

1968

## Soviet Economic Theory and Practice

David D. Warren

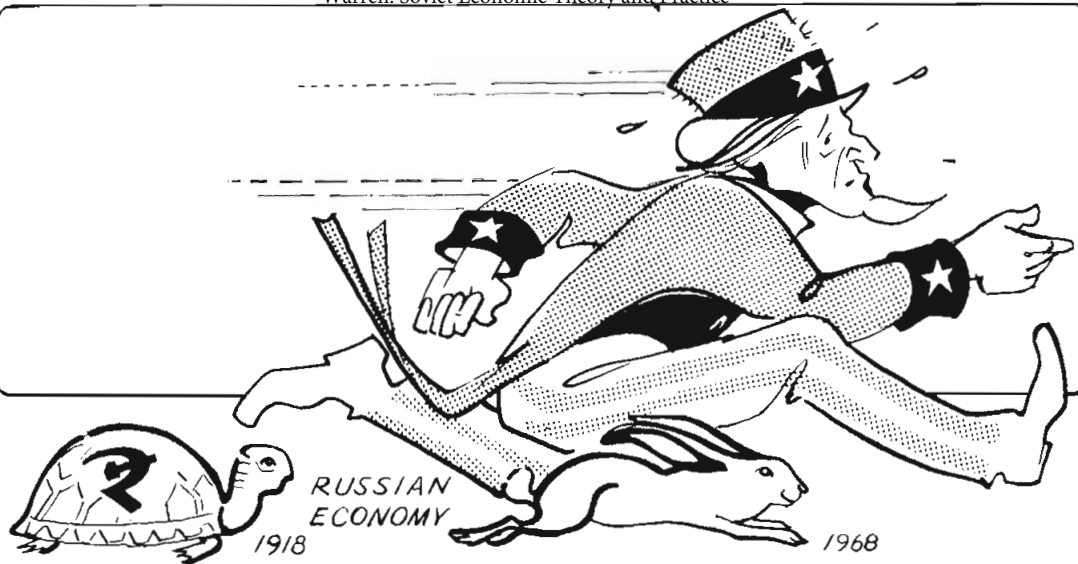
Follow this and additional works at: <https://digital-commons.usnwc.edu/nwc-review>

---

### Recommended Citation

Warren, David D. (1968) "Soviet Economic Theory and Practice," *Naval War College Review*: Vol. 21 : No. 3 , Article 8.  
Available at: <https://digital-commons.usnwc.edu/nwc-review/vol21/iss3/8>

This Article is brought to you for free and open access by the Journals at U.S. Naval War College Digital Commons. It has been accepted for inclusion in Naval War College Review by an authorized editor of U.S. Naval War College Digital Commons. For more information, please contact [repository.inquiries@usnwc.edu](mailto:repository.inquiries@usnwc.edu).



## SOVIET ECONOMIC THEORY AND PRACTICE

**A lecture delivered at the  
Naval War College  
on 16 October 1967 by  
Professor David D. Warren**

My subject, "Soviet Economic Theory and Practice," is especially appropriate because, as you know, this year marks the 50th anniversary of the Bolshevik Revolution. The year 1967, then, is a time of assessment, a good year in which to gauge the progress made by the Soviet economy and to evaluate its strengths and weaknesses. We are all aware of the Soviet Union's striking economic gains. In a 50-year span it has moved from among the most laggard of the major powers in industrial strength to second rank, just behind the United States. This is a considerable achievement in itself, though it must not be forgotten that a rapidly broadening industrial base had been built in the last decades of the Czarist regime, and a reservoir of

economic knowledge and experience had been stored upon which the Russian revolutionaries could draw when they came to power after 1917.

Naturally, these revolutionaries, aiming as they did to recast wholly Russian society and its institutions, sought to put to work their own theories. A fundamental tenet in their ideology called for public ownership of the entire economic system and all its resources. This they proceeded to do, but because their economic ideas were so hazily formulated, it is not surprising that the Communist leaders grossly underestimated the problems thrown up in operating the economy. Lenin himself, discussing the nature of the economy before he took power, assumed that the process of managing

the economy, once the Bolsheviks were in control, would be relatively simple. He believed that the rational calculation and accounting methods already developed under capitalism could be easily mastered and applied by the ordinary person. He did, of course, look to nationalization of industry, commerce, and banking; he expected that a monopoly of all grain produced and consumer rationing would be necessary; and he anticipated a system that would function smoothly under the control of workers' organizations.

The attempt, however, to translate these rather cloudy notions into practice, as well as to introduce the core concept of equality throughout society, ran into formidable difficulties. One has to remember the truly crisis conditions in which such a gigantic enterprise in social and economic experimentation was being undertaken. At the time of the revolution, Russia was still fighting Germany, but the Communists were determined to leave the war whatever the cost, as the peace of Brest-Litovsk demonstrated. No sooner was peace made than civil war broke out. And not only did the new Communist regime have to grapple with internal opposition; several of the Allied and Associated Powers, including the United States, also intervened. Thus it is no exaggeration to say that in the period of war communism from 1918 to 1921 the Communist Government struggled for survival itself.

Under these circumstances, parts of the far-reaching innovative program had had to be altered and in many instances abandoned. One sector of the economy escaping nationalization was agriculture, a reluctant concession forced upon the Bolsheviks because they needed peasant support if they were to succeed in overthrowing the Provisional Government. And so Lenin skillfully exploited the thirst for land

by promising land to the peasants as well as peace and bread. Yet having brought into being a huge number of individual small landholders, the Communists had to deal with the problem of how to get the farmers to yield up the food that was needed, even though there was really very little incentive to offer them in an economic system producing so few consumer goods. Therefore, forced requisition became the order of the day, the deliberate inciting of a kind of class war of the poorer peasants against the richer ones to ferret out the hidden caches of food. Understandably, the whole economy deteriorated; goods came to be exchanged on a barter basis and the black market flourished.

The response of the beleaguered Communist regime was to move more and more in the direction of centralized and dictatorial control. This meant the substitution of one-man management in the industrial plants for control by workers' organizations because they tended to be anarchical and inefficient, reluctant to do the jobs that had to be done. A condition of unrelieved crisis dictated repressive controls; systematic terrorism was imposed upon society. A movement that began with the promise of liberating the Russian people more and more relied on coercion, shattering the utopian hopes of some of its most fanatical adherents. For it was not just the peasantry who were alienated by the policies carried through during this phase of war communism. The revolt at Kronstadt in 1921 was a sobering and fearful lesson to the Party rulers; they learned from it that they had even lost the support of many who before had enthusiastically gone over to them. But now the cry was for Soviets without the Communists as well as for some real measure of democracy.

Consequently, the regime was com-

pelled, as a result of the alienation of its own people, to compromise its original tenets in order to revive the shattered economy. By 1921 industrial production was only about one-eighth of what it had been in 1913, the last year before the onset of the war. Agricultural production also had fallen off markedly in the same period. Something drastic obviously had to be done to restore the economy, and, just as clearly, concessions would have to be made and incentives offered to the people if they were to respond to the task. With great realism, Lenin met what he called a crisis of confidence in communism itself by instituting changes that went a long way toward reestablishing, within limits, a free market economy and certain much reviled capitalistic incentives. Under the New Economic Program, in effect from 1921 through 1927, farmers could sell their produce after a tax in kind for whatever price they could command on the market. Light industry, particularly, had to be expanded to provide the consumer goods the farmers demanded if they were to produce more. Private trade prospered; the Program worked, and private enterprise was permitted as agricultural and industrial production rose.

There is no doubt, however, that Lenin never intended N.E.P. to be anything more than a temporary, if essential, deviation from the intended goals of the Communist Party. It is significant, for example, that despite the reappearance of private initiative, a restricted free market, and the profit motive, the so-called "commanding heights" of the economy — heavy industry, transportation, banking, and foreign trade — remained under Government ownership and control. Still, N.E.P. had its shortcomings; industry did not grow at a rapid enough rate to supply the needs and wants of the

farmers so as to induce them to produce in the amount needed to sustain the rapidly expanding industrial population. Moreover, greater concentration on consumer goods would be at the expense of the effort to enlarge heavy industry.

And so Stalin, who by 1928 had emerged as undisputed Party leader after bitter intra-Party strife, decided on a harsh course of action. In his view, highest priority must be given to heavy industry if the security of the Communist regime was to be strengthened. He turned to the building of socialism in one country at the sacrifice of expansionist aims abroad. The conciliatory tactics employed in dealing with the peasants were abruptly ended, as were other features of N.E.P. Stalin went over to forced draft industrialization and collectivization of agriculture in a shift of emphasis so abrupt as to be rightly termed the "Third Revolution" since 1917. Only thus, so Stalin reasoned, could Soviet Russia survive and take its place among the great powers. The purpose of collectivization satisfied both ideological and practical objectives. For, after all, the Communist leaders regarded as anathema the continued existence of a large sector of private ownership in what was projected as a completely socialist economy. Naturally, they wanted to eliminate it root and branch, and, therefore, they waged a veritable war against the peasants from 1928 on. It was a war carried out at enormous cost, resulting in the liquidation of millions of farmers and a sharp decline in agricultural production, as the stubbornly resisting farmers reacted by killing off their livestock and ruining their crops. So great was the impact of forcible collectivization that, over 20 years later and notwithstanding the rise in population, livestock production had still not regained the

level of 1928, as Khrushchev frankly admitted in 1953.

From Stalin's point of view, however, the practical purpose served by the collectivization effort made it worth this tremendous price tag. What did it give the ruling Party elite? It gave them control over whatever food was produced. And with that control they could finance the program of massive heavy industrialization that was being carried through. After all, in such a largely agricultural country, only the agricultural sector could provide the necessary capital formation for investment. By amalgamating some 25 million individual farm units into about 250,000 collective farms, the regime was better able to siphon off the food needed to feed the growing industrial proletariat and to furnish the investment capital that had to come largely from Russia's own resources. A pariah among nations, the Communist Government could not depend very much on outside capital or support. Therefore, however great the material and human cost, the collectivization program paid off, though peasant opposition compelled the Government to concede that one remnant of capitalism on the collective, the private plot.

Concessions also had to be made in the drive for industrialization. To bring forth a greater productive effort by the workers the regime had to furnish incentives, even if this meant using such repudiated capitalistic practices as piecework and bonuses and encouraging competition, now made acceptable on the grounds of its socialist character. The 1930's are well characterized as an era in which the Communist Party embarked on a "great retreat," departing even more from the old ideals of equality that we associate with Communist doctrine. The whole tone of an allegedly revolutionary society was transformed. It

was not only that the social, literary, and artistic experimentation of the 1920's ended; it was the insistence of the ruling elite on an increasingly pervasive conformity, on the subordination of everything to the furtherance of the all-embracing 5-year plans initiated in 1928. A new class of managerial and technical talent came into being whose skills were recognized as essential to make the economy function effectively. For the Soviet leaders, and even Lenin himself back in the days of war communism, had learned that administering an economic system was no simple job. It called for a different type of person from that which had brought off the revolution. Consequently, the Communist Party not only stimulated the growth of this new class through education, bonuses, and fringe benefits, but it also opened its membership to this important element. The differentiated class and wage structure that took shape in these years was a far cry from the once envisioned society of relatively equal treatment for all with performance geared to capabilities.

At the same time that the Party group was offering the carrot, it was applying the stick of coercion. The labor passport was introduced; through this device the labor force was effectually chained to the job. Moreover, the role of the trade unions declined greatly in significance. They did not act as independent agents to protect the interests of the workers but became merely a kind of transmission belt for carrying out the objectives of the Party leadership, pliant tools to better assure the compliance of labor with the requirements of the plan. They were, in a sense, company unions, in which the company was the state, and they worked in behalf of its interests. Then, too, the regime introduced what amounted to compulsory labor service for young people in 1940 to assure the

best use of labor in accordance with its various needs. Clearly, the shape that the Soviet system took was very much a command economy, centrally controlled and dictatorially operated.

World War II, of course, interrupted the succession of 5-year plans, and, more important, did immense damage to the Soviet economy. Twenty million Russians lost their lives in the course of the war; devastation was widespread. The pressing concern was to reconstruct a war-shattered society, to which the Soviet regime turned in the years after 1945. In a sense, this represented a continuation of the state of unrelieved crisis that had engulfed Russia ever since the October Revolution in 1917. But Soviet accomplishments of the 1950's were a measure of the success achieved in rehabilitation and in forging ahead on the economic front. The Sputnik triumph of 1957 stands out as a symbol of the Russian capacity for doing remarkable things in the technological field. It also had the effect of shaking the solid confidence the American people shared in their own scientific and economic superiority. Agitation in the United States led to intensive studies by experts, under Congressional auspices, of the Soviet economy. Much attention centered on the faster growth rate of the Soviet Union, about twice that of the United States in the 1950's. With the benefit of hindsight, we can now see that these studies reflected the pessimism of the time, and, in looking to the future, tended to overestimate the progress the Soviet Union was likely to make as well as to underestimate the growth levels the United States might reach.

A more accurate assessment of Soviet economic power, however, came from Allen Dulles, then Director of the Central Intelligence Agency. He pointed to the advantages of a centrally controlled and planned economy,

despite its being less than half the size of the American economy, in its ability to mobilize both manpower and material resources behind high-priority programs without the kind of competition between the public and private sectors for these resources that goes on in the United States. Nor did Mr. Dulles minimize the concrete achievements of the Soviet Union in metallurgy, electronics, and space; he acknowledged that the Russians had developed an economy of considerable capacity and sophistication. But he also brought out that several factors responsible for the striking gains of the 1950's were temporary and would be either inoperative or less strongly effective in the 1960's.

Understandably, the Russians themselves, puffed with pride over their spectacular primacy in space, took an extremely rosy view of the future. None of us is likely to forget Khrushchev's crowing that the Soviet Union would hurry the United States. And here, obviously, he was speaking largely in terms of economic performance. Violence and war were no longer necessary to bring about the collapse of Western capitalism; that goal could be reached through a great economic race in which Khrushchev confidently assumed that his country would outdistance the United States. Consider too the ambitious goals trumpeted to the world in the 1961 Program of the CPSU, looking to a 150 percent increase in industrial output within 10 years, a 500 percent increase in 20 years, and a nearly corresponding growth in labor productivity during the same periods.

Now, some 6 years later, based on the record made thus far, these targets no longer appear to be realistic. What has happened is that the Soviet growth rate fell off in the 1960's while the American growth rate, relatively low and static in the 1950's, rose. If we compare the standing of the two economic

systems, we find that the Soviet Union made virtually no gain at all on the United States between 1960 and 1966. In 1960 the gross national product of the United States was about \$557 billion as against \$245 billion for that of the Soviet Union. By 1966 it had grown to \$740 million for the United States and \$335 billion for the Soviet Union, which meant that the Soviet economy registered only a 1 percent gain during these years and was still less than half the size of the American economy. As for per capita output, the United States remained far ahead in 1966 with a total civilian labor force of 74 million producing so much more than 108 million in the Soviet Union.

Why has the Soviet economic advance been so disappointing to the Government and Party? What are the current problems facing the Russian economy? For certainly the Soviet leaders are dogged by these questions and are obsessed with the search for a solution to them. They have been concerned because if ever there was a time when they needed to maintain and even expand their growth rate, it is now. Today, the Soviet economy is subject to so many competing demands. The consumers want more and better products; unless their needs are met they will lack the incentive to work efficiently and well. Then, too, there are the pressures arising from security requirements. Just recently the Soviet Union announced a 15 percent increase in defense expenditures. There is also the compelling demand for technological innovation, for which due provision must be made. And there are the insistent claims of foreign aid, particularly from Cuba, Vietnam, and the Middle Eastern Arab countries. Only adequate growth can meet these conflicting pluralist claims upon the strained economic system.

To some extent, the very success of

the Soviet economy has magnified the problems it confronts. By the late 1950's that economy had clearly arrived at a mature and complicated level. With its greater capacity it was, for the first time, able to satisfy the fundamental needs of the Russian people. Until then, ever since the 1920's, the economy had functioned in an environment of chronic — and great — shortage. Consequently, anything produced, no matter how bad its quality was, could be readily absorbed. In a sense, this vastly simplified the task of the Soviet planners and managers. Under conditions of critical deficiencies almost everywhere, their attention focused on quantitative production. But now all this has changed. Once the basic needs of a people have been met — and this occurred in Soviet Russia — a taste of rising living standards only whets the appetite for more and makes for a more discriminating, a more demanding consumer. No longer will he be satisfied with the shoddy and third-rate, he looks for variety and style, characteristics noticeably absent from Soviet production.

Two weaknesses then, at least, have emerged in the Soviet economy. One, already discussed, is the fall in the rate of economic growth. The other is the rising resistance of the buyer to products he does not want, manifesting itself in the accumulation of unsold goods, a phenomenon, as we have explained, distinctly inconceivable only a few short years ago. Nor was this true of just consumer goods. There were some producer goods as well that began to pile up in the warehouse. In their effort to correct these weaknesses, the Soviet leaders have relied mainly on organizational changes to make the economic system more efficient and to enlarge its productive capacity. As an illustration of the organizational re-

shufflings that have gone on, let us examine, briefly, what was done from 1957 on. In that year Khrushchev and the Party brought about a major restructuring of the economy. Most of the all-union ministries (these were central governmental functional ministries directing specific segments of the economy throughout the 15 Union Republics) were eliminated. They were replaced by over 100 regional economic councils, the purpose of which was to try to get greater production through decentralization of control. Yet, simultaneously and acting to offset this decentralization move, the authority of the central planning agency, the Gosplan, was increased. Here, I think, we see evidence of what has continued to be the persistent dilemma for the Party leaders. Greater economic efficiency seems to call for less centralization of control. But this, in turn, runs the risk of reducing the Party's influence over the economy, which is, after all, one of the principal sources of its power in a completely nationalized system.

That the leaders have never been able to resolve this agonizing dilemma is shown by their behavior since 1957. In 1962 they cut back the 105 regional economic councils to about 40 and also revamped the apparatus of control and supervision. Here they resorted to the extraordinarily cumbersome step of dividing both Party and governmental organizations at the various geographical levels into sections, one to be concerned with industrial production and the other with agricultural production. Their hope, apparently, was through this kind of close surveillance to spur productive effort. Not surprisingly, the reorganization proved unworkable and was abandoned after Khrushchev's enforced departure in 1964.

More recently, the Soviet Union launched an economic reform that has

led some observers to describe it as having revolutionary implications. A convenient descriptive label to attach to this reform might be "market socialism." Yugoslavia has already gone further in this direction than the Soviet Union, and several of the other Eastern European countries are turning to it. Once again, the Communist regimes are borrowing from capitalistic practices, yet it would be too much to say that they are returning to capitalism. Private ownership of property continues to be prohibited, but the market, rather than exclusively the central planners, is given a role in the disposition of resources.

The present experiment had its beginnings in academic discussions as early, perhaps, as 1956, and is often associated with the name of one economist though, of course, there were others involved too. This man was Professor Yevsei Liberman, Professor of Economics at the University of Kharkov. His proposals represented a response to the problems besetting the top planners in a huge, complex command economy. In essence, there was simply too much for them to do; there were too many unknowns for them to function effectively and to draw up accurate plans. For the overall plan is not merely a cluster of commands emanating from the center and handed down throughout Soviet society. The validity, the applicability of these commands is actually determined by the quality of the information that comes from the grass roots up. In other words, that information fed back into the system shapes the major decisions made at the center. But just because the chief criterion of performance was gross quantitative production, the manager of the enterprise, the primary producing unit or plant, had every reason to provide inaccurate information and to underestimate his capacity



to produce. He could then proceed to manufacture beyond his established quota because his bonus was tied to the quantity of goods produced without regard to quality, suitability, or demand. Moreover, the ease of acquiring capital, treated as free goods to which no price was attached, led to its reckless and inefficient use. The practice of hoarding raw materials was a continuing obstacle to the operation of the economy, but enterprises did it to avoid troublesome supply bottlenecks. And even with regard to labor, since there was no penalty attaching to the use of excessive labor, managers here too resorted to a kind of stockpiling in the interest of maximizing the volume of physical output.

Now what did the proposals of Liherman and others seek to do about these shortcomings in the economic system? Broadly, they looked to a genuine measure of decentralization. If, as the evidence indicated, a central authority could not make the crushing multitude of calculations called for by a sophisticated and interdependent economy, a genuine measure of decentralization, giving more discretion and initiative to the individual enterprise, would reduce the unassimilable mass of information with which the central planners, though armed with computers, could not cope. They could then concentrate on the macroproblems, having transferred the solution of the microproblems to the manager and individual enterprise. Should this approach be taken, however, it would be necessary to furnish incentives to prod the manager into undertaking more efficient production geared to meet the needs of the buyers. These incentives were spelled out by Premier Kosygin to the Central Committee in September 1965. They had already been tried on a limited basis in a number of plants during the preceding 2

years, and they were to be extended in stages to the entire economy. The number of targets set for industry was slashed from 30 to 8, the most important of these being the volume of goods *sold* rather than the previous main standard, the volume of goods *produced*. Thus, by this major change the manager was being required to attend closely to the desires of the buyer; in short, he was to produce for the market, to modify his range of products to suit the will of the purchaser. This amounted to the substitution, to a limited degree anyway, of consumer sovereignty for the planner sovereignty that had dominated the economy until then. The second main incentive was to be the level of profitability, to which the bonus of the manager was tied. The greater the profits a manager made, the larger his bonus would be. Profits were to be set aside after all costs had been subtracted. Significantly, interest on capital is included in these costs, as well as payment for rent, which has the effect of discouraging the inefficient use of capital resources. As for labor, although the wage fund is not fixed by the individual plant but by the central plan, nevertheless, to increase the margin of profitability, the plants are free to hire and fire rather than, as before, perhaps having too many employees because they could do so without loss. Now, however, there is every incentive, in order to raise the level of profitability, to reduce the size of the wage fund and to use capital economically. Also drawn from profits, in addition to the incentive fund for the managers and workers, are a development fund to encourage greater independence on the manager's part to improve his enterprise, and a housing and welfare fund. Thus far only a portion of Soviet industry has come under this new incentive system. The timetable for its

extension to the rest of the Soviet economy has been slowed, but the official intention is ultimately to reach that goal.

Time permits only the hastiest survey of the posture of agriculture. Agriculture has been the sick sector in the Soviet system ever since the forced collectivization drive of the late 1920's. As I mentioned before, gross production in agriculture had not climbed to the figures of the 1920's even in the 1950's. Before Stalin's death in 1953, the Soviet regime pushed to amalgamate the 250,000 collectives of 1950 into fewer larger units. By this means, better Party control could be assured since many of the collectives had been without a primary Party organization. Today there are less than 40,000 collective farms. On the other hand, the number of very big state farms (which are actually owned by the state rather than the land being leased to the peasants as in the collective) has grown to about 10,000 with a five or sixfold increase in grain production. On these state farms the individual member is really a kind of agricultural proletarian, an employee of the state. Naturally, the Party leaders would prefer this arrangement to the collective and, no doubt, look upon it as the desirable organization for all of agriculture.

Failure to treat the farmer as well as the urban industrial worker has been chiefly responsible for agriculture's poor showing. The farmer was accorded the status of a second-class citizen. He did not receive anything like the welfare and fringe benefits granted to the industrial worker. The regime, therefore, has been forced to devote greater resources to agriculture. Prices of agricultural products have been raised; more welfare measures applying to the farmers have been decreed. In order to enlarge grain production quickly, the new leadership

took a bold gamble in the 1950's and cultivated 100 million acres of virgin lands in Siberia and Kazakhstan, risky because of the short growing season and limited rainfall. Higher investment in fertilizers and equipment has been made in an attempt to increase the yield on the farms. The deficiencies in agricultural production are pointed up by the Soviet Union's action in having to purchase grain abroad in two of the past few years.

As we look back on the great Soviet experiment in establishing a society with all the means of production publicly owned and subject to total planning from the center, there are a few conclusions we can draw from it. One, certainly, is that the original ideal of genuine equalitarianism in a complex industrial society is impossible to realize. The very nature of an industrial economy, calling as it does for a variety of skills in varying degrees of short supply, requires a system that differentiates among the people, offering greater rewards and prestige for those skills, services, and brainpower which tend to be scarcer, more essential to the running of an intricate economic machinery. Notwithstanding the original commitment to equalitarianism, the Soviet Union today has, as we said before, a highly differentiated class and wage structure. And it was the Party elite's interest in economic performance that moved them in this direction.

I think we can also conclude that central planning, while it offers certain advantages in diverting resources and brainpower quickly to high-priority objectives, is likely to result in an unbalanced, grossly distorted economy. For this has been the big problem of the Soviet Union in the years since the mid-1950's. The rulers of Soviet society have discovered, contrary to their own beliefs, that central

planning does not provide the rational calculations they had hoped for. And, as we have seen, they have been forced to introduce some elements of the market mechanism. Its great contribution is that it does make possible a more rational allocation of resources and provides information about the relative scarcity of resources and the real costs of production, on which basis the skillful manager can make better decisions.

To the question of whether the market mechanism is likely to make further inroads in the Soviet economy, it is impossible to say at this time. The steps taken to introduce some features of the market since 1964 have, as I said, been limited ones. But it would seem to me that the Party leaders would oppose the introduction of a full-scale market for the reason that they would risk losing control over the economy. The tie between economic power and political power is so close that this is something they would be reluctant to surrender. Now it is conceivable that the process which they have begun may unfold so gradually, the pressures generated in favor of it may be so strong that the leaders will not be able to resist. But their very insistence on recentralization, the re-establishment of the all-union minis-

tries, the caution with which the new reforms have been and are being applied, all reveal their awareness that the more the consumer directs the economy, the less control the central leadership has.

---

#### BIOGRAPHIC SUMMARY



Professor David D. Warren, Associate Professor of Political Science at the University of Rhode Island, holds an A.B. from Brown University and an M.A. and Ph.D. from the Fletcher School of Law and Diplomacy.

Professor Warren served with the U.S. Army during World War II and the U.S. Department of State in 1952 and 1953; he has been a member of several governmental commissions for the State of Rhode Island and has served as Moderator for a Public Affairs Program presented on a Providence, R.I., television station. In 1961 Professor Warren was Consultant for International Relations at the Naval War College and is presently First Vice Chairman of the Rhode Island Constitutional Convention.

Professor Warren has published three articles in the *Naval War College Review*: "The Nature of the Nation-State System" in March 1963, "International Organizations in International Relations" in November 1964, and "Western Democratic Government in Theory and Practice" in April 1967.

---

— Ψ —

If we only act for ourselves, to neglect the study of history is not prudent; if we are entrusted with the care of others it is not just.

*Samuel Johnson, 1709-1784*