

Soviet Political Economy : From the Post-NEP Era Through the First Five-Year Plan

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Introduction

In this essay, I offer an overview of the economic development in the U.S.S.R. from the post-NEP era through the First Five-Year Plan. My main question dealing with this period concerns the nature of the Soviet First Five-Year Plan. What did the Soviet leadership intend to do with this scheme? How can we assess the outcome of the economic strategy in the context of later historical developments? Were the results what the planners had expected? I intend to discuss these issues.

I. The Agrarian Situation before the First Five-Year Plan

The characteristics of the agrarian situation by the end of NEP (1924-1928) can be summed up as follows : By 1927 food production had risen to the 1913 level, yet the marketed surplus grain available for urban consumption and export was less than a third of its pre-war volume.¹ Howard J. Sherman, in *The Soviet Economy*, mentions the same view regarding the recovery of agricultural production during the NEP era :

As early as 1925-26 (the harvest year runs from October 1 to September 30) the total agricultural area reached 95 percent of the pre-war average while the gross harvest was even higher than pre-war...Yet one critical agricultural problem remained which had to be confronted at once : although agricultural output had reached the pre-war level, the *agricultural surplus available to be marketed* outside of the village

1 M. K. Dziewanowski. *A History of Soviet Russia*. p. 179.

was still far from the pre-war level in 1925-26. (p. 65)

The statistics, which give evidence to these accounts and are drawn from *Sotsialisticheskoe stroitel'stvo* (Moscow, 1934, p. 4), shows the following.

	(1913)	1922	1925
Sown area (million hectares)	(105.0)	77.7	104.3
Grain harvest (million tons)	(80.1)	50.3	72.5
Horses (million head)	(35.5*)	24.1	27.1
Cattle (million head)	(58.9*)	45.8	62.1
Pigs (million head)	(20.3*)	12.0	21.8

* 1916

An Economic History of the U.S.S.R. p. 101.

The principal reason, according to Alec Nove, for low marketings was the shift to a small-peasant subsistence-type economy.¹ Howard Sherman offered a similar interpretation, stating that "the problem was simply that the relatively equal distribution of land achieved by the peasants was itself the main reason for the decline of the marketable surplus."² Thus, by the end of 1928, the agrarian situation for more than 80% of Russian peasants was that they could produce mainly for subsistence, not for market.

Nonetheless, the situation was an improvement, not a set-back. As shown in the following account, "(i)n 1925 the peasants were eating better, selling less,"³ the livelihood of the Russian peasantry improved through the NEP. In summation, Prof. Sherman stated it this way.⁴

The agrarian revolution of 1917 and the modest monetary tax on the peasants introduced during NEP had resulted not only in peasant

1 Alec Nove. *An Economic History of the U.S.S.R.* p. 101.

2 Howard J. Sherman. *The Soviet Economy.* p. 65.

3 Op. cit., *An Economic History of the U.S.S.R.* p. 101.

4 Op. cit., *The Soviet Economy.* p. 65.

control, but in the ability of the peasant to actually keep much of the harvest for his own consumption (which had previously been at, or sometimes below, subsistence level).

In the meantime, there still existed a question as to whether the small agricultural surplus was enough 1) to feed the growing urban working population, and 2) to provide the exports to be exchanged for machinery.¹ Along with these questions, a structural problem of the smallest land holdings became evident: despite the fact that their total grain production rose from 50% to 85% of prewar, the ratio of their marketed grain to total production declined from 15% to 11%.²

II. The Industrial Situation before the First Five-Year Plan

Just as agricultural production rose by 1927 to the 1913 level, industrial production also rose sharply during the period 1924 to 1927.

Volume of Industrial Output in the U.S.S.R., 1913-1927

Year	Output (as % of 1913)
1913	100
1917	71
1921	31
1925	73
1926	98
1927	111

Source: Central Statistical Board of the U.S.S.R., National Economy of the U.S.S.R. (Moscow: Foreign Languages Publishing House, 1957) p. 41, in *The Soviet Economy*, p. 67.

1 *ibid.* p. 65.

2 *ibid.* p. 66.

However, the nature of the increase in industrial production consisted of output from reconstructed facilities, rather than the building of new plant and equipment.¹ Another characteristic of this period was that the emphasis had been placed on light industry, rather than on the heavy industry which later absorbed huge investment from 1928 onwards in the first-five year plan. The other crucial point was the relationship between industry and agriculture. To be specific, there occurred a disparity in the prices of foodstuffs and industrial goods.² Under these circumstances, a sharp shift in development policy, coupled with the debate over the strategy, took place in the late 1920s.

III. The Industrialization Debate

The issue, both the right and left wings argued, was the method of establishing a socialist industrial state in a country with only an under-developed agricultural economy: How to modernize the backward economy, how to raise money, and how fast should this program of development be completed?

The left, headed by Trotsky, took the view that NEP must be quickly ended and a transition must be made to the rapid growth of socialist industry.³ The perception of rapid growth strategy was to be extended to the countryside by the fullest encouragement of agricultural cooperatives to replace the tiny peasant farms.⁴ As an advocate of "permanent revolution," Trotsky denied "the possibility of socialism in a single country." However, he was also the main proponent of the rapid and ambitious investment program in heavy industry. Moreover, Trotsky

1 *ibid.* p. 67.

2 *Op. cit.*, *A History of Soviet Russia.* p. 178.

3 *Op. cit.*, *The Soviet Economy.* p. 70.

4 *ibid.* p. 70.

argued that such an industrial expansion program could be achieved only by detailed and comprehensive economic planning under the direction of the State Planning Commission.¹

The next issue was the way of financing investment in heavy industry. How could the capital be raised? Preobrazhensky, Trotsky's economic spokesman, argued that up to a half of all the profits of Soviet trade and industry were going into private hands under the NEP.² (Accurate perception. See the below.)

	1925-6	1926-7	1928	1929
Socialized	45.9	48.7	52.7	61.0 (%)
Private	54.1	51.1	47.3	39.0

An Economic History of the U.S.S.R. p. 127.

Based on this perception, Preobrazhensky advocated nationalizing these enterprises so as to increase the profits available for government investment in industry.³ He also encouraged the policy of squeezing the agricultural sector in order to raise capital. The other measures to generate capital included the following: taxation, especially of capitalist profit; inflationary printing of money; manipulation of the banking system and the market.⁴

The main critic of this leftist policy was Bukharin. Rykov, Kalinin, and Stalin joined with him. The concept of Bukharin's development program was optimality and balanced growth. He was concerned that there should be an optimal combination of producer-goods and consumer-goods, and that both industry and agriculture should grow together at an optimum rate.⁵ Accordingly, Bukharin could not be as tough on the peasant as the leftists. In his concept, industry should not grow at the

1 *ibid.* p. 71.

2 *ibid.* p. 72.

3 *ibid.* p. 72.

4 Roger Munting. *The Economic Development of the USSR.* p. 66.

5 *ibid.* p. 68.

expense of agriculture. Industry was dependent upon agriculture as a source of supply of raw materials and on peasant demand.¹ With respect to the speed of industrialization, Bukharin favored gradual development so that its rate would be governed directly by the growth in agricultural output and exchange.

Preobrazhensky and Trotsky countered the right with the following political and economic reasons.² The left claimed that the right wing policy would strengthen the rich farmers and thereby weaken the communist political base. In addition, the left argued that the leftist policy would hammer out the "scissors" problem and peasant dissatisfaction once and for all, because rapid industrialization would eventually result in an increased flow of manufactured consumer goods to the villages. Finally, they claimed that small amounts of resources drawn gradually from the agricultural sector would never make industry move on a self-sustaining basis of expansion, because of the lack of an initial "big push" to development. For these reasons, the left insisted on the rapid development strategy in heavy industry.

Eventually, neither the right nor the left became a predominant force in the party, because Stalin manipulated this ideological schism. Stalin at first sided with the right to defeat the left and to exile Trotsky. Then he showed a dramatic swing to an ultra-left position, and used the remnants of the left in order to defeat the right.

In 1925 at the Fourteenth Party Congress, Stalin and the Center faction fully supported the right wing policies, of which Bukharin had become the major spokesman.³ Basically, this standing continued at earliest until the Fifteenth Party Congress in October 1927, when Trotsky was exiled to Siberia and then out of the country. Stalin's attack, then, shifted dramatically to Bukharin. Bukharin was vigorously criticized in the April 1929 plenum of the central committee as a right wing deviationist, and was

1 *ibid.* p. 68.

2 Following arguments were discussed in *The Soviet Economy.* p. 73.

3 *ibid.* p. 73.

expelled from the politbureau in November 1929.

IV. The First-Five Year Plan

Agriculture

The purpose of collectivization can be suggested in the speech of Stalin at the Sixteenth Party Congress in 1930. He spoke of "the sweeping offensive of Socialism along the whole front, of the elimination of the kulaks as a class, and of the realization of solid collectivization."¹ The speed of collectivization was accelerated particularly through the end of 1929 to early 1930. In fact, by March 10, 1930 the collectivization of the peasant households reached 58%, though it was only 4% on October 1, 1929. (On 1 June 1929, the total number of collectivized peasants was barely one million, and of these 60% were in the TOZ (loose) type of producers' cooperatives. By 1 October the number had risen to 1.9 million, 62% of which was TOZ.)²

Stalin was aware of the rapid acceleration of collectivization and reduced the pressure in March 1930. People were allowed to leave the collective farms, and the percentage of collectivized households fell to 28% by May, 1930, and to 21% by September.³ However, this policy was reversed soon and by a year later, in June of 1931 the rate of collectivization went up to 52%. As a result, kulaks were largely liquidated in 1930, and "kulak and better-off" peasants became the next target to be attacked. This policy was continuously pursued and by 1936, 90.5% of the peasants were collectivized. In the meantime, collectivization was equivalent for the peasantry to being "manipulated" in their output by the state. The peasants could not enjoy consumption, though during the NEP and afterwards they were allowed to enjoy it to a certain degree.

1 Op. cit., *The Soviet Economy*. p. 82.

2 Op. cit., *An Economic History of the U.S.S.R.* p. 151.

3 *ibid.* p. 83.

One of main instruments of control of the farms was, until March 1958, the Motor Tractor Station (MTS). Owned by the state, the station provided the machinery necessary to sow and harvest the crops. For these services the farms had to pay a fixed price, most of which was in crops.

Collectivization seemed to achieve the following three purposes. First, collectivization eliminated kulaks as a class and strenghtened socialism over the countryside politically as well as economically. Second, collectivization, with the introduction of machinery, freed a considerable number of laborers who then could be pumped into the urban labor market. Third, in spite of the lower total production, this policy could procure the amount of grain which was marketed and was used as "capital" without taxing industry too much.¹

Industry

With respect to industrial development in the five-year plan, it had three goals²: First, the plan intended to expand and modernize the already functioning industries. Second, it was to construct entirely new branches of industry to complement the existing plants. Third, it aimed to alter the U.S.S.R.'s economic geography through relocating those plants which were too close to the exposed western or southern frontiers of the country and placing them further away in more secure places. The plan was launched in August 1929 and was officially announced at the end of 1932 that the overall objectives of the plan had been achieved ahead of time. (Thus, officially described as success.)

This scheme was based on the following three assumptions³: (1) no serious failure in agrarian production would occur, (2) an expansion of exports and imports would take place, and (3) there would be increases in productivity throughout the economy, including labor productivity and

1 These arguments were followed by Op. cit. *A History of Soviet Russia*. p. 187 and Op. cit. *The Soviet Economy*. p. 75.

2 Op. cit. *A History of Soviet Russia*. p. 188.

3 Op. cit. *The Soviet Economy*. p. 80.

grain yield per acre. With these presumptions, the plan called for a fourth to a third of national income to be poured into net investment, while the rate of consumption in national income was to be restrained from 77% to 66%.

Under the First Five-Year Plan, the two totally new industrial centers were established: One was in the Urals (Magnitogorsk) and the other in southern Siberia (Kuznetsk). Engineering works in the Moscow and Leningrad areas were expanded. The Dnieper dam was built. In addition to these projects, industrialization was introduced to the more backward republics. These included a textile mill in Central Asia, mining in Kazakhstan, and engineering in Georgia.¹

Before assessing the results, I will briefly examine the three assumptions mentioned above as prerequisites for plan fulfillment and then discuss the success of the plan. First, there were harvest errors. Second, foreign trade moved against the Soviet Union. Third, productivity did not rise as was estimated.

The Soviet Union had to import most of nonferrous metal requirements, by exporting grain, lumber, and other raw materials. The Great Depression of 1929 pushed the prices of these raw materials to rather low levels and the Soviets could not earn much money as was expected. On the other hand, the prices of imports such as machinery and equipment fell only by 20%.² Furthermore, between 1929 and 1932, the volume of imports rose fourfold, an extent which was too far to offset the fall of the prices.

Though the increased labor productivity was not clearly calculated, the expected increases in labor productivity did not seem to be forthcoming. As a matter of fact, a constant shortage of labor in the urban sector did not seem to work to increase its productivity, because labor "surplus" which was coercively created in the countryside compensated the demand in quantity without increasing productivity. In fact, wages rose due in some part to the shortage of labor.

1 Op. cit. *An Economic History of the U.S.S.R.* p. 185.

2 Op. cit. *The Soviet Economy.* p. 85.

V. Results

If one defines success as the degree of accomplishments vis-à-vis initial goals, neither qualitatively nor quantitatively but in a more general sense, the FFYP can be assessed as fairly successful. The scheme could achieve the three major objectives to a considerable degree, despite the fact that the major assumptions were not sustained. First of all, expansion and modernization of industry was largely achieved. Second, as was discussed in page 103, entirely new branches of industry were introduced in more backward republics, for example, Central Asia, Kazakhstan, and Georgia. As for the third intention, the relocation of industrial centers was also appreciable. In 1929 the U.S.S.R. had four major industrial centers—Leningrad (metallurgical and machine industry), Moscow (consumer goods, mainly textiles), the Ukraine (mining, metallurgy, and food processing), and the Urals (mining and metallurgy). By 1937-38, three new industrial centers were built in Central Asia, Siberia, and the Far East, all of which were far away from the vulnerable Western frontiers of the U. S.S.R.

However, if one defines success as the degree of actual achievements vis-à-vis intended goals, the FFVP was far from being successful, except in the Transport and Communications Sector.¹ But the reason did not simply lie in the poor achievements but more conceivably in “overambitious” goals set in the plan itself. In retrospect, the scheme showed sharply disproportional growth, with marked stress on industry and construction. Their capital stocks were to rise 2.4 and 3.5 times, while housing capital was planned to rise by 19% and agricultueal capital by 29%.² Even so, both Industry and Construction Sectors did not achieve their targeted goals. Agricultural output substantially declined.³ In any

1 Holland Hunter. “The Overambitious First Soviet Five-Year Plan.” in the *Slavic Review*. June 1973. p. 245.

2 *ibid.* p. 241.

3 *Op. cit.* *An Economic History of the U.S.S.R.* p. 176.

case, whichever definitions we may take, the human cost paid for these projects was not negligible at all.

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