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SOVIET ECONOMIC DEVELOPMENT: 1928 – 1967

Since the late 1920's Soviet economic planners almost obsessively concentrated on the development of heavy industry. They did this for the sake of developing more heavy industry--especially the expansion of steel production.

Under the First Five-Year Plan Soviet steel production (5.9 million tons) fell far short of the prescribed target of 10 million tons: but large-scale industrial production more than doubled, new blast furnaces were constructed and old ones modernized, and the foundations were laid for a Ural iron and steel center at Magnitogorsk and a western-Siberian one in the Kuznetsk basin (Kuzbas).

The Second Five-Year Plan brought a spectacular rise in steel production more than 17 million tons, placing the Soviet Union not far behind Germany as one of the major steel-producing countries of the world. As was the case with the other five-year plans, the second was not uniformly successful, failing to reach the recommended production levels in such crucial areas as coal, oil, and cement production.

The first two years of the Third Five-Year Plan proved to be even more of a disappointment in terms of proclaimed production goals. Even so, the value of these goals and of the coordination of an entire economy's development of central planning has been undeniable. For the 12% to 13% rate of annual industrial growth attained in the Soviet Union during the 1930's has few parallels in the economic history of other countries. What is more, this high rate of growth was resumed after World War II and continued into the early fifties, after which it has gradually declined.

The collectivization of agriculture seems to have been a necessary prerequisite for the launching of the First Five-Year Plan. In 1928 80% of approximately 150 million Soviet citizens were engaged in agriculture. By the late twenties the peasant population, which was broken up into 25 million families, had greatly improved its relative position in Soviet society as a result of the Revolution and NEP. Peasants were no longer forced to surrender a large part of their surplus income to the state, as they had been during tsarist times, in order to finance the

government's industrialization program; and they lived better and consumed a greater part of their own agricultural production than ever before.

In 1928 the peasants demonstrated their ability to organize effective resistance when the Soviet state tried to collect grain forcibly and at prices unfavorable to the peasants. Collectivization was calculated to eliminate effective peasant opposition to the policies of the Soviet state by reducing the number of separate units in the agricultural population from 25 million independent families to several hundred thousand collective farms.

Although state control over these collective farms was by no means complete, it was effective enough to assure the delivery to the state of compulsory quotas of agricultural products and to oblige the peasants to accept the discriminatory taxation and the low prices for agricultural products Soviet leaders considered necessary in order to finance rapid industrialization. Furthermore, after 1928, the lowering of the peasants' standard of living and the tightening of political control over the peasant community produced conditions that made life in the country less attractive than before and, therefore, helped to increase the rate of migration into towns.

Between 1929 and 1935, 16.6 million former peasants left the countryside and moved to urban centers, where they became part of the expanding labor force of Soviet industry. This was, of course, a highly desirable development from the point of view of the Communist elite which ruled in the name of the "dictatorship of the proletariat."

In the thirties collectivization proceeded rapidly but in the face of bitter and costly peasant resistance. By Jan. 1930, 21% of peasant households had been collectivized, a percentage that dramatically rose to 58% in March as a result of the intensified application of force and coercion by overzealous local party officials during the late winter of that same year.

Stalin temporarily called a halt to forcible collectivization with his famous "Dizziness with Success" article of March 2, 1930, but massive peasant abandonment of collectivization during the ensuing months led to renewed administrative pressure and violence against "kulaks," the term then indiscriminately used to label all peasants who opposed collectivization.

In mid-1931 53% of the peasants once again lived on collective farms. After this the same combination of persuasion and coercion that had been applied earlier steadily raised the percentage of peasants on collective farms until it reached 94% in 1938. In many cases military units were called on to subdue unruly

peasants, and decrees for the protection of socialist property sanctioned the shooting of thousands of peasants for stealing such trifles from kolkhozes as rope or sheaves of straw or for the "hoarding of small coin." Hundreds of thousands of other peasant households were deported to Siberia or other remote areas of the Soviet Union.

When the peasants retaliated by destroying crops and killing their animals, the Soviet state confiscated foodstuffs the peasants needed to feed themselves. A particularly serious crisis developed in the Ukraine and northern Caucasus during the famine winter of 1932–1933, when apparently millions of peasants starved to death. The exact human toll resulting from collectivization is not known, but estimates run as high as 5 to 10 million. A recent study by Robert Conquest suggests the real figure is closer to 20 million.

The collective farms established during the thirties were divided into two basic types: sovkhozes and kolkhozes. From the very beginning the Soviet authorities attached special importance to the state-financed sovkhozes (state farms) and intended them to serve as models for the overwhelming majority of peasants in the kolkhozes. Sovkhoz performance, however, fell short of official expectations, though their efficiency has improved and their relative number and importance has grown since the mid-fifties. On the kolkhoz, in contrast to the sovkhoz, the land is socialized but parts of it are allocated to individual kolkhoznik households for private use.

Until recently kolkhoz members were obliged to work for their collective farm a minimum number of days a year, which generally varied between 100 and 150 days (60 to 100 prior to 1954). In the 1960's kolkhoz members were assured partial payment of their salary in advance of the harvest. Previously they received only a share of the kolkhoz's income (based on a complicated calculation of workdays) after the harvest and after all compulsory deliveries and payments to the state had been met.

State control over the kolkhozes has been exercised indirectly, not directly as has been the case for sovkhozes and factories. Kolkhoz members, in theory at least, elect their own chairmen and manage their own internal affairs. The kolkhozes' freedom of action, however, has always been very limited because the majority of kolkhoz chairmen are Communists (94% in 1959) and because there is no way for the kolkhozes to avoid meeting production and delivery quotas prescribed by the Soviet state.

Furthermore, until 1958 state operated Machine Tractor Stations (MTS) supplied most of the agricultural machinery used by the kolkhozes and served as a major

medium through which the state disseminated propaganda among the peasants and controlled their activities. After the Machine Tractor Stations were disbanded in 1958, various agencies of the Ministry of Agriculture took over many of the control functions formerly exercised by the MTS.

In terms of agricultural productivity, the results of collectivization have not been spectacular. During the First Five-Year Plan cattle herds declined almost 50% and the gross farm output approximately 10%. By 1940 the per capita production of fruit crops, meat, and eggs still did not attain the level of 1928, while it was as late as 1957 before the number of cattle was restored to the pre-collectivization level.

It was especially after 1953, when Khrushchev publicly acknowledged that Soviet agriculture had failed to meet the food needs of a growing population, that Soviet economic planners began to concern themselves seriously with the problem of how to expand agricultural production. They paid particular attention to the expansion of wheat production. Because of the increase in the use of mechanical horsepower and in the total area sown (especially in Kazakhstan), wheat production rose from approximately 30 million tons in 1950 to highs of 67.6 (1958), 100 (1966), and 80 (1967) million tons during the decade 1958-1967.

The disastrous drought and crop failure of 1963, however, grimly reminded Soviet leadership that the overzealous extension of the area under cultivation in the "virgin lands" of Kazakhstan cannot be continued indefinitely without risking the transformation of this area into a vast dust bowl' In regard to other agricultural products, rising productivity and output have resulted chiefly from concessions made by the government to the peasants. Prices paid for the procurement of agricultural products have been raised, restrictions on the use of private plots liberalized, taxes reduced' and pensions and cash payments in advance of the harvest authorized for the agricultural population.

Such measures have given the kolkhozniki new incentives to supply Russian towns with the vegetables, fruit, meat, butter, and eggs needed to feed the working population. The productivity of Russian agriculture, however, remains on a low level in comparison with that of many other countries and requires an agricultural labor force six times larger than that of the United States to produce a smaller total agricultural output. Furthermore, much of this output comes from private plots, which in 1964 accounted for 3% of the area under cultivation but produced more than 40% of the milk and meat output, 60% of the potato crop, and 73% of the egg production.

The chief aim of Soviet policy makers, however, was to promote industrial, not agricultural, growth. Collectivization gave an initial impulse to industrialization by siphoning agricultural surplus income and manpower out of the countryside and into the city: but it was clear from the very beginning that the efforts of the State Planning Commission (Gosplan) and the Supreme Economic Council (Vesenkha) to plan and coordinate the economy had to be greatly, intensified if rapid economic growth was to be continued.

Since 1928 the Soviet planning apparatus has been significantly expanded in order to formulate detailed annual production targets and to assure the proper degree of supervision and control in all branches of the economy. The collection of pertinent data for economic plans and their preparation have been above all the task of Gosplan. The principal objectives of each five-year plan have always been formulated by the party's leadership in the Council of Peoples Commissars (after 1946 the Council of Ministers of the USSR). After the abolition of Vesenkha in 1932, operational control over the economy and the implementation of planned targets were carried out until 1957 by numerous (as many as 33 specialized all-union and union-republic ministries organized according to restricted fields of economic activity.

In the late 1950's these specialized ministries were abolished and replaced by a more decentralized system of regional economic councils placed directly under the supervision of the Council of Ministers of the USSR. However, the need for another central coordinating body below the Council of Ministers was soon felt, and in 1963 a Supreme Economic Council of the USSR, whose namesake had been abolished three decades earlier, was again organized.

The basic unit in the Soviet industrial economy was the industrial enterprise. The carrying out of the output targets prescribed by Gosplan and the Council of Ministers is the principal responsibility of factory directors, in whose hands managerial authority is concentrated according to the principle of "one-man management." Because the careers of and the bonuses received by enterprise directors and their chief assistants have depended on meeting production targets, their major concern until recently has always been to fulfill and overfulfill the targets prescribed by annual plans.

The pressure on industrial management to overfulfill these targets has indeed been so great that they have commonly resorted to such questionable practices as arranging for low production targets by underestimating plant capacity, hoarding supplies and fulfilling output targets by neglecting quality control. To discourage such shortcuts on the part of plant management, the Soviet economic authorities have used a system of cost-accounting in order to facilitate the

auditing of records and to oblige managers to rationalize plant operations and to calculate production costs accurately.

The presence of the communist party cell in each enterprise also serves as an instrument of central state control, though the effectiveness of this device has often been lessened by the tendency of many local party officials to identify themselves with the interests of local plant management. Effective control over industrial labor is another problem that has constantly preoccupied Soviet economic planners. At the beginning of forced industrialization the labor force's lack of work discipline, education, and skills placed formidable obstacles in the way of carrying out production targets under the five-year plans. Soviet leaders realized that their ambitious economic goals could not be achieved without a notable improvement in labor productivity. But they offered the mass of workers few material inducements to work harder, for it was an axiom of Soviet economic policy that heavy industry had to grow faster than consumers goods production.

Because of one-sided emphasis on investment in industrial expansion, agriculture, housing, clothing, and other areas of consumer production were relatively neglected. The real wages of workers declined and apparently did not again reach the level of 1928 until the late 1950's. In other words, Soviet economic planners could not rely on a rising standard of living as a stimulus to raise levels of labor productivity but had to try to attain the same ends through persuasion or coercion.

The Communist party and trade unions were the principal instruments of Soviet labor policy after 1928. Within the factory the party not only watched over management but also over the workers' With regard to the workers, party activists have been particularly concerned with organizing worker support within the factory for the policies and objectives of the Soviet leadership. The carrying out of the party's economic objectives among workers was largely placed in the hands of the trade Unions, which after 1928 lost even the vestigial and limited autonomy they still enjoyed under NEP. Trade unions still were expected to promote the welfare of the workers and to organize their social and cultural activities, but the main function of trade unions now became that of raising the level of labor productivity, improving the quality of production, and reducing production costs. Strikes were forbidden because they were considered to be detrimental to the interests of the so-called workers' state.

Soviet leaders sought to achieve higher labor productivity through both indoctrination and coercive legislation. Soviet workers were subjected to constant party propaganda and agitation in order to impress on them the need for working hard and observing labor discipline. By the late thirties the

preoccupation of Soviet economic planners and enterprise managers with the overfulfillment of production quotas came to be more and more associated with the slogan "Stakhanovism," which was named after the coal miner A. G. Stakhanov who had produced sixteen times his established output quota. The real appeal of Stakhanovism was clearly a material one, for exceptionally high wages and special privileges rewarded workers who exceeded the established production norms. Stakhanovism and propaganda, however, did not overcome the indifference and inertia of the mass of Russian workers.

A particularly serious problem was the heavy labor turnover resulting from the migration of workers from job to job in search of better working and housing conditions. In the late thirties the government responded to this situation not by spending more money for the improvement of housing and working conditions but by introducing legislation to limit the mobility of labor. After 1938 workbooks recording job changes were maintained for each worker by the management of their place of employment. Further legislation of mid-1940 forbade unauthorized movement from one enterprise to another and specified fines and imprisonment for workers guilty of such movement or of chronic drunkenness, tardiness, and absenteeism.

At the same time, the Soviet state began to recruit a large number of children from among town and kolkhoz youths between the ages of 14 and 17 for enrollment in vocational schools and factory training centers. All of these measures were abolished in 1956, apparently because by then technical education and improving work discipline had raised labor productivity to a level considered acceptable by Soviet economic planners.

Moreover, in recent years the Soviet state has been in a better position than previously to step up the production of consumer goods, and, in this way, to provide the Soviet citizens with material incentives to work harder and more efficiently. In the mid-sixties, 2 million new apartments were built and millions of television sets, washing machines, and refrigerators produced annually. The Soviet Union still lags behind the US and the more advanced Western European countries in the production of consumer goods, but the gap separating it from them is narrower than it was a decade ago.

Until recently a highly developed industrialized economy existed in the Soviet Union. In 1967 the Soviet Union produced more than 100 million tons of ingot steel, or about 80% of the US production for that same year. In 1972 Soviet steel production surpassed US production. Soviet space technology compares favorably with that of the US, and the Soviet Union now outproduced the United States in the mining of coal and iron ore and in the manufacturing of railroad

locomotives, refined sugar, and cement.

These areas of production are, however, far from being representative, and the overall production of the US economy continues to exceed that of the Soviet Union by a wide margin. But the 6.5% average annual growth of the Soviet Gross National Product for the period 1955–1960 was considerably above the 3.5% rate of the US GNP for the years 1950–1963. During the 1950's the Soviet Union's much more rapid rate of growth made it seem that the Soviet economy would not take long to overtake that of the US. But the improved performance of the US economy during the sixties has influenced economists to view the Soviet prospects for economic leadership less optimistically.

In recent years Soviet economic planners have realized that they must improve and correct imperfections in the Soviet system of planning and management if they are to maintain the Soviet Union's high rate of economic growth. A theoretical basis for a more sophisticated planning and management system has been provided by such mathematicians as L. V. Kantorovich and V. V. Novozhilov, whose economic calculations have suggested how Soviet planners can better calculate the allocation and optimal utilization of natural resources, labor, a land, and capital in the production of any given commodity.

Since 1962 the efforts to improve Soviet planning and management have been generally associated with the name of Kharkov University Professor E. G. Liberman, whose study *Plan, Profits and Bonuses* first popularized in the USSR the notion that efficiency and quality in industrial production depend primarily on the rate of profit an enterprise earns on the total capital invested in it.

Formerly, plant management had been especially generously rewarded if it overfulfilled plan targets. Liberman proposed that premium bonuses should go only to those plant managers who reduced production costs and who produced marketable, high-quality goods. In other words, his proposals introduced a new emphasis on markets, prices, and profits into Soviet economic discussions. It is noteworthy that these discussions have been not only tolerated but even encouraged by Soviet leaders.

After 1964 a modified version of Liberman's reforms were introduced into thousands of Soviet factories on an experimental basis and were apparently to be extended to all of Soviet industry. But well-entrenched vested interests in the party and economic apparatus did their utmost to minimize departures from past practices. In any event, the flexibility and non doctrinaire attitude displayed by the Soviet leadership in accepting these new ideas was at the time certainly a good omen for the future growth and expansion of the Soviet economy.

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