rubles, had a net profit of 320,000 rubles for 1926-7, of which about 270,000 rubles were absorbed by the income tax.

Some concessions received special privileges, chiefly the right to be taxed "in the same manner as State enterprises" (the present rate of the income tax for them is limited to 10%, and the Government has never raised it). The total amount of royalties paid by all concessionaires to the State Treasury is insignificant, namely, 5,000,000 rubles only (budget 1929-30).

In addition to ordinary concessions,² about fifty "contracts for technical assistance" (advising, information, commission-agency, projecting, designing and cession of patents) have been concluded, mostly with German and Austrian firms: a commission of about 2,500,000 rubles was paid to these foreign firms for their assistance in 1926-7. A long list of new concessions offered has been elaborated and published. The demand for them is poor because of the wearisome procedure, mutual distrust and uncertainty.

¹ Concessions in agriculture turned out unprofitable. Cf. the *Volkswirtschaft U.S.S.R.*, No. 20, p. 43.

² At the end of 1928 there were 85 concessions, namely, 14 in mining, 23 in manufacturing (metal, textile, pencil, chemical, haberdashery), 4 in building, 4 in timber, 4 shipping and air transport, 5 in agriculture, 24 fishing, 7 trading.

CHAPTER VIII

TRANSPORTATION IN SOVIET RUSSIA

ALL railways in Soviet Russia are nationalized. There is a considerable increase in railway traffic in comparison with the pre-war level. This is chiefly due to increase of town population and because of the unsatisfactory state of river transport. The river freight traffic is only 77·1% of pre-war level, the chief freights being wood and timber. This is chiefly due to increased cost, abnormally high river freight rates and an enormous rise in haulage and transshipment expenses due to the comparatively high wages paid for unskilled dock-labour.¹ At the same time, railway transportation is often preferred because the shortage of consumers' commodities necessitates quicker transportation.

The total length of railways is 77,700 kilometres; total traffic amounts to 97·3 million ton-kilometres of freight and 24·5 million passenger-kilometres. In the budget 1928-9 the total gross revenue from railways amounts to 1,820 million rubles (1,416 million rubles of which are from freight traffic; 356 million rubles from passenger traffic). Total expenditure of the railway service has been estimated at 1,881 million rubles, of which 1,368 million rubles will be spent on traffic service, 385 million rubles on renewal of sleepers, cars, engines, etc., and improvements, and 128 million rubles on construction of new railways. Probably the actual results will be less favourable.

In the railway service the most important item of cost is the wages bill. The Government has repeatedly ordered a

¹ There existed in 1927 only 3,337 steamers (of 526,000 h.p.) on all Russian rivers (including 527 steamers, mostly of the smallest class, belonging to private persons). By the decree of April 21, 1930, the Government ordered confiscation of all private vessels of a tonnage over 25 tons, and no compensation will be paid to the owners (*Isvestiya*, April 28, 1930).

diminution of the railway staff, but this could never be complied with. The wages in the railway service lagged much behind other branches, and even in 1929 amounted on the average to only 77 rubles (£8, or \$39) per head a month. At the same time, it is to be feared that expenditure on renewal of sleepers, rails, etc. is not adequate.

Revenue from railways is unfavourably affected by the policy of the Government in lowering freight tariffs for the chief products transported for the State factories and State trading organizations, *viz.* coal, grain, ore, pig iron, wood and timber. On the other hand, freight tariffs on consumers' goods have been raised very sharply, and this amounts to a peculiar indirect taxation. Goods of private people pay as a rule much higher tariff rates. The railway freight tariffs are based on a differential principle as in pre-war times; that is, for longer distances there are considerable reductions in freight rates. Goods of "class 1" (for instance, textile) pay for the first 534 kilometres 12.6 copecs per ton-kilometre; from 535 to 800 kilometres 10.7 copecs per ton-kilometre; and from 801 to 1066 kilometres 8.81 copecs per ton-kilometre.

The raising of passenger tariffs in 1926 resulted in a slump in passenger traffic, in spite of the fact that they are still very low, as they had always been in pre-war times too. For instance, a third-class ticket costs for 300 kilometres, about 190 miles, only 3.50 rubles, about 7s.; 1,000 kilometres, 8.80 rubles, and 3,000 kilometres, 17.80 rubles; but even these rates are too high for a country as poor as Russia.

Many new lines have been constructed; most of them had been planned already or were under construction in pre-war times or during the war. The construction of a important new line from Turkestan to Siberia was begun last year. There was a great deal of discussion about this project, because it is not likely to repay the expenditure. However, the chief consideration for this line was easier supply of grain from Siberia to the cotton-growing districts of Turkestan, and political considerations played an important rôle in promoting the project. The supply of coal

from the Donetz basin to the northern regions, especially to Leningrad, thus avoiding the pre-war supply of coal from England, necessitates the construction of a new long-distance main line: the existing line via Moscow is overburdened, and the new line will be of strategical importance too. Strategical importance is possessed also by many new railway lines across the western front: Unecha-Voroshba, Gomel-Chernigov, Novesefizi-Priluki, and other lines under construction.

There is a considerable State expenditure on subsidizing river transport and on the improvement of river navigation. Large harbour works become necessary mainly because of the changes in the character of Russian export.

Roads for vehicular traffic are in a desperate condition. Only 31,417 kilometres (19,635 miles) of roads have a stone bed, mostly of a Macadam type; 30% of them are defective, another 30% must be reconstructed or renewed. All other roads (about 1,400,000 kilometres) and about 20% of the towns have no pavement whatever. Therefore automobile traffic is possible only in the principal towns and on a few main roads.

Considering the necessity, from the general and strategical point of view, of introducing automobile traffic¹ and of restoring dilapidated roads, the Government will spend about 95 million rubles in 1928-9 and the local authorities another 32 million rubles. However, only about 250 kilometres of new roads with stone bed will be constructed during this year (some of them strategical), because the greater part of the expenditure will be applied to the restoration of the existing roads.

Air traffic is only in its infancy. It operates partly with German assistance and serves two main lines: Moscow-Berlin and Moscow-Persia.

The total State expenditure on all transport in the Budget 1928-9 amounts to 2,251,900,000 rubles, whereas the gross revenue is estimated at 1,894,320,000 rubles. Thus, the transportation service in Soviet Russia necessitates a yearly

¹ There are in the whole of Soviet Russia only 7,500 light motor-cars (!), 6,500 motor lorries, and 1,100 motor buses; but how many of them are in order?

Treasury contribution of over 350,000,000 (£36,000,000, or \$180,000,000) over and above all revenue derived from it.¹ There is no hope of any improvement in the financial position of the transportation service in the near future. On the contrary, the deficit is likely to increase. The actual deficit for 1927-8 was 318,000,000 rubles. An increase or a rearrangement of freight rates will undoubtedly hit the chief forwarder, *viz.* the State factories and State trading organizations. Should automobile freight traffic become more or less important, this will severely hit the railways in their most profitable traffic, *i.e.* on short distances.

The Soviet Russian State postal and telegraph service was run at a loss till last year. In pre-war times it used to be not only an institution producing considerable net revenue (about 40 million gold rubles in 1911), but all State mail was carried free of charge. Now State mail is paid for, and the salaries of the postal officials are considerably below pre-war level. The reasons for this are: lower postal rates (taking into consideration depreciation of currency); smaller quantity of mail; increase of post-offices, especially in remote regions; reconstruction, etc. of telephone service.

Increase of postal rates in 1928 and diminishing of the number of postal officials helped to balance revenue and expenditure. Nevertheless, it should be noted that the mail of the State departments and State enterprises is the chief mail of the country, and increase in postal rates affected the State budget in the first instance. Some of the new telephone installations have been constructed with subventions from local sources; otherwise, the postal budget would have shown a deficit even in 1929. The five-year plan expects a yearly deficit from postal service of about 16 million rubles a year² or a total deficit of 109 million rubles till 1932-3.

Great importance is attached by the Soviet Government

¹ As a matter of fact, the actual State expenditure is even higher, because in addition the local budgets spend 90 million rubles, and the Central Communal bank 30 million rubles, for housing of transportation workers, etc.

² *Pyatiletniy Plan*, Vol. II, Pt. 2, 2nd ed., 1929, p. 320.

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to increasing the wireless service all over the country. Large sums have been spent for this purpose, and a great number of transmitting stations opened, even in the Far East, and wireless is successfully used there at the present time for Soviet propaganda among the Chinese in China. Considerable quantities of plant have been ordered in America. The entertainment programmes are often quite good; special attention is naturally paid to communistic propaganda, and some useful information (agricultural intelligence, etc.) is given too.

CHAPTER IX

PUBLIC FINANCE IN SOVIET RUSSIA

THE All-Union Budget of Soviet Russia includes not only the State Budget of the Union, but the budgets of the seven Allied Union Republics as well. There exist separate budgets of the local bodies, but they are financed chiefly by grants from the State Treasury. Therefore the whole system of public finance of Soviet Russia is practically included in the All-Union Budget.

The All-Union Budget estimates for the year ending September 30, 1930, as approved by the Central Executive Committee of the Soviet Union on December 8, 1929, and for the year 1928-9.

REVENUE (in 1,000 rubles).

<i>A. Revenue from taxation.</i>			
I. Direct taxation : ¹	1929-30.	1928-9.	
Agricultural tax	415,000	400,000	
Income tax	369,445	272,000	
Excess profits tax	18,050	22,060	
Inheritance and gift tax	3,331	1,227	
Total direct taxes	805,826	695,287	
II. Indirect taxation : ¹			
Turnover tax (industrial tax)	1,814,430	1,005,000	
Excise duties	2,217,200	1,735,500	
Customs duties	372,000	255,000	
The cotton-wool tax	7,000	—	
	4,410,630	2,995,500	

¹ The classification of tax revenue given in this table differs from the official classification in so far as the items of the turnover tax and of the cotton-wool tax are included under the head of indirect taxation, whereas the Finance Department includes them under the head of direct taxation. This is done by the Finance Department to place the system of taxation in a better light, under the pretext that the industrial tax is assessed directly. As a matter of fact, all State enterprises include the amount of the turnover tax in the price at which they sell their products.

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III. Stamp duties and other dues :		
Stamp duties	80,000	90,000
Other dues	81,500	48,049
	<u>161,500</u>	<u>138,049</u>
Total revenue from taxation	5,377,956	3,828,836
B. <i>Non-tax revenues.</i>		
IV. Postal, telegraph, wireless and telephone services (gross revenue)	260,600	190,000
V. Revenue from transport (chiefly railways : gross revenue)	2,798,961	1,904,459
VI. Revenue from State domains and State enterprises :		
From State industry (net revenue from State industrial enterprises yielding net profit)	821,050	275,000
3% allocation from net revenues of State enterprises to professional education	32,950	(16,600) ¹
From State trade (net revenue from State trade enterprises yielding net revenue)	212,184	32,009
From State banks (net revenue)	117,038	103,000
From State forests (gross revenue)	450,250	272,433
From royalties of State mines	79,278	65,203
From other State domains and enterprises	32,277	32,662
From concessions	5,026	4,507
From revenue from State domains and enterprises	1,750,053	784,814
VII. Loans repaid to the Treasury with interest	28,940	41,469
VIII. Miscellaneous revenue	40,856	66,945
IX. Mint revenue from coinage	28,734	—
Total non-tax revenue	4,908,144	2,987,687
C. <i>Receipts from credit operations.</i>		
X. Issue of State loans	1,335,000	800,000
Grand total revenue	<u>11,621,100</u>	<u>7,616,523</u>
Surplus from previous year	—	115,000

¹ Allocated separately in the budget for 1928-9.

EXPENDITURE (in 1,000 rubles).

I. Central Administration of the Union :	1929-30.	1928-9.
1. The supreme organs and Central State departments of the Union (viz. the Central Executive Committee, the Council of the People's Commissars, State Planning Committee, Supreme Court and the Office of the Procurator, Asiatic Economic Council, Commissariat for Foreign Affairs and other State departments of the Union)	135,160.	} 267,381
2. Academy of Science, Universities, central institutes for political education	170,918	
3. Army and Navy department	1,046,800	874,575
4. Special Guard troops	66,850	55,380
5. Commissariat of Transport (chiefly Railway department), not including expenditure either on educational institutions of this Commissariat or on new railway construction	2,849,599	2,134,461
6. Commissariat of Posts and Telegraphs	267,600	190,000
7. State departments of the seven Allied Union Republics : Commissariats for public education	355,289	215,835
Commissariats for public health	59,500	59,056
Commissariats for social relief	23,114	20,121
Commissariats for agriculture	203,695	150,451
Other institutions and departments	157,007	61,800
Total expenditure of these departments	798,605	507,263
	5,335,532	4,029,060
II. Financing of the National Economy, viz. grants, new investment and covering of losses (excluding amounts assigned for this purpose to different Departments) :		
1. State industry	1,886,200	949,209
2. Electrification	310,000	184,000
3. Agriculture (chiefly on State and collective farms)	658,650	376,150
4. Irrigation	110,000	40,000
5. State trade (chiefly financing of monopoly of foreign trade)	407,000	181,800
6. Co-operation (chiefly State retail trade)	16,000	5,970
7. Communal trading and housing	120,200	70,000
8. Railway construction	265,396	127,600
9. Miscellaneous	58,250	59,184
Total financing	3,831,696	1,993,913

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III. Special funds :		
1. Fund for abating the cattle pest	2,500	—
2. Unemployment relief ¹	8,055	7,210
3. Waifs and strays relief	8,500	9,500
4. Grants to State publishing	13,822	11,250
5. Grants to introduction of the new latinized Turk alphabet	•	—
6. Reserve funds of the Government (secret, etc. expenditure)	1,051	—
7. Printing of notes and minting	202,926	122,500
8. Topographic and geodetic service and cartography	5,000	4,053
9. Repayment of the State industrial reconstruction loan	8,100	—
10. Social insurance of State employees	65,180	61,850
11. Other special funds	34,907	— ²
	4,205	3,129
	<hr/>	<hr/>
Total of special funds	354,246	219,492
IV. Public debt charge	450,000	293,000
V. Grants to local budgets :		
(a) Grants to local bodies from the State tax revenues	1,309,122	} 1,050,623
(b) Subsidies and contributions to local expenditures	83,746	
(c) Refunding of expenditure of local bodies of R.S.F.S.R. on services imposed on them by the State	33,757	
	<hr/>	<hr/>
Total grants	1,426,625	1,050,623
Expenditure of the Autonomous Republics of the Russian Socialistic Soviet Republic	133,000	95,435
VI. Creation of State Grain fund	60,000	—
VII. Special reserve fund for the Treasury	30,000	50,000
	<hr/>	<hr/>
	<u>11,621,100</u>	<u>7,731,523</u>

Every year the State budget increases at a great pace. It has risen by 33.5% in the year ending September 30, 1927, by 21.5% in 1928, by 18.5% in 1929 and by 50% in the year 1929-30. Such an increase is due to the enormous requirements of the financing of State industry, State trade and agriculture. These three items alone have risen from 1,507 million rubles in 1928-9 to 2,952 million rubles in 1929-30. At the same time there is no adequate rise in revenue from State domains and enterprises.

¹ The unemployed obtain their insurance relief from the insurance fund (see Chap. V). It is important to note that war pensions and help to families of those killed in the Great War do not substantially burden either the State budget or the local budget, because they have been awarded only in small numbers.

² Included under other headings.

On the other hand, there is a substantial increase in the expenditure on Army and Navy, on Education and on Public debt charge. Consequently, a large increase of taxation and the issue of new loans became necessary. The turnover tax, the excise duty on spirits, tobacco, etc. had to be raised again. There is a sudden big rise in the revenue from State trade; this is due to the introduction of differential prices on commodities sold to the non-privileged population, which can get now such commodities only at much higher prices than are charged to the working classes. This system of differential prices is responsible for an increase of revenue of some 200,000,000 rubles a year; this device is a very peculiar indirect taxation on class principles. I have given a detailed picture of the Soviet system of public finance and taxation in my German book, *Die Finanz- und Steuerverfassung der U.S.S.R.*, edited in Jena, G. Fischer, in 1928. The revenue is chiefly based on indirect taxation, which is, no doubt, the highest in the whole world.

The turnover (industrial) tax has been reformed by the law of August 10, 1928, and is imposed on the turnover of all industrial and trading enterprises. The rates vary from 1.6 to 14.8% for State and co-operative enterprises, and from 2.15 to 17.15% for private enterprises, according to the nature of the trade and the commodities sold or produced.

The income tax is based on class principles and divides all income-tax payers into four categories; viz. the first category (journalists, actors, etc.) pay 18% on an income of 24,000 rubles a year and 30% above this amount; the second category (workmen and employees) pay at slightly lower rates; the third category (artisans) pay at much higher rates, or 30% on incomes of 24,000 rubles and 50% above 24,000 rubles; the fourth category (private traders and industrialists, investors, etc.) pay 34.7% on incomes of 24,000 rubles and 54% above this amount. A local surcharge of 25% levied by the State is added for the benefit of local bodies.

The State and co-operative enterprises pay an income tax of 10%, including the local surcharge.

The agricultural tax is levied on peasant households at the rate of from 3 to 30%, according to the taxable income. The

poorer farms, about 35% of the total number, are exempt from taxation, whereas peasant farms with an income of over 1,000 rubles a year pay at extremely high rates (18% and over). The tax is highly aggravated by local surcharges. Excess profits tax is levied on profits of private traders above the so-called "normal profits," and the rates of the tax vary from 6 to 50% of the excess profit.

The inheritance tax has been reformed by the law of February 6, 1929, and is levied on the amount of inheritance at high progressive rates and according to class principles: it is lower in the case of estates left by income-tax payers of the first three categories, and higher for the income-tax payers of the fourth category. For instance, an inheritance of 100,000 rubles pays 18.54% in the first case and 22.1% in the second.

Indirect taxation is composed of excise and customs duties. Cigarettes, best quality, pay an excise duty of 9 rubles per 1,000 cigarettes. The sugar duty on home-grown sugar is 24 rubles 40 cop. per 100 kilograms, or about 3*d.* an English lb. Kerosene is taxed as high as 3.65 cop. per kilogram, and petrol as high as 10 cop. a kilogram (about 8*d.* a gallon). There exists a high duty on textiles according to the nature and kind of yarn. Vodka, brandies, beer and other alcoholic drinks are severely taxed. Also an excise duty is levied on matches, goloshes, candles, cosmetics, etc. Tea, best quality, pays a duty of 7 rubles 75 cop. a kilogram, or about 7*s.* 7*d.* an English lb.; tea, lowest quality, pays a duty of 2 r. 92 cop. a kilogram, or about 2*s.* 8*d.* an English lb. The customs duties are very high, and they have been raised again lately as far as consumers' goods are concerned (see p. 169).

Prohibition, introduced at the beginning of the Great War, was abolished in 1922. Now the revenue derived from taxation of vodka and other alcoholic drinks plays again the most important rôle in the budget of Soviet Russia, yielding about 1,000,000,000 rubles a year. All efforts to abate drunkenness among the labouring population have not had the desired effect. The Soviet newspapers announced lately that in two districts of Moscow there have been opened two special houses

accommodating 80 persons, where drunken people picked up in the streets are kept until they become sober (*Isvestiya*, December 6, 1929).

A new issue of State loans to the amount of 1,300,000,000 rubles (£135,000,000) is planned during 1929-30. Like all previous loans, they are either compulsory or are subscribed under severe pressure. As a rule, loans issued for public subscription are lottery loans, and it is possible to win a sum of 100,000 rubles (£10,000). All loans are free from any kind of taxation. The actual cost to the State is extremely high. For instance, the actual cost of the 10% lottery loan 1927 was 14%; of the first Industrialization loan, 1927, 13.4%; of the Agricultural Development Lottery loan, 1928, 13%, and of the second Industrialization loan, 11.4%.

Consequently, the Public Debt charge is a severe burden, amounting to 293,000,000 rubles in the budget 1928-9, and to 450,000,000 rubles in the budget 1929-30, whereas the capital amount of the Public Debt reached the sum of 2,000,000,000 rubles only on October 1, 1929. All efforts to compel the peasantry to subscribe to larger amounts of public loans had rather poor results. Under the pressure of the trade unions, labourers and employees had to invest 80-100% of their monthly wages in the new third Industrialization loan, 1929. By decree of September 13, 1929, the Government gave orders to apply further pressure and to prevent reselling of bonds subscribed. In many places the peasants offered resistance, and there were cases where loan agents were killed by the peasants.¹

The State Savings Banks pay 8 and 9% interest per annum. Nevertheless, the total of deposits amounted to 571,000,000 chervonetz rubles only on December 1, 1929, in comparison with 1,685,000,000 gold rubles on January 1, 1914. The deposits in the Savings Banks are free from any taxation, even from death duties, for any amount deposited and to whomsoever left.

¹ Such a case occurred in October 1929 in Ekaterinodar (now called Krasnodar) district, where, according to a note in the Soviet Press, "a mob of kulaks massacred the poor peasant comrade Voronov, a member of the committee for realization of loan, by breaking his skull with an iron spade."

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The table below shows the currency in actual circulation and the amount of deposits accepted and of loans granted by the chief State banks of Soviet Russia.

(In million rubles.)

	Sept. 1, 1928.	Sept. 1, 1929.
Currency in circulation	1,718	2,460
Deposits in the chief banks	934	1,148
Short-term loans of the chief banks	3,385	4,106
Long-term loans of the chief banks	1,897	2,669

There was a sudden increase of currency in circulation in the autumn of 1929, *viz.* to 2,873 million rubles on December 1, 1929.¹ This is due to the usual increase of currency for financing grain purchases and perhaps in connection with the military activities in the Far East. The price index has shown further deterioration, as may be seen from the following table (1913 = 1,000).

	Price index on Dec. 1, 1929.	Per cent. of the index	
		of Nov. 1, 1929.	of Dec. 1, 1928.
Wholesale price index of the Central Stat. Dept.	1,819	100·3	103·1
Retail price index of the Conj. Institute :			
(a) All trades	2,170	100·6	107·5
(b) In State and Co-operative trade	1,970	100·4	104·8
For agricultural products	1,990	99·8	108·3
For manufactured products	1,950	100·7	102·9
(c) In private trade	3,830	101·5	142·0
For agricultural products	4,850	100·8	165·2
For manufactured products	3,200	102·1	126·4

The general economic situation became worse in the first three months of the new fiscal year, *viz.* in October, November and December 1929, in spite of the comparatively good results of grain collection. The shortage of food in Moscow and other towns increased. In Moscow the ration

¹ It went down to 2,773 million rubles on January 1, 1930.

of food products sold on food cards became abominable: the distribution was usually only one pound of meat for four days, one and a half pounds of butter¹ for a month, milk and eggs were sold only for children. Members of co-operatives can buy as monthly ration two hundred grams of macaroni, six hundred grams of grits and fifty grams of tea. By a new Moscow order even workmen are not allowed to buy more than seven metres (about 23 ft.) of shirting in a quarter of a year. There was a great panic over kerosene because of the shortage of the supply. In Moscow the authorities were compelled to issue an order prohibiting the storage of more than eight kilograms (about two and a half gallons) of kerosene at home, and more than sixty persons were arrested and brought up for trial for speculation with kerosene or for keeping excessive quantities of kerosene at home (*Isvestiya*, December 4, 1929). The Government ordered an increased supply of denatured alcohol, since there was a general shortage of supply of kerosene all over the country, and this shortage may continue, as was pointed out in the Government's declaration on the budget (*Isvestiya*, December 8, 1929). Railway transport experienced great difficulties; and the Commissar for transport issued alarming warnings, insisting on speeding up empties (*Isvestiya*, December 7, 1929). On the other hand, the President of the State Planning Committee, Krzhizhanovsky, complained that the meat and milk supply was unsatisfactory and that 30% of food products transported by the State carriers deteriorated before they reached the consumer (*Isvestiya*, December 8, 1929).

Industrial output and labour efficiency have risen in the first half of the new fiscal year (October 1929–March 1930), but lagged far behind the "plan."² The official explanation

¹ From December 3, 1929, butter, best quality, is sold in State shops at 3 r. 27 cop. a kilogram, or 3s. 3d. an English lb., and lowest quality 2 r. a kilogram. Eggs are sold at 78 c. (1s. 8d.) a dozen, but the quality usually is very poor.

² According to a preliminary report, industrial output has risen in the first half of the new fiscal year by 29.1% instead of 32% anticipated by the "plan," labour efficiency only by 9.9% instead of 25.3%, and cost of production has fallen only by 6% instead of 11%. At the same time the quality of production has diminished again, and the difficulties in the supply of raw materials and semi-manufactured goods have increased.

is that the management in different branches of industry is not sufficiently well organised and that details are lacking in the plans. It has been pointed out that very often factories are left without any strict programme for their output and efficiency (*Isvestiya*, December 24, 1930). Therefore, orders have been given to achieve the utmost centralization in the management of the different branches by creating centralized "Combines." At the same time the responsibility of the managers of the individual State factories of a "Combine" for the necessary efficiency and for executing the plan has been increased.

Now it is planned to forbid private trade in such commodities as are entirely produced by the State factories, viz. in sugar, kerosene, etc.

The Government announced lately the great success of collectivization of the peasantry: till March 1, 1930, about 55% of all peasant farms joined the collectivist movement. This "success" proves only that the peasants understood very well the "benefits" of adopting the Government's creed: those who did not join are unable to get or to buy at whatever price agricultural implements, seeds or, very often, even matches. . . . Exactly for the same reason everybody joined the "co-operative" movement, and 33,611,000 members had been registered on October 1, 1929: only "co-operative" shops are supplied with the most important commodities!

As a matter of fact, the success of the peasant collectivist movement is a great embarrassment for the Government, and the millions of new satellites expect to get their share in the Government's benefaction. . . . Therefore the Government gave orders lately to relax the collectivist movement and to lessen the zeal of the local administration in recruiting adherents of collectivism among the peasants! . . .

However, this collectivization increased class fighting and the struggle among the Russian peasantry. The expulsion of the well-to-do peasants has stirred up violent antagonism. Only the future will show if the Russian peasant sincerely adopted communism or simply was anxious for benefits from the Government. . . .

At any rate, nobody knows if the collective ownership of tractors, implements, cattle, etc. will be as economical as private ownership, and if the collectivist peasants will have any inducement for rational agricultural production. Even in the State farms much waste goes on, as, for instance, in the case disclosed by the well-known Russian military hero of the civil war, Budenny. He related that in the famous State farm, "The Giant,"¹ were collected 35,000 tons of hay, but they did not know what to do with it because the farm was fully "mechanized" and no cattle existed there: transport by rail would be too costly, because the nearest railway line was about 30 miles away. Being the Chief of the Soviet cavalry, Budenny complained that the peasants sold or killed horses in numbers before entering a collective farm, as they were sure to get a tractor there (*Isvestiya*, December 10, 1929). Now the Government has given orders to prosecute peasants who fraudulently dispose of their cattle instead of giving them to the collective they are going to join.

¹ This is one of the biggest State farms, of about 380,000 acres, near Rostov-on-Don: a peasant university has been opened there, and six churches have been closed. The farm has made lately a present of 300,000 tons of grain to the State (*Isvestiya*, December 10, 1929).

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