

# STATE CAPITALISM IN RUSSIA

THE SOVIET ECONOMIC SYSTEM IN OPERATION  
1917 - 1926

*by*

SAVEL ZIMAND

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**Revised Edition**

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## INTRODUCTION

**R**USSIA, since the Bolshevik revolution, has been the subject of countless polemics. No phase of Russia's internal development nor her external relations has escaped since 1917 the confusing and distorting efforts of Communist and anti-Communist propagandists.

Several months ago the Foreign Policy Association asked Mr. Zimand to make a rigorously objective study of the important changes which have taken place in the Soviet economic system during the past eight years, with a view to making clear the present status of Russia's trade relations with the rest of the world. It was our conviction that these developments are factors of primary importance in the relation between the Russian and the American peoples, and, therefore, worthy of careful scrutiny by all of our citizens interested in the United States' foreign policy. Mr. Zimand was asked to avoid any consideration of purely political or diplomatic matters, even of one of such vital importance as recognition.

The most remarkable feature of present-day Russia is that men who, a few years ago, were busy destroying the capitalist system are at present using capitalistic methods to reconstruct and develop the agriculture, the industry and the trade of the country. In these efforts, the Soviet authorities, frequently scrapping their communistic theories when these have clashed too harshly with economic realities, have made vast concessions to capitalist standards.

Intermittently the doctrinaires have tried to return to the application of more orthodox socialistic principles, but the general tendency has been a steady swing toward "capitalistic heresies." For example, in spite of all the attempts in 1925 to break the back of private capital, private enterprise has again been granted a freer hand.

Russian foreign trade, however, has been since the revolution and remains today a government monopoly. This centralized control is now, however, somewhat less rigid than in the beginning, due to the modifications introduced by the new economic policy particularly in 1925.

The growth and security of Russia's foreign trade depends on the rapidity of her economic recovery. This in turn depends largely on the extent to which long term foreign credits are made available. But before granting these, capitalism demands still further concessions.

It is commonplace to emphasize the importance of the recovery of Russia as a factor in the recovery of Germany and of all Europe. Though the United States' foreign trade with Russia directly may never reach high percentages, Russia's return to normal would so stimulate European trade as to affect favorably American exports. Crippled Russia gives one more striking illustration of the world-wide inter-dependence of the modern industrial organization.

To enable Americans to estimate for themselves the economic, fiscal and trade situation in Russia, this limited factual survey of the last eight years has been made.

JAMES G. McDONALD  
Chairman, Foreign Policy Association

## FOREWORD

**T**HE data utilized in this survey are taken largely from Russian official sources. For no study on Soviet economic life can possibly be made without using the statistics of the Soviet authorities. Moreover all the various reports on Russia issued by Governments, including our own, institutions like the International Labour Office as well as anti-Bolshevik monographs and books have invariably made use of Soviet figures. In fact Soviet statistics are not less reliable than those of some other European countries. However, the statistics of the various Soviet offices differ considerably, for the methods and scope of economic statistics are not yet clearly determined in Soviet Russia. But, in spite of the lack of standardization and the continual changing of statistical methods, the data issued by the U. S. S. R. authorities offer the best available basis upon which to build a picture of industrial conditions in Soviet Russia. Whenever possible this has been checked from other sources.

The writer desires to acknowledge the many valuable suggestions and criticisms received from economists and students of Russian economic life to whom the study has been submitted in manuscript form. Chief among these is Dr. M. L. Jacobson, for years chief statistician of the Federal Reserve Board who accorded me the benefit of his extensive knowledge and his accurate scholarship, and gave me his generous permission to make use of his materials on Russian economic conditions and whose untiring co-operation I have had at every step of this work. Dr. Leo Pasvolsky of the Institute of Economics and author of the brilliant and searching studies of Russian affairs has read the manuscript and made valuable suggestions. Prof. Paul F. Brissenden of Columbia University and Dr. H. W. Laidler, Director of the League of Industrial Democracy and a Director of the National Bureau of Economic Research, have both read the manuscript and been most liberal in their aid.

My thanks are also due to Mr. E. C. Ropes, Division of Regional Information of the U. S. Department of Commerce; Mr. R. F. Kelley, Chief of the Eastern European Division of the U. S. Department of State; Mr. Paul U. Kellogg, Editor of the "Survey" and "Survey Graphic"; Mr. Bruce Bliven an editor of the "New Republic"; Dr. Louis Levine of the Institute of Economics; the staff of the Information Service of the Amtorg Trading Corporation of New York City; and the staff of the Russian Information Bureau of Washington, D. C. Last, but not least, I want to express my thanks to the members of the Research Department and the staff of the Foreign Policy Association.

May 26, 1926.

SAVEL ZIMAND

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# APPENDIX

## I

Extract from  
ANNUAL MESSAGE OF THE PRESIDENT OF THE UNITED STATES  
to  
A Joint Session of the Senate and House of Representatives  
December 6, 1923

"Our diplomatic relations, lately so largely interrupted, are now being resumed, but Russia presents notable difficulties. We have every desire to see that great people, who are our traditional friends, restored to their position among the nations of the earth. We have relieved their pitiable destitution with an enormous charity. Our Government offers no objection to the carrying on of commerce by our citizens with the people of Russia. Our Government does not propose, however, to enter into relations with another régime which refuses to recognize the sanctity of international obligations. I do not propose to barter away for the privilege of trade any of the cherished rights of humanity. I do not propose to make merchandise of any American principles. These rights and principles must go wherever the sanctions of our Government go.

"But while the favor of America is not for sale, I am willing to make very large concessions for the purpose of rescuing the people of Russia. Already encouraging evidences of returning to the ancient ways of society can be detected. But more are needed. Whenever there appears any disposition to compensate our citizens who were despoiled, and to recognize that debt contracted with our Government, not by the Czar, but by the newly formed Republic of Russia; whenever the active spirit of enmity to our institutions is abated; whenever there appear works meet for repentance; our country ought to be the first to go to the economic and moral rescue of Russia. We have every desire to help and no desire to injure. We hope the time is near at hand when we can act."

## II

NOTE SENT BY THE SOVIET COMMISSARY FOR FOREIGN AFFAIRS  
To the President of the United States of America  
(December 16, 1923)

"It has been the constant endeavor of the Soviet government to bring about a resumption of friendly relations with the United States of America based upon mutual trust. With this in view, it has repeatedly announced its readiness to enter into negotiations with the American Government and to remove all misunderstandings and differences between the two countries.

"After reading your message to Congress, the Soviet government, sincerely anxious to establish at last firm friendship with the people and government of the United States, informs you of its complete readiness to discuss with your govern-



ment all problems mentioned in your message, these negotiations being based on the principle of mutual non-intervention in internal affairs. The Soviet government will continue wholeheartedly to adhere to this principle, expecting the same attitude from the American government.

"As to the questions of claims mentioned in your message, the Soviet government is fully prepared to negotiate with a view toward its satisfactory settlement on the assumption that the principle of reciprocity will be recognized all around. On its part, the Soviet government is ready to do all in its power, so far as the dignity and interests of its country permit, to bring about the desired end, of renewal of friendship with the United States of America.

"ТЧИТЧЕРИН,  
"People's Commissary for Foreign Affairs."

### III

#### SECRETARY HUGHES' REPLY TO MOSCOW

With respect to the telegram to President Coolidge from Tchitcherin of December 16th, 1923, the Secretary of State on December 18th made the following statement in reply:

"There would seem to be at this time no reason for negotiations. The American Government, as the President said in his message to the Congress, is not proposing to barter away its principles. If the Soviet authorities are ready to restore the confiscated property of American citizens or make effective compensation, they can do so. If the Soviet authorities are ready to repeal their decree repudiating Russia's obligations to this country and appropriately recognize them, they can do so. It requires no conference or negotiations to accomplish these results which can and should be achieved at Moscow as evidence of good faith. The American Government has not incurred liabilities to Russia or repudiated obligations. Most serious is the continued propaganda to overthrow the institutions of this country. This Government can enter into no negotiations until these efforts directed from Moscow are abandoned."

This reply was transmitted to Moscow on December 18, 1923, through the American Consul at Tallinn (Reval).

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*Of the Foreign Policy Association*

EDWARD MEAD EARLE, Ph. D., *Director*

*Assistant Professor and Chairman of the Department of History in Barnard College of Columbia University; Vice-Chairman, Executive Board F. P. A.*

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