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Introduction

The Russian Empire of the Tsars, which was overthrown in 1917, and its successor the Soviet Union, which disintegrated in 1991, were by far the largest states in the world, occupying 15 per cent of the world's land surface, nearly a hundred times the area of Great Britain. They embraced every kind of soil and climate, from the permanently frozen Arctic to the Central Asian tropics. Most of the country experiences a harsh continental climate; the main agricultural areas are at the latitude of Canada and the northern United States, and the severe conditions result in a very wide annual variation in yields.

Between the fifteenth and the nineteenth centuries the Russian rulers gradually established their authority over this vast territory from their small initial base in the Moscow region. By 1900 Russians amounted to a little more than half the total population; and other Slavs to a further 20 per cent. More than a hundred non-Slav languages were spoken by the Caucasians, the Turkic and Iranian peoples, the Balts and others who constituted the remaining one-third of the population.

In the course of the first half of the twentieth century the Russian Empire/USSR was transformed from a predominantly agrarian country into a major industrial power. In this economic transformation Russia in many respects followed the path of its predecessors Britain, France, Germany and the United States. But the bumpy Russian road to industrialisation was unique in several important respects.

First, *war and revolution*, and their social and political consequences, overshadowed and distorted economic development to an extent unprecedented in nineteenth-century Europe. The direct effect on the economy of the Russo-Japanese War (1904–5) and the unsuccessful 1905–6 revolution was relatively minor. Although industrial growth was held up for a few years, it resumed in 1908. But between 1914 and 1920, world war, the two 1917 revolutions and the Civil War resulted in a catastrophic fall in production from which the economy did not recover until about 1927. Then, during the devastating German invasion of 1941–5, most of the major industrial regions were occupied by the enemy; and industrial production did not recover to its 1940 level until about 1949. So in the first sixty years of this century there were only thirty-seven years of 'normal' economic development (1900–3, 1907–14, 1928–40, 1949–60). And even in these 'normal' years, fear of war, and actual rearmament, influenced the pattern of economic development to a greater extent than in the case of the other major powers.

The two world wars and the Civil War resulted in far greater population losses than in other countries. Population losses (also known as the population deficit) consist, first, of *excess deaths*, which are premature deaths due to violence, famine or epidemic, and, secondly, of the *birth deficit*, which is the loss in population due to a temporary fall in the birth rate. It has been estimated that the First World War and the Civil War resulted in 16 million excess deaths from violence, hunger and disease, and a birth deficit of a further 10 million; and during the Second World War excess deaths reached as many as 26 to 27 million, and the birth deficit amounted to a further 12 million or so. Stalinist industrialisation also led to a large number of peacetime excess deaths, perhaps ten million or more, many of them during the famine of 1933. Thus the total population loss in the period 1914–45 from both premature deaths and the birth deficit amounted to over 74 million persons (26 million in 1914–22, 38 million in 1941–5, 10 million or more in peacetime years). Historians continue to debate how far the social upheaval and human suffering were integral to Soviet economic development, and how far they should be looked upon as extraneous events.

Secondly, *pre-revolutionary Russia*, even at the end of the nineteenth century, had important *characteristics in common with the great Asiatic states – India and China.* More than 80 per cent of the population lived in the countryside; the land was cultivated by over 20 million peasant householders, and over 90 per cent of the cultivated area was sown to grain. Straddling Europe and Asia, Russia presented a dual face to the world: a colonial power and a semi-colony; the most backward of the European powers, and the most advanced of the great peasant countries. And Tsarist and Stalinist industrialisation was not merely the industrialisation of a European power but also the first case of the rapid industrialisation of a peasant country within a few decades.

Thirdly, *the active role played by the state* was also without precedent. Alexander Gerschenkron argued that in the second half of the nineteenth century, with Britain already in place as an industrial power, other European nations could overcome their 'economic backwardness' only if their governments created 'substitutes' for the free market which would temporarily provide adequate incentives for industrial development. Thus in Imperial Germany import tariffs were imposed by the state, and national banks were created under the influence of the state. In pre-revolutionary Russia the state played an even more active role in encouraging industrialisation (Gerschenkron 1965). But the pre-revolutionary Russian state had far wider functions and ambitions. Over many centuries successive tsars sought actively, if intermittently, to strengthen Russian economic and military might in their endeavour to establish the Russian Empire as a great power equal with its more prosperous European neighbours. And in the Soviet Union from the 1930s onwards the state was much more powerful. It owned nearly the whole of industry and large-scale trade, and sought to manage the economy by a comprehensive central plan. State socialism was seen not as a mere device to encourage industrialisation but as an alternative and superior system which would come to replace private capitalism throughout the world.

Four economic systems, in all of which the state played a crucial role, succeeded one another in the twentieth century:

The Tsarist economy, with its state-influenced market – including the 1914–7 wartime variant in which state regulation was intensified;

'War Communism' (1918–20) – a thoroughgoing attempt at state ownership and management of a moneyless economy in kind, supplemented in practice by illegal private trade and barter;

The period of the *New Economic Policy* (1921–9), a mixed economy in which state-owned industry and private peasant agriculture co-operated and competed through the market;

The 'administrative economy', established in the early 1930s, which continued with modifications until the collapse of the Communist system in 1991. Production and investment in state-owned industry, and a collective agriculture under close state control, were administered largely through physical controls from the centre. Contrary to what is commonly assumed, central planning was supplemented by informal horizontal relations between enterprises, and by important market or quasi-market features which were essential to the operation of the economy. This system, at first described in the West as the 'Great Experiment' in state planning, seemed by the end of the Second World War to have succeeded in establishing itself as the main rival to Western capitalism. Even at the time of the launching of Gorbachev's reforms in 1985 hardly anyone – inside or outside the Soviet Union – anticipated its collapse. The reasons for the fall of the Soviet regime and its economic system will long be debated.

In the following pages many figures will be cited to illustrate and assess economic development. The difficulties involved in establishing the main quantitative features of economic growth are familiar to all students of economic history. Yet before 1917 Russian national and regional statistics were relatively well-developed, far fuller and more reliable than the statistics for Britain in the early nineteenth century. After the October revolution, detailed and reliable statistics were published until the end of the 1920s. But we shall see that even with this strong statistical base many fundamental issues remain contentious. Did peasant prosperity increase or decrease in the decades before 1914? Did the state role in industry increase or decline on the eve of the world war? And the break in administration following the revolution has made reliable comparisons of the pre- and post-revolutionary economies particularly difficult.

From 1930 onwards Soviet economic statistics confront us with major new problems. First, the rate of change, particularly in the capital goods industries, makes an 'objective' statement about the rate of industrial growth extremely difficult. Secondly, the quantity and range of published statistics greatly diminished after 1930, and particularly in the later 1930s; many series are only now becoming available in the archives, and others were not collected at all. Thirdly, the Soviet authorities deliberately distorted their published statistics in order to present a more favourable impression of economic progress. The grain harvest was falsified; population data were partly concealed, partly falsified; the success of the consumer goods industries was exaggerated. All this has made it particularly necessary to pay attention to the reliability of our statistical base in describing Soviet economic development; chapter 5 examines these questions.

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R. W. Davies
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The Tsarist economy

The power of the tsars over their multi-national empire was exercised through the creation of a centralised state. From the sixteenth century onwards they sought intermittently to establish Russia as a great European power. But Russia was economically and socially less advanced than her rivals; and successive tsars sought to strengthen her economic and military might. Peter the Great (1694–1725) used serf labour on a large scale to construct from scratch the Western-style capital St Petersburg on the Baltic (known as Petrograd in the period 1914–24, and Leningrad in the period 1924–91). He also used serf labour to build up a charcoal-based iron industry, largely for military purposes, in the Urals on the borders of Europe and Asia.

During the early nineteenth century, the Russian market widened considerably, and a cotton-based textile industry developed rapidly, largely using imported machinery from Britain. The growth of the internal market occurred in spite of the continuance of serfdom in Russia longer than in the rest of Europe. Perhaps the most important event in Russian nineteenth-century history was the liberation of the serfs by Alexander II's Emancipation Act of 1861. Peasant emancipation paved the way for further economic development. It was now easier for former serfs to participate in the market – and even essential for them to do so, as they had to earn money by selling products on the market, or by selling their labour, in order to pay the high redemption charges imposed by the 1861 Act.

Historians used to argue that the main economic consequence of the Act was to free labour for employment in industry: industrial labour was scarce before 1861 because the peasants were tied to the land. But Crisp has shown that abundant labour was potentially available before 1861 (Crisp 1978). Baykov forcefully argues that it was not labour shortage but the unfortunate location of resources which hindered industrial growth. Population and industrial skills were concentrated in the central area of European Russia around Moscow and St Petersburg; coking coal and iron ore were located in the south, and transport in a northerly direction by river was impossible. Development of the railways with state support and regulation in the 1870s and 1880s was the prerequisite for 'modern' industrialisation based on the coke-smelting of iron (Baykov 1954, pp. 137–49).

The industrial boom of the 1890s, during which large-scale industrial production increased by as much as 8–9 per cent a year, launched Russia into the age of heavy industry. Von Laue's study of Finance Minister Witte shows how he persuaded the reluctant Nicholas II that state-encouraged industrialisation was essential if the Russian autocracy was to remain a political force in the modern age (Von Laue 1963). Witte, building on the work of his predecessors in the finance ministry, introduced the gold standard, supported high import tariffs, arranged state finance and support for the expanding railway network, and encouraged foreign investment in Russian industry. This was the fourth occasion (following Petrine industrialisation, serf emancipation and railway construction) in which the state played a major role in encouraging economic development. Russian economic history up to 1900 was the story of how market-led and state-induced development complemented and competed with each other.

The iron and steel industry provides the most striking example of the role of the state. The main consumers of iron and steel were the railways, which were built in accordance with a state-managed plan. The state guaranteed foreign loans for railway construction, and provided substantial sums for railway construction from the budget. From the end of the 1870s it also actively encouraged the production of rails and rolling stock by Russian industry. The state provided the infant railway engineering industry with substantial orders, and in 1877 high tariffs were imposed on imports of rails and rolling stock. Foreign companies were encouraged by the state to invest in the iron and steel industry. The production of pig-iron increased from 350,000 tonnes in 1870 to 2,700,000 tonnes in

1899. By the end of the 1890s nearly 60 per cent of all iron and steel was consumed by the railways (Gatrell 1986, pp. 150–4).

In contrast, the cotton textile industry was almost entirely market-led. Cotton textiles purchased by the state were negligible, and, in contrast to the iron, coal and other capital goods industries, almost all capital invested in the industry was Russian-owned.

Industrialisation had begun to link the Russian economy firmly with the world market; and the boom of the 1890s was followed by an industrial depression in 1899–1902, in common with the rest of Europe. The depression was particularly severe in Russia, because it coincided with a reduction in state orders for the railways.

Industrialisation was accompanied by growing political and social instability. The humiliating defeat in the war with Japan (1904–5) was certainly one of the factors which triggered the outbreak of the 1905 revolution. But the fundamental causes of the revolution lay far deeper. Discontent was widespread among the new classes which had emerged with the growth of industry and the towns: factory workers were dissatisfied with their economic and social conditions; the urban middle class were demanding political rights. And the discontent spread to large sections of the peasantry.

The 1905 revolution was brought to an end by coercion and concession. The Tsar permitted the establishment of a state Duma (parliament) on a very restricted and unequal franchise, and with limited powers. And following the revolution the state embarked in 1907 on its fifth major endeavour to encourage economic development: the agrarian reforms of Prime Minister Peter A. Stolypin. At the beginning of the twentieth century most Russian peasant households lived in a village commune. The main arable fields were divided into strips, which were periodically redistributed among the households, and cultivated by the traditional three-field system.The Stolypin reforms encouraged peasants to leave the village commune and to establish separate holdings. Stolypin believed that individual holdings would provide greater economic incentives for the peasants and would create a prosperous yeoman class as a stable support for the government.

The Stolypin reforms were introduced in generally favourable economic conditions. With the end of the world agricultural depression, which had lasted from the mid-1870s to the end of the 1890s, international grain prices rose substantially from the beginning of the new century. Russian agricultural production increased in the period 1900–14. It is difficult to distinguish the effect of the Stolypin reforms themselves from the generally favourable conditions which led to the improvement of agricultural performance in the main grain regions.

Simultaneously with the Stolypin reforms, industry entered a new period of rapid growth, which continued until the outbreak of war in 1914 and through the first two years of war. Between 1908 and 1913, the production of large-scale industry increased by almost 8 per cent a year, nearly as rapidly as in the 1890s (Gregory 1996); small-scale industry (including seasonal production by peasant artisans) probably increased at a similar rate (Gatrell and Davies 1990, p. 129). National income as a whole grew by over 5 per cent a year (Davies 1990, p. 5). At this time the population was increasing by some 2.4 per cent a year, so production per head of population increased substantially.

By the eve of the First World War the Russian economy had undergone immense changes as compared with the situation at the time of the Emancipation Act of 1861. The production of large-scale industry in 1913 has been estimated at over eleven times the 1860 level. Large-scale manufacturing and mining employed some $2\frac{1}{2}$ million workers in 1913. In the market-led sector of industry, pride of place was occupied by cotton textiles, which by 1913 employed about 20 per cent of all workers in large-scale industry (most of them women). But the capital goods industries, especially fuel, iron and steel and machine building, expanded more rapidly than the consumer goods industries. (On pre-revolutionary industry, see Gatrell and Davies 1990.)

The capital goods industries, unlike the consumer goods industries, were largely foreign-owned, particularly by British, French and German capital; to a somewhat lesser extent they were also foreign-managed. And, following the 1899–1902 depression, in most of these industries, including iron and steel, coal, oil and railway engineering, 'syndicates' (*sindikaty*) were formed. The syndicates were the Russian equivalent of cartels. They decided on sales quotas for their member firms, and determined the wholesale prices. Thus capital goods industries, with some exceptions, were financed from abroad and under the strong influence of the state, and had marked oligopolistic tendencies.

In spite of the development of industry, Russia on the eve of the First World War was still primarily an agrarian peasant country. Agriculture was responsible for over half the national income, and three-quarters of all employment. Over 90 per cent of the sown area was cultivated by some 20 million peasant households, the remainder consisting of landowners' estates. Agricultural production expanded greatly after 1861, and the peasant economy was increasingly involved in the market. But a large part of peasant production of food, and to some extent of consumer goods, was consumed by the families which produced it, or by other families within the same village. The villages were still to a considerable extent self-sufficient. By 1914 the Stolypin reform had not affected most peasant households, which continued to farm as part of the village commune.

In the Tsarist economy, then, a number of economic structures co-existed: foreign-owned oligopolies in the capital goods industries, freely competing Russian firms producing consumer goods, landowners' estates, small-scale artisan units, and an immense number of individual peasant micro-economies. This was a market economy strongly influenced by the state, but in which most of the participants still themselves produced many of the goods which they consumed.

There is no agreed view among historians on either the systemic features or the dynamics of the Tsarist economy on the eve of the First World War. Gerschenkron argued that the economy entered a new phase after the 1905 revolution. Industrial development no longer depended on the state. According to Gerschenkron, the boom of 1908–13 was primarily due to an increase in consumer spending; the role of the state was declining. Russian capital and entrepreneurship were replacing foreign capital. The state-induced industrialisation of the 1890s had been transformed into the market-led progress of the capitalist economy of 1908–13 (Gerschenkron 1965).

On balance, the evidence does not confirm this view. It is true that the consumer goods industries expanded rapidly during the boom of 1908–13. But state orders increased equally rapidly,