

## SOVIET ECONOMY 1917-1929

### **Four different phases:**

#### 1. ECONOMY – STATE CAPITALISM 1917-1918

The state aimed at controlling industry and trade rather than implementing outright nationalization. Caution – the industry was allowed to continue functioning – more or less along the old lines provided management was under soviet supervision.

Why? The Bolsheviks disagreed among themselves about which form the new soviet economy was to take and some workers had their own ideas – many of those did not follow the formal Bolshevik ideas... (several workers were not Bolsheviks!)

Through the Land Decree (November 8<sup>th</sup> 1917) the Bolsheviks acknowledged what had already happened in many areas – the peasants got to take position of the land. Since the Bolsheviks had promised to redistribute the land to the peasants they now faced a new problem. The peasants had just taken position of the land and they now counted on it being their possession! Because of the huge population those plots became tiny and therefore inefficient. The struggle to construct a productive and prosperous agriculture in Soviet without offending the peasants became a continuing and insoluble problem.

In December 1917 it was obvious for Lenin and the Bolsheviks that they needed to progress faster. Lenin formed the "*Supreme Economic Council*" (*Vesenkha*). The Council was established to supervise the economy and to operate nationalized enterprises. This was a first step towards a state controlled economy. During the period April-June the banks, mineral resources, industrial resources were nationalized. The banks, the war industries and full state control over grain trade belonged to these first areas of nationalization. Lenin also annulled all state loans by the earlier regimes – the annulment of all the foreign loans caused some strained foreign relations in the future.

#### 2. ECONOMY - WAR COMMUNISM 1918-1921

This second phase begins with the outbreak of the civil war. It's characterized by extensive nationalization, the temporary abolition of money as a measure of value, equalization of earnings and the direction of labor. This was a period of war, economic chaos, hunger + starvation and enormous hardship.

War Communism is reckoned to have begun at mid-1918 with the "Decree of Nationalization", making all large-scale enterprises liable to nationalization without compensation. In the following three years there was wholesale nationalization, grain requisitioning, extreme inflation and the virtual disappearance of a money economy, a chaotic decline of industry, rationing, hunger, and disease, a decline of urban population, a gradual subordination of the unions to the government, and a Civil War which demanded the dispatch of all available human and material assets to the fronts.

Morris writes about War Communism: "Strict centralized control of all forms of economic production and distribution, the virtual outlawing of all private trade, and the near destruction of the money economy by the printing of vast quantities of banknotes."

To be able to feed the towns during the civil war a large-scale requisitioning of grain on the countryside was necessary. In June different local administrations - the "Committees of Poor Peasants" were formed. They were going to fulfill the needs of the urban population and the army. To make sure that the food supply was enough a decree of 1919 ordered the peasants to hand over to the State any grain surplus to what was needed for subsistence. In response the peasants simply reduced their production so there was no surplus. By 1921 only about half as

much stock was kept and half as much land cultivated as there had been in 1913. Little food arrived in the cities, and the only prospect of a livelihood lay in the countryside. City workers in their thousands simply left and went into the country, to join the thousands of soldiers returning from the wars. The Government continued the confiscation of supplies, sometimes by military (CHEKA) force.

In March 1921, shortly before the Tenth Bolshevik Party Congress opened in Petrograd, the sailors of the Kronstadt naval base outside Petrograd, joined by some of the Red Army, refused to obey their officers and called for a new revolution that gave genuine freedoms - of speech, of assembly, of private trade. Trotsky decided firm action was needed - it took ten days before the rebels gave up. This outburst, together with the peasants active refusal to take part in the grain requisitioning, convinced Lenin of the need for change.

### **3. ECONOMY - "NEW ECONOMIC POLICY" (NEP) 1921-1927**

Lenin's new policy of March 1921 was primarily aimed at the peasants in an effort to regain their support and give them an incentive to produce more. Therefore

1. The requisitioning of surplus grain was ended and instead an agricultural tax introduced, to be paid in kind until 1923 and thereafter in cash. The amount to be paid was a fixed proportion of the surplus, hence the more that was produced, the greater the peasants share of his own surplus. In addition, this surplus could be privately traded and the peasant could by machinery, hire labor...

The "New Economic Policy" (NEP) was not restricted to agriculture.

2. Industry and trade were restored in part to private enterprise, although the types of works and businesses in private hands tended to be small and local. The State retained control of what Lenin called "the commanding heights" - heavy industry, the transport system, foreign trade and banking.

The third thing that needed to be restored was the

3. Currency. Lenin reconstituted the rouble and backed it up with gold, silver and foreign currency.

By returning to a private trade system the immediate problems were solved but at some time a fundamental reorganization would be needed. Soviet saw a considerable recovery in living standards and production levels. By 1926 in most production areas the economy had regained the 1913 output level. The NEP environment with its combination of market and planning had worked quite well, the peasants and the entrepreneurs had gained from it, but most other sectors of the economy were under fairly strict state control, so that the town worker could still be ordered where to go, and how much he could be paid and so forth, while the entrepreneurs and his country colleagues were free to produce as they liked. This paradox was unsatisfactory, not only on economic but also ideological grounds.

### **4. ECONOMY – COLLECTIVIZATION AND FYP - FIVE-YEAR PLANS 1928-**

In December 1927, the 15<sup>th</sup> party Congress ordered "Gosplan" (the State Planning Commission - founded in 1921 to set up a single economic plan for the whole country) to draw up a five-year plan for development of the whole economy. All sectors within the Soviet economy were approaching a drastic change. The NEP economy was over. Stalin, the new leader of the party approved

1. **The Collectivization of Agriculture.** The Congress ordered this transformation of agriculture and the destruction of the wealthy peasant class, the "kulaks". However, 1928

proved that a mild approach was inadequate. The quantities of grain reaching the towns was lower than ever (partly because of the low prices, fixed by the government). By the summer of 1929 Stalin had decided on a policy of compulsion, both in the destruction of the kulaks and in the creation of the collectives. "We have passed", he said in December, "from a policy of confining the exploiting tendencies of the kulaks to a policy of liquidation of the kulaks as a class." The winter of 1929-1930 was the worst period of forced collectivization. By March 1930 over half the peasant farms had been brought into collectives, from a mere 4% in October 1929. 25 000 Party officials, sometimes aided by police and army, did most of the work themselves, simply ordering the kulaks to comply. When they refused, the poorer farmers were "encouraged" to seize the land, animals and equipment. To avoid this, the kulaks frequently burnt their own homes and crops and killed their animals. It has been estimated that about half the animal population of the Russian countryside died in this way between 1929 and 1933. The loss of human life was also enormous. Figures of this were not published, but it has been estimated that about 7 million people were either killed or deported to labor camps or new factories.

2. **Industrialization and the five-year Plans.** The rapid industrialization of Russia was always regarded as a major priority. Only when it had machines and materials could Russia be strong enough to defend itself against the continuing threat from the rest of the world, and act as the springboard for world revolution. "Gosplan's" officials produced extensive and detailed plans for every industry and area. Overall, the aim was to triple production in the heavy industry sector - coal, iron, steel, oil - and double it in other sectors. To help all areas of industry electrical output was to be increased six-fold. Plans for agriculture and social development such as the expansion of hospitals and education were also included in Gosplan's strategy. The scheme was launched in October 1928. The campaign for industrialization was conducted as a war upon backwardness. "Gosplan", the high command, sent out its orders for levels of production to specific areas and they in turn translated them into detailed requirements for each plant. Plan requirements and achievements were published in the factories for all to see, and, as in wartime, constant propaganda urged the workers to ever higher efforts. There were medals, literally, for the highest producers and penalties for those who failed to achieve. Such constant supervision and threat put pressure on many managers to falsify figures and take short-cuts in production. Nevertheless, the battle had to be won and, especially in comparison with the achievements of Western Europe at the same time, it apparently was.

# SOVIET ECONOMY 1917-1929

## 1. STATE CAPITALISM (October 1917 - June/July 1918)

- The Bolsheviks wanted to control the industry and trade (but they did not want to nationalize all of it right away...)
- In agriculture the land was redistributed according to the principles of "Decree on Land" (this was just an acknowledgment of what had happened - the peasants had already seized land in many districts...)
- Nationalization was carried out in a few areas; the banks, the war industry and grain trade was put under total state control
- Lenin and the Bolsheviks annulled all the loans to the previous regimes. This measure would upset some of the Western Europe states who had invested a lot in the Russian industrialization.
- Agricultural problems: The peasants saw the land as their possession. This together with the distribution of land to very tiny plots (the population was big...) became a future problem. It was impossible under these circumstances to make agriculture efficient.

## 2. WAR COMMUNISM (June/July 1917 - March 1921)

- Civil War - the economy had to be adjusted to the war...
- Extensive nationalization (all the industries - "Decree of Nationalization")
- Industrial sector was pushed far back during this period - devastating results
- Temporary abolition of money (extreme inflation - economic chaos)
- Equalization of earnings and direction of labor
- Grain requisition (sometimes by military force - caused a reaction: the peasants stopped producing a surplus which led to hunger and starvation)
- Peasant unrest all over the country (uprise...)
- Kronstadt uprising. The sailors together with some soldiers from the Red Army called for a new revolution with freedom of speech, of assembly and private trade

## 3. NEP (NEW ECONOMIC POLICY) (March 1921 - 1928)

- Ended the requisition of grain
- Introduced an agricultural tax (first paid in goods later after 1923 in money)
- Agriculture surplus could be sold for private gain
- Some smaller and local industries became private - allowed to make profit
- Some private trade was allowed
- Currency - the rouble was reconstituted and backed up
- Heavy industries, transports, foreign trade and banking was still controlled by the state
- After some years NEP ran into problems such as growing prices relative to income and unemployment. NEP also contradicted the communist ideology...

## 4. COLLECTIVIZATION AND THE FIRST FYP (Five Year Plan) (1929 - )

- Started the **planned economy** - ideological correct...
- Collectivization of Agriculture - after a mild start that saw no improvement Stalin decided to use force (during summer of 1929) to collectivize and to "liquidate" the Kulak class. The winter of 1929/1930 was the worst period...
- The wealthier peasants tried to sabotage the collectivization by burning their homes and crops and killed their animals. These measures led to starvation and to deportations of Kulaks to labor camps and many executions...
- Industrialization and the first FYP - Five Year Plan. An extensive and detailed plan for every industry and area was produced. General goal - to triple production!