Vol. II.
CHAPTER VI

PRICE-PLANNING AND PRICE-POLICY
UNDER RATIONING: THE MULTIPLICITY
OF PRICE-LEVELS
Our preliminary account of price-conditions under the First Piatiletka, which was confined to a mere statement of the movements of retail prices, revealed a very complex price-structure, which was a direct outcome of the system of selective supply. Though under such conditions price-planning became very difficult it was never abandoned.

The task of Soviet price-policy was twofold: firstly, to build up such a structure of factory prices that would keep in view (as much as possible) the cost-price relationship and make economic calculation possible; and secondly, to facilitate selective distribution according to the "class-principle" and thus to effect such a re-distribution of the national income as would, by varying degrees of consumers' "exploitation", enable the State to proceed with the programme of industrialisation at the assigned rate in spite of the non-fulfilment of the cost-reduction plans. In other words this amounted to subsidising those vital industries where, owing to failure in the materialisation of the Plan's qualitative forecasts, the cost-price relationship had to be artificially re-established by means of budgetary grants.

We have seen how, towards the close of the NEP-period, delivery prices of industrial products (particularly of the heavy industries) tended to become divorced from the forces of the market by the operation
of the so-called "double price-lists". At the beginning of the First Five-Year Plan multiplicity of price-levels within the wholesale or "inter-industrial" sphere was done away with and was replaced by multiplicity of retail prices. The construction of delivery prices broke away, almost completely, from its former connection with pre-war price-lists and with the market as it existed during the NEP. A "rational" price-system was introduced into industry, built upon a certain plan of redistribution of accumulated funds between the different spheres of industrial production and taking account of the re-distribution of the national income as between the different groups of the population. In practice the re-distribution of accumulated funds of industry was achieved by the imposition of a graded turnover tax, its rate varying in different branches of industry and, within those branches, according to the various commodity-groups. The guiding principle of this gradation was the maintenance of relatively low prices for the means of production.

Under such conditions, the official emphasis on the fact that delivery-prices in the period under review remained stable and were even reduced in some instances is wholly irrelevant, for the statistical evidence on the strength of which this allegation is being made, does not consider the turnover tax-additions.

It is conceivable that the Soviet planners thought at the beginning of the First Five-Year Plan that it would have been possible to solve the accumulation

Turetsky, article on price-planning, Planovoie Khozjastvo, 1936, vol. 3, p. 133.

problem by means only of the inter-industrial re-
distribtuion of "profits". This conjecture is
supported by the history of the beginnings of
rationing which, as we tried to show, displays a
on the part of the State
marked unwillingness/to extend the principle of normed
supply beyond the limits of what was absolutely
necessary. But, as a constantly growing share of the
national dividend was being claimed by capital con-
struction and the high hopes of the Soviet planners
of a considerable reduction in industrial costs failed
to be substantiated by actual results, the State
began to supplement its policy of re-distributing
national income through a system of differentiated
delivery prices by an even more complex retail price-
system.

The price-structure of the country became
exceedingly anomalous for it was composed of several
heterogeneous price-spheres. The price-level ob-
taining within the socialised industry led a separate
existence, as it were. We know already that there
was a considerable inflation of currency under the
First Five-Year Plan, the incidence of which was un-
evenly distributed according to whether the rouble was
used in "closed" shops, the "commercial" shops, the
"open" market and the all the various remaining channels
of the chequered goods-distribution. This inflationary
process affected likewise the industrial sector, but
we suggest that industry did not feel the full power
of its impact. Thanks to the Credit Reform of 1930/

/Cf. below.
there was, during the first quinquennium, an absolute and relative increase in the volume of non-cash payments within the industrial sector, and although the reduction in the quantity of money tokens circulating between the nationalised industries was accompanied by a certain measure of credit-inflation, it may be assumed that, on the whole, the value of the "production rouble" remained higher than that of the "retail rouble".

Price-movements within the industrial sector were only to some extent affected by the prices obtaining in the other domains of the economy. Take, for instance, the price of labour. Wage-payments were, of course, a most vital cost-factor, especially in the extracting industries, but if the wage-bill rose beyond planned expectations (as it usually did during the First Five-Year Plan), the price-schedules of the industrial commodity in question were not revised; instead, the resulting losses were covered by long-term credit-advances (which were very rarely repaid) or budgetary grants. Since industrial construction could hardly have affected the output of consumers' goods or means of production and prices during the period under review, the gulf between prices of "derived" manufactured goods became particularly pronounced, with the result that the price-cost relationship in several of the vital heavy industries (iron, coal) was utterly destroyed. Nevertheless, the Authorities thought it advisable to preserve the price-mechanism even in the then existing anomalous
form, probably for the following reasons: the nominal maintenance of the price-category in the constructional sector enabled Gosplan to make rough estimates of cost of production, while the fiat prices of several of the industrial products, stabilised at an artificially low level, were used for concentrating economic activity on an unremunerative but vital economic process. Had the price-mechanism and the formal aspect of buying and selling been completely abolished, i.e., had the practice of expressing productive outlays in monetary terms and of paying for these, been totally abandoned, the artificial stimulation of industrialisation would have to be carried out entirely by direct orders and dispositions.

It is interesting to note in this connection that the price statistics of the First Piatiteka operated with two bases of calculation. Industrial production was expressed (1) in unchanged prices of 1926/27 and (2) in prices of the various years of the first quinquennium taking into consideration the planned norms of price-reductions. This double evaluation certainly suggests that the value of the "production rouble" (as the unit in which factory-prices were expressed) was merely nominal and that the planned price-reductions were without any doubt fiat decisions not warrant by actual cost-reductions. Nevertheless, since the price of the materials and (to a lesser extent) the rate of wages were fixed, cost could be calculated, so that the "production rouble" could serve as a unit of account.

/Cf. below, Book III.

A poignant criticism of the method of expressing the value of industrial production in terms of unchanged prices of 1926/27 is to be found in Auhagen, Die Bilanz des ersten Fünfjahreplanes der Sowjetwirtschaft, Ost-
and as a basis of economic orientation. In so far as cost could be calculated and its trends be ascertained from the difference (positive or negative) between the actual outlays and the planned prices, or from the extent of the budgetary subsidy, the decisions concerning the fixation of planned delivery prices were not arbitrary. There is a tendency among some foreign writers to identify Soviet fiat prices with arbitrary decisions. This need not necessarily have been the case. The prices were certainly fiat-like and artificial in so far as they did not adjust themselves to cost-trends. On the other hand, precisely because the Planning Authorities were aware of cost-trends, they could base their fiat decisions on certain real data. They might, for instance, have made the payment of a budgetary grant to cover losses dependent on the reduction, in future, of industrial costs, or they might have refused assistance altogether if an analysis of the available cost statistics revealed that the increase in cost could have been prevented simply by better organisation of production and the like. The maintenance of the rouble as a unit of account was thus extremely valuable in so far as Gosplan was being kept informed of the way in which industrialisation progressed. The fiat character of the delivery-prices under the First Five-Year Plan lay in the fact that the preservation of the cost-price relationship and the concentration on the most remunerative lines of production was not the dominating

(continued from previous page): europa, 1932, No. 2, pp. 9-10. Since 1926/27 new products have appeared and quality has changed. Furthermore, every index of gross production is unscientific, since it calculated the value of total production including raw materials and
criterion of the State's economic dispositions. This system, in fact, enabled enterprises to continue operating at a loss, not because the Authorities were unaware of the relative efficiency of various enterprises, but because they were, it seems, resolved to continue industrialisation despite the non-occurrence of their qualitative prophesies.

In so far as the cost-structure can be determined by a scale of relative valuations (consistently applied) through a market or by virtue of a certain purposeful economic policy or by both, and since industries were nationalised, the rouble could fulfil its functions as a unit of account quite satisfactorily. But it is, we suggest, an utterly hopeless and rather useless task to try and calculate the real purchasing power of the "unit-of-account rouble" or the "production rouble". Certain general ideas about the magnitude of investment carried on in the U.S.S.R. under the First Five-Year Plan can be made by means of referring to the calculation of the value of production in terms of the unchanged prices of 1926/27 when there was still a connection between the external and the internal values of the Soviet currency and when the conditions of wholesale price-formation were more similar to those existing in capitalist countries (but we suggest that much more reliable data can be obtained by reference to physical quantities.) "All this substantiates the argument that, given a currency with different purchasing power under different conditions...

(continued from previous page): semi-finished goods and thus amounts to a multiple calculation of the same value. This does not mean, of course, that in actual fact cost accounting was efficiently organised and supplied correct information.
ions, it is impossible to say with certainty that a sum collected from various sources has an exactly calculable value when applied to a definite object, such as buying cement and steel for creating a new factory. It is true that the cost of the enterprise in material and labour can theoretically be precisely estimated since the price of the material and the rate of wages is fixed. But is quite another question whether the nominal purchasing power of the money devoted to financing the enterprise corresponds with the real saving it is supposed to represent."

Our analysis of the "production rouble" as a unit of account on the one hand, and a fiat evaluation of the prices of industrial produce on the other, does not hold good in the case of industries which were dependent on agricultural raw-materials. Although in the course of the First Piatiletka agriculture came more and more under the regulative influence of the State (despite the vicissitudes of the collectivisation campaign) it could, especially at the beginning of the first planned quinquennium, by no means be considered as fully nationalised. Hubbard, in an extremely lucid exposition of the question of the agricultural price-level argues that although the Government purchased grain at such low prices as to render agricultural collections tantamount to confiscation, the prices paid for agricultural produce had to bear some relation to the prices at which

7 Hubbard, Soviet Money and Finance, op. cit., pp. 246-47.
2 Ibid., pp. 150 et seq. Cf. also Book III.
the Government supplied manufactured goods to the peasants. In so far as the economic activity of the newly formed collective farms could not yet be decreed by Government plans, it had to be regulated by indirect methods. The aim of the State's agricultural price-policy during the First Five-Year Plan was therefore both to provide sufficient incentives for a badly needed extension of cultivation and at the same time to extract the maximum possible amount of agricultural raw-materials and foodstuffs.

Presumably the Government purchase prices for grain and other rationed foodstuffs were linked with the retail prices obtaining in the "closed" distributive centres. There is little doubt that this policy was in effect equivalent to an unfair treatment of the countryside in favour of the towns. This was most intense during the difficult years 1930-32, when shortage of agricultural products was most acute and the "anti-agrarian" policy of the Left Opposition received considerable support. In those years the stocks of manufactured goods and foodstuffs destined for consumption in the villages were extremely scant and the resultant economic plight of the peasants, together with the social and political reprecussion of the raging agrarian revolution, almost wrecked the reproductive faculty of Soviet agriculture. The Government admitted its mistakes in the typically Bolshevik manner of putting the blame on to the shoulders of over-enthusiastic supporters. But it had to blow a retreat none the less and one of the signs of the changed ag-

1 Ibid., p. 152.
2 Cf. Book III.
gricultural policy was the institution in 1932 of the so-called decentralised collections of fruit and vegetables, milk and small livestock and simultaneous reduction of centralised quotas. This more liberal policy was synchronised with the fostering of autonomous local and self-supply among the trading organisations which has been described. The decentralised collections were effected by means of the so-called conventional prices which were not obligatory on the collective farms, but binding on those State and co-operative organisations which were engaged in purchasing agricultural products. Since conventional prices, though higher than those paid for centralised collections, were much below the open market prices they could only be used in regions far removed from big industrial centres, i.e., in cases where the transport to, and the disposal of agricultural produce in, the urban markets were both costly and cumbersome. Otherwise, they were only accepted on condition that the decentralised purchases were linked up with an undertaking on the part of the buying organisations to supply scarce manufactured goods or to render services to the sellers.

The third set of agricultural prices was that ruling in the semi-legal open market and later in the collective farmers' bazaars. Their level - the highest of all - was determined by demand and supply but the more the food resources of the State grew and the

\[\text{Nobel, op.cit., pp. 131-32. Fubbard, Soviet Trade and Rationing, p. 176; "...during the rationing period, it was more profitable to sell at a low price to State organisation, which undertook to supply manufactured goods at comparatively reasonable prices, than to sell at a high price on the open market when the money obtained could at best be used for buying..."}\]
stronger the regulation of Kolkhoz trade became, the more were the Planning Authorities in a position to influence these "chaotic" prices as well. The "free" or "market" prices were a very powerful instrument in stimulating agricultural production of individual and collective peasants and had beneficial effects as regards the mitigation of the goods-famine towards the close of the First Piatiletka.

This short survey of the agricultural price-structure and price policy during the period under review shows that industry, which was dependent on the supply of agricultural raw-materials, could not "arbitrarily" fix their prices without causing serious effects on the state of productivity of Russian agriculture. The producers of agricultural raw-materials, e.g. cotton, were at the same time consumers of foodstuffs and it was therefore vital from the point of view of not impairing Soviet economic life that the prices paid by industry for, e.g., cotton should ensure their producers a certain minimum standard of consumption.

We can now resume our analysis of the inter-relations of the various price-spheres and levels. It has already noted that the artificially low decreed prices for the centralised agricultural collections presumably formed the basis of the low ration prices of foodstuffs charged by the "closed" distributive centres catering for the privileged sectors of the population. To put it bluntly, this meant that the peasantry fed the industrial proletariat almost for nothing. In the same way it may be argued that goods on the commercial market at exorbitant prices."
the link between the price-systems obtaining in the production and exchange spheres was effected by the rouble flow released for wage payments. But precisely because of the absolute scarcity of foodstuffs, the unexpectedly high cost structure and the artificial protection of constructional industries at the expense of consumers' goods industries, only a certain portion of the wage-fund could be realised at the originally planned purchasing power. The greater the difficulties in consumption became, the greater, it would seem, became the proportion of the high-valued consumers' roubles in the total wage-funds and the more intense the application of the "selectiveness" in the apportionment of supply, either by withholding supply from the less privileged sections altogether or making them bear the heavy burden of the turnover tax levied on the consumers' goods industries. The need to manipulate with scarce stocks of life's essentials and, before all, to feed those toilers, who were busily engaged in constructional work, resulted in a bewildering multiplicity of price levels in the retail price-sphere, to which attention has already been drawn on many occasions, but which still awaits more detailed exposition.

In 1929, when rationing was just beginning, certain commodities like sugar (July 1929), cotton and woollen fabrics (December 1929) were sold at favourable prices to agricultural producers who had fulfilled their obligations towards the State. This so-called "special market-fund" played an important part in facilitating the plans of agricultural
collections. Still, there remained a noticeable difference between the retail prices for manufactured goods in the towns and those obtaining in the villages. The explanation offered by Soviet economists was that prices of manufactured articles had to be raised in the villages as a kind of punitive measure against speculative increases of agricultural prices. Such an explanation is certainly oversimplified, one-sided and unfair. Agricultural speculation there certainly was, but it was the result mainly of scarcity both of agricultural production and of manufactured goods; only in the second place took it the form of conscious resistance and malice on the part of individual farmers.

In 1931 there was further price-differentiation within the system of State supply by the introduction of "commercial" trade. Since the quantitative aspects of the main price-levels then existing have already been dealt with, it will suffice in this connection just to name the various price-levels which could be observed at the time when rationing was in full swing. Altogether, there were as many as eight different retail price-levels, viz.: two price-levels for normed goods (one valid for the towns and the other for the rural population), three price-levels in the "free" (i.e., non-rationed) sales of socialised trade ("commercial" prices, medium-raised "commercial" prices and prices of model universal stores), prices for individual

"Normal" village prices were almost purely nominal. To all intents and purposes village prices were the same as prices in urban "commercial" shops. (Cf. Economics of Soviet Trade, op.cit., p. 402). One notable exception was soap, whose price charged in the villages was higher than the normal price of the towns but lower than the "commercial price".
orders, Kolkhoz bazaar prices and, lastly, Torgsin or "gold" rouble prices charged by the Torgsin (i.e., Trade with Foreigners) shops. These were classed as belonging to external trade and had no bearing on paper rouble prices.

How did the multiplicity of retail price-levels fit into the price-planning mechanism and its working?

It is easy to see that the multiplicity of price-levels presented the regulative organisations with immense difficulties. Each price-level had to be supervised separately and the various price-planning measures had then to be reconciled with the major directives of the general economic plan. The multiplicity of price-levels was also an ideal background for numerous abuses and evasions of State orders concerning prices. Therefore price-planning and price-regulation were of the utmost practical importance during the period under review.

With a view to simplifying, as much as possible, the system of price-formation and to keeping a close check on legitimate retail price-additions, the Government introduced in the course of the First Piatletka various price-planning reforms. The Taxation Reform, for instance, unified the various forms of taxes and their sources. The turnover tax was levied exclusively on industry, trade turnover being exempt from taxation altogether. From the point of view of

1 To give a concrete example: the "normal" price of butter was 3.76 roubles per kg; its medium-raised "commercial" price was 16 roubles and its "commercial" price 20 roubles. (Cf. Prokopovitch's Bulletin, 1983, May (No. 104), p.8). - Agricultural State collection prices and conventional prices are not included in the above list, because they must properly be classed under wholesale prices. 2 Ibid., p. 108. 3 Ibid., p.108.
The economist thought the Taxation Reform had only formal significance (for the tax had in any case to be paid by the consumer), but in practice it facilitated the re-distribution of industrial accumulations and deprived fraudulent trade-officials of an easy means of enrichment. The inclusion in the factory prices of the turnover tax enhanced their importance as the basis of price-formation. This simplification of budgetary withdrawals made both calculation and accounting easier and enabled the Authorities to attain a certain amount of efficacy in their price-policy simply by varying the rates of the turnover tax according to the different industries in conformity with principles which have been discussed.

The solution of the difficult technical problem of regulating retail prices was attempted in 1931 and 1932 when the methodology of planning the multiform elements of retail price-additions was perfected. One of the main innovations was the inclusion of transport costs, which amounted to some 40 per cent. of distributive costs in the framework of fixed retail price-additions. By this means, it was claimed, an important loophole of unauthorised squandering of the trade system’s circulating resources was closed. The fixing of delivery prices enabled the Planning Authorities to fix concrete retail price-additions to the delivery prices and not, as used to be the case, to express them as a percentage of the retail price itself. Within the limits of price differentiation of price-levels these reforms made for a certain geographical unification of prices for given /Turetsky, Planovoe Khoziastvo, 1936, vol. 3, p. 132./
commodities, which however remained incomplete.

The above analysis must under no circumstances be taken to mean that price-planning under the First Five-Year Plan was all-embracing—and perfect. An eloquent proof of the fact that the practice of price-planning lagged behind its theory can be found in the formation, in November 1931, of a special Board of Price Inspection attached to the People's Commissariat of Workers' and Peasants' Inspection (the highest Control Authority in the Soviet Union) and specifically charged with "the control of the execution by co-operative and trade organisations of the Soviet price-policy with a view to combating the non-observance of fixed prices."

The multiform technical and economic aspects of price-planning required special attention by the Government. Several organisations were entrusted with this task. When in 1930 the industrial Combinations took over the supervision and planning of individual branches of industry, "operative" price-planning was declared to be one of their functions. By "operative" price-planning was meant the fixation and supervision of price in the different industries in conformity with the general directives given by the V.S.N.Kh., the Markomtorg and, later, the Nar-komsnab. These directives usually took the form of stating the limits of price-changes, but the autonomous powers of the industrial Combinations remained fairly wide.

Sovnarkom decree 20.11.1931 quoted by Turestky, op.cit.p.132.
It seems that the unification of ex-factory prices in 1930 as well as intense muddle and abuses in the retail price-sphere rendered the issue merely of broad directives from the Centre inadequate for the purpose of strict price-planning and control. Hence a centralised price-fixing authority had to be created.

The Council of Labour and Defence (S.T.O.) reserved to itself the right of fixing the initial prices of all basic factors and instruments of production. Among the other Government departments entitled to fix delivery prices were the various People's Commissariats, both All-Union and Republican, as well as regional organisations. The Republican Sovnarkoms, for instance, had to confirm the prices of commodities produced by industries situated in the given Republic with the exception of a number of "deficit" and "basic" goods, the prices of which were fixed in a centralised way. In addition, the Republican Sovnarkoms had to sanction any price-rise for products of the local industry.

As regards the prices of consumers' goods, there was the Price Committee attached to the Council of Labour and Defence which was established on October 11, 1931. The main functions of this Committee which in April 1932 was re-organised into the Committee of Goods' Funds and the Regulation of Trade attached to the S.T.O., included, according to the decree of the

\[\text{E.g. } \text{cast iron, iron, rails, wire, iron-ores, copper and other metals, motor cars, tractors, agricultural combine harvesters, agricultural machinery, locomotives, railway carriages, ships, electric motors and equipment, machines of various kinds, nails, bolts, wire-ropes, basic chemical products (soda, india-rubber, fertilisers), fuel, building material and various other instruments of production. (Cf. Economics of Soviet Trade, op.cit., p.338.)}\]

\(\text{Cf. next page.}\)
Sovnarkom, dated November 1, 1932, "the solution of basic problems of the regulation of trade in accordance with the tasks of developing Soviet trade and liquidating the remnants of speculation on the part of the private traders; the solution of questions relating to the fixing of delivery, wholesale and retail prices of articles of common demand in State and co-operative organisations along the lines of their gradual reduction."

The principal manufactured goods thus regulated were kerosene, electric globes, furniture, firewood, chintz and other cotton fabrics, thread, hosiery, the main forms of clothing and footwear, goloshes, school diaries, glasses. As regards foodstuffs, the following goods came within the orbit of price-control of the Goods Funds Committee of the S.T.O.: soap, salt, matches, sugar, tobacco, cigarettes etc., butter, vegetable oil, margarine, eggs, bread, meat, macaroni, flour, groats, main sorts of fish, tinned foodstuffs, vodka, tea, a motley collection this, which is at the same time indicative of the wide range of the so-called "deficit" goods and the frugality of the Soviet diet during the first quinquennium.

The ex-factory, release or delivery price is a most important economic and legal concept in Soviet economics and it seems opportune to expatiate on it in this context. Its exact meaning was embodied in the Sovnarkom decree No. 385, dated October 28, 1931, and

*This re-organisation suggests the closer link of price-planning with the planned movement of rationed goods.*

*Quoted by Malkis, Soviet Trade, op. cit., p. 154.*

*The S.T.O. Committee fixed actual delivery prices and, for a number of goods (cf. below text) also the retail prices. As regards a number of commodities it only fixed the percentages of retail price-additions to be made by the retail organisations themselves.*
the decree of the Price Committee of the S.T.O. No. 33 dated February 15, 1932. This was necessary since, as we know, the main sources of budgetary revenue, like the turnover tax and the retail price-additions are calculated as a percentage of delivery prices.

The delivery price is the price at which the commodity in question is disposed of by producers and collecting organisations to trade organisations and enterprises. The price at which goods are passed on to the same or allied industries is usually referred to as "accounting price" which does not include the turnover tax. Before the commodity is delivered to the commercial organisation, the selling organisations have to remit the turnover tax to the State Exchequer. Budgetary additions, on the other hand, are added on to the delivery price. The other constituent elements of the delivery price are the so-called "commercial cost of production", and profits and accumulations.

The wholesale price proper is the price charged by the wholesale bases and warehouses to the retail enterprises. It is, in effect, the delivery price plus expenses for storage etc., and the planned profit of the wholesale organisation. The retail price is essentially composed of the wholesale price plus various budgetary and trading additions (or discounts).

7 "delivery price" is probably a better term than "ex-factory price", since the concept includes the prices paid for agricultural produce. (Comp. Malkis, op.cit., p. 155).
8 The main components of the Soviet price-category will be analysed in Book III.
9 A simple, but useful classification of the component parts of Soviet prices is given by Henry Wade, Planned Soviet Prices, The American Quarterly on the Soviet Union, July 1933, Vol. I, No. 2, p. 35: (1) production cost (raw mat., use of mach., lab., etc.); (2) factory's "planned profit"; (3) state tax (or else a subsidy).
To return to our historical narrative:

The Committee of Goods Funds and the Regulation of Trade planned the circulative process of commodities in such a way as to divide the total stock of goods available for circulation through the trade system into three funds, viz., the "normal" fund of the city, the "normal" fund of the village and the "commercial" fund. In conformity with these divisions it fixed the "normal" town and country prices as well as "commercial" prices which we have enumerated. The "commercial" price contained a further component part, the so-called "special addition", which was fixed by the S.T.O. Committee. Only in case of new commodities being sold through the channels of "commercial" trade could the new price lists be approved by the Narkomsnah without the sanction of the S.T.O.

Of the long list of consumers' goods for which the Goods Funds Committee determined fixed delivery prices, it also fixed the retail prices of the normal fund for twenty-three commodities (19 of which being foodstuffs); for nine of the foodstuffs (butter, vegetable oil, margarine, eggs, meat, flour, baked bread, macaroni, and groats) the "normal" retail prices thus fixed were valid only in the big industrial centres. As regards the remaining items of the list, the S.T.O. Committee fixed the degree of the retail-price-additions. They represented the first of three commodity-groups for which retail price-additions were

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<th>(1) factory release price</th>
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<td>(2) wholesale cost of handling</td>
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<td>(3) wholesaler's &quot;planned profit&quot;</td>
<td>wholesale price</td>
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<td>(4) retailer's cost of distribution</td>
<td>retail price</td>
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A fourth, unimportant, group was composed of certain types of fish, the retail price-additions for which were fixed by the Narkomsnah.
fixed, the classification depending on the degree of centralised price-control. The second (small) group was composed of cabbage, onions, cucumbers, potatoes, milk and cheese, the retail price-additions for these goods being determined by the Sovmarkoms of the various Republics and by regional Executive Committees. The remaining (biggest) group was made up chiefly of numerous small articles. The retail price for these was determined by the trade organisations themselves. The "decentralisation" of price-control in respect of this third group was dictated by two sets of considerations. For one thing, centralised price-regulation of a great number of smallish and relatively unimportant articles would have been difficult and would have overburdened the Centre. The second reason was the necessity of investing the trading organisations with certain manoeuvring powers, so that they could, in case of need, cover any losses that had arisen through the sale of goods with rigidly regulated prices.

After what has been said about the weaknesses and abuses of rationing and the frequent non-observance, in practice, of the Government's price-directives, it is plain that the latitude allowed in respect of retail-price fixing of this third commodity-group was fraught with grave dangers. The Soviet planners, realising this, passed legislation, whereby the Local Authorities were charged with the duty of supervising the autonomous price-fixing of trade organisations so as to prevent them undermining the main canons of Soviet price-policy. In case of blatant abuses they

were charged to intervene and to reduce the raised price to their normal level. It is, however, not at all clear what exactly was meant by this kind of "normality". Presumably, the "manoeuvring" of the trading organisations was considered excessive when the Local Authorities could prove that the price-increases had been carried out for fraudulent purposes, i.e., either for the individual enrichment of the trade-officials or the hiding of gross negligence and inefficiency of the shop or trading enterprise in question.

Among the retail prices fixed by the S.T.O. Committee special mention must be made of the so-called etiquette or standard prices. While, as we have seen, delivery prices and, consequently, retail prices, of certain goods varied in different parts of the Soviet Union and were also dependent on the category of the purchaser, standard retail prices were supposed to be uniform throughout the whole of the country, i.e., irrespective of the goods-fund, the geographic zone and the social status of the consumer. As can be expected, the number of goods bearing standard prices was relatively small. It was composed of the following seven articles: makhorka, tobacco, tea, school diaries, electrical globes, matches and vodka. All these goods were of more or less uniform quality irrespective of the place of production, while the cost of transporting and selling them was exceedingly small.

Because of local peculiarities etc. special provisions existed for the determination of prices for decentralised agricultural collections and the products
of the kustar co-operatives. Decentralised collections were priced by the so-called Conventional Bureaus. As regards the handicrafts co-operatives the procedure of price-fixing was laid down by a decision of the Central Executive Committee and the Sovnarkom of the U.S.S.R., dated July 23, 1932. It provided that consumers’ goods manufactured by the co-operated kustari from local supplies could be “realised at prices established by the market.” Goods sold in shops belonging to the handicrafts co-operatives had to be disposed of in the same manner as the goods sold in shops belonging to associations of Kolkhozy, i.e., at "medium raised commercial" prices. In case of commodities produced by the kustari by order of Government or co-operative enterprises, the price was determined by agreement between the two parties and embodied in the contract of delivery. The prices for those goods, however, which the handicraft artels manufactured out of centralised State supplies were fixed by the S.T.O. Committee or, at its request, by the respective Commissariats.

The permission to sell part of the artel’s produce at "market prices" was, as often as not, interpreted by the kustari as a charter to charge whatever prices they thought fit. A marked rise in prices for handicraft goods was the natural consequence. The Government, therefore, saw itself compelled to tighten

For details cf. Hubbard, Soviet Trade and Distribution, op.cit., p. 177; and Economics of Soviet Trade, op.cit., p. 400. Ibid., p. 389. These measures (together with others which we have mentioned in another context) were designed to stimulated the productive initiative of artels and to increase the stock of consumable goods in town and country. (Comp. Economics of Soviet Trade, op.cit., p. 389).
up the regulations. This was done in the beginning of the Second Five-Year Plan, viz., by virtue of a decree dated April 26, 1933. It admitted a somewhat higher price-level for artel-products manufactured from State supplies as compared with analogous merchandise of State industry. Prices for artel manufactures from their own supplies were to be fixed by special Conventional Bureaus. These prices were not to exceed 20 per cent. of prices for analogous goods fixed by the Goods Funds Committee of the S.T.O.

An attempt to systematise the broad economic maxims of Soviet price-formation will be made elsewhere. Concerned, as we are here, more with the descriptive aspects of the question, the concluding remark may be ventured that the price-fixing machinery under the First Piatiletka appears to have been exceedingly complicated and it may be doubted whether the inefficient executive organs could always grapple with the set tasks, even if the temptation to resort to fraudulent practices were entirely excluded. Organisational top-heaviness is one of the major difficulties of Soviet economic planning.

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For details of this decree cf. Economics of Soviet Trade, op.cit., p. 400; and The Calculation of prices etc., op.cit., pp. 7-8.
EXCURSUS TO CHAPTER VI:

FINANCIAL ASPECTS: THE CREDIT REFORM AND THE CREDITING OF COMMERCIAL CIRCULATION
FINANCIAL ASPECTS: THE CREDIT REFORM AND THE CREDITING OF COMMERCIAL CIRCULATION

It was in the financial sphere that the capitalist-imitative tendencies of the NEP had been strongest and it was here that the remnants of an obsolete economic policy lingered on with great stubbornness. The Credit Reform of 1930 and the subsequent amendatory legislation constitute noteworthy events in the country's economic development under the First Five-Year Plan and had, of course, the most direct bearing on the evolution of trade. While the Monetary Reforms of 1924 had represented the crowning edifice of the first period of the NEP, the putting into operation of the amended Credit Reforms meant a decisive break with the capitalist technique, methods and practices of finance; they were an attempt at building up a financial system that would correspond to the changed economic reality.

In this context we shall be concerned more with the technical aspects of the Credit Reform. The other (and perhaps more significant) aspect of the measure, viz., that of ensuring "control (of the plan) by the rouble", the stimulation of "material interestedness" of economic managers in the "overfulfilment (both quantitative and qualitative) of the set tasks", and the observance by them of sound principles of business management will be only touched upon briefly and its discussion will be resumed at a later stage.

In our account of commercial activity under the NEP it was pointed out on several occasions that the
deficiency of the credit machinery hampered the growth of the turnover of goods. The position became even more precarious under the First Five-Year Plan. While short-term crediting was badly neglected, all available resources were pumped into the constructional industries. This procedure could hardly be regarded as a long-term credit operation, but was in effect the budgetary redistribution of a part of the national income and its transference, without any serious guarantee concerning repayment, to a privileged sphere of economic activity.

The actual technique of granting short-term accommodation by the Soviet banks resembled very closely the ordinary methods of credit practised in capitalist countries. To quote Arnold, "Soviet banks were granting short-term credit against commodities, commercial documents, and commercial paper as securities. ... of all the short-term credit operations performed by Soviet banks, those involving commercial paper with two or more names constituted the bulk." These short-term credits were described as "special purpose credits."

Commercial bills were by no means used only in connection with short-term crediting granted by the banks. Bills constituted also the main instruments of manufacturing and mercantile credit. Under conditions of the New Economic Policy, when the contacts between industry, agriculture and the consumer were established through some sort of a market, commercial paper was probably the most suitable instrument of

Arnold, op.cit., p. 345.
short-term credit, the more so "as it had reached a fairly high and rather peculiar development in pre-war Russia."

The fact that manufacturing industries had to resort to measures of mutual credit shows conclusively that the short-term credit facilities provided by the State were totally inadequate, although it must be admitted that the organisation of short-term crediting improved since 1927 when short-term crediting was separated from long-term crediting, the number of inefficient branches of the Gosbank reduced and the interest-rates unified.

With the inauguration of Integral Planning it soon appeared that the old methods had become obsolete. The strengthening of planning - as expressed, for instance, in the planned distribution of goods flows over the country, - stood in contradiction to mutual credit operations of various enterprises which caused not only inter-industrial movements of goods which did not correspond to the centralised dispositions, but also weakened planned discipline. In fairness to some of the directors of industrial and trading enterprises it must be pointed out, however, that these decentralised credit-operations were often forced upon them because of the failure of centralised supplies of raw materials and other factors of production to come forward.

Another reason, why the Authorities began to take increasing exception to the then existing methods of crediting, was that because of the ab-

Banking and Credit in the Soviet Union, Monograph of the School of Slavonic Studies, London 193 , p.

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sence of centralised clearing accounts the state of indebtedness between the economic organisations was often most complex and the mutual granting of commercial bills (with the frequent aid of intermediaries) constituted a heavy and costly burden to the central bank and called for unnecessary currency issues. Under such conditions the bank could not possibly concentrate on synchronising centralised production plans with corresponding "earmarked" short-term credits so as to facilitate the general plan's execution.

The fact that economic organisations could obtain credit not only from the State Bank, but also from other banking institutions, and could likewise grant credit among themselves led to parallelism and "pyramiding" of credit and made any attempt to control the productive effects and results of short-term credit rather futile. If the Gosbank granted a certain short-term accommodation to some industry it could not know for certain whether the credit so given was used by the given industry or passed on, wholly or in part, to some other economic organisation irrespective of whether that organisation was, in the estimation of the Planning Authorities, in real need of help. The existing system of crediting was thus a fruitful ground for abuse and the accounts of the Central Bank did not reflect the actual distribution of credit. 2

Such a situation, incongruous and intolerable from the point of view of Intergal Planning, had to

1 Atlas, op. cit., p. 426.
2 Ibid., p. 425.
be remedied without delay. This was attempted by the Credit Reform of January 30, 1930, which in essence substituted bank credit for commercial credit. But already as early as in June 1929 a special commission of the State Bank recommended that "the national economy be supplied with but one stream of credit, bank credit... (which) was to be granted to the buyer rather than to the seller." This method of crediting was described as "the conveyor method", since credit followed the goods. In addition, the commission proposed the establishment for each enterprise of a single conto corrente in the sense of a current account in which both the owned and the borrowed funds of an enterprise would be concentrated and in which the appropriate debit and credit entries, showing the enterprises's indebtedness, would be made.

These proposals were eagerly debated and after the promulgation of three preliminary decrees dated November 18, 1929, finally embodied in the Credit Reform of January 30, 1930, whose final adoption had been expedited by the reorganisation of industry which, it will be recalled, took place in December 1929.

The introductory statement of the first Reform decree is worth quoting, because it summarises the reasons which activated the Authorities in introducing the far-reaching changes:

"The rapid development of socialistic beginnings
Arnold, op.cit., p. 247. 2Atlas, op.cit., p. 348; Hubbard, Soviet Money and Finance, op.cit., pp. 16 et seq. 3Atlas, op.cit., p. 348. 4For details of these preliminary decrees cf.; e.g.; Economics of Soviet Trade, op.cit., p. 420."
in the national economy of the U.S.S.R. and the attained level of its planning necessitates a fundamental credit reform. The present system of selling goods on credit, as used in the socialized sector, hinders the flow of credit and makes difficult its planning. Its place must be taken by a system under which no other credit than that granted by a bank directly to the enterprise needing it is used."

The main practical provisions of the decree were as follows: State enterprises, co-operative organisation and "mixed" joint-stock companies were forbidden to sell each other goods on credit. Short-term credits were to be granted exclusively by the Gosbank through its branches in accordance with credit-plans drawn up in advance by the Gosbank in co-operation with the Supreme Economic Council. The "Combinations" were allowed to re-distribute the credits within the set annual limits but only on condition that such a re-distribution would be conducive towards the extension of production. The new system was to function through single current accounts which were opened by the State Bank for each of its clients. "The actual procedure was somewhat as follows: when enterprise A sold goods to enterprise B, the former would present an invoice to that branch of the bank wherein it had an account, whereupon it would receive payment in the form of a credit entry to its conto corrente. Inasmuch, as

1Arnold's translation (op. cit., p. 351) checked in Economics of Soviet Trade, op. cit., p. 420, and Izvestia, January 31, 1930.
2The procedure is described in Economics of Soviet Trade, op. cit., p. 421.
3Prof. Prokopovitch's Bulletin, 1931, No. 88.
the above payment was made by the bank on behalf of E (a buyer); the next step, of course, would be to debit the latter's account."

In theory this system of crediting assured the link between the movement of credit and the movement of goods, but in practice it soon led to a most disastrous "automatism" of credit, credit-inflation, and the slackening of financial discipline. Briefly speaking it achieved results opposite to what had been intended.

Soviet economists admitted the financial chaos which was wrought by the Credit Reform, but insisted that the principles of the decree of January, 30, 1930, were sound and that the harmful consequences were entirely due to the "distortion" of the new measure by industrial managers, financial employees etc.

We do not agree with this official view. The theoretical premises of economic planning are relatively simple and the theoretical reasoning of Soviet economists that the time had come when capitalist methods of crediting the movement of goods had become thoroughly obsolete may have been quite justified. But the vital point about economic planning is the reconciliation of rather simplified and idealised theoretical premises with living practice. Only the synthesis of theoretical argumentation and empirical verification creates, slowly and gradually, as the stock of experience in planning.

grows, what can be described as a consistent doctrine of economic planning that can be applied with increasing certainty.

This is the justification for the trial-and-error procedure, for the touchstone method. By definition, it invariably implies a certain element of risk, which is smaller, if knowledge of administration, human behaviour and other concrete data of this kind is developed, and more considerable, if such knowledge is but small or entirely absent. The latter condition applied (and still applies) to Russia more than the former. The practical science of administration was very backward and ready human response to Governmental enactments tended to be over-assessed. Indeed, as we had occasion to remark more than once, the Soviet planners were always in the peril of being carried away by their enthusiastic passion for planning, by the short-cut vision through the vicissitudes of an enormous country's painful growth and economic reconstruction. This was quite clearly the case as regards the Credit Reform. In theory its provisions were sound and feasible in practice provided their execution and the reaction of human beings came up to the Soviet planners' expectations. In fact neither of these conditions existed. The execution was faulty and the organisation inadequate - the whole sequence of planning showed unpardonable lags here, there and everywhere. Furthermore, the greatest mistake of the planners proved to be the belief that the managers could be relied upon to fulfil the centralised directions of Gosplan
honestly, altruistically, and animated by an everlasting reverence for the common weal, without constant and most rigorous checks and counterchecks.

The Soviet planners have committed this mistake of over-rating existing possibilities more than once. They had to pay very dearly for it. The main explanation for this is that they still appear to be politicians first and economists afterwards. But it must be admitted that they are willing to learn and that they have learned from their past mistakes. And perhaps, by over-stretching their goal, they succeeded in traversing their road at a quicker pace than if they had proceeded with caution, circumspection and timidity. Social boldness has both its weakness and its strength.

When the Soviet planners saw the miscalculations they had made in connection with the Credit Reform they retracted almost immediately and reconsidered their position by introducing amendatory legislation which we shall discuss shortly.

"What a naïve belief in the principles of planning", wrote Prof. Prokopovitch's Bulletin (1933, No. 88, p. 18), in discussing the first Act of the Credit Reform and predicting that life would dictate the return to some modified form of mutual mercantile credit. Such a statement, however, does not pay regard to the fact (which was expatiated upon above), viz., that the Bolsheviks are willing to learn from living practice and to adjust their legal

/Ibid., p. 23.
enactments accordingly. The Bulletin's conclusions, furthermore, that any correction of the original decrees would by necessity lead back to the old forms of credit reveals a lack of appreciating the very real changes in productive relationships that had occurred during the First Five-Year Plan. Relaxation of the original provisions and their adaptation to the existing motives of economic activity there certainly were. But there was no retreat from the main principle of planned production.

The peculiar thing, however, is that the Bolsheviks very seldom admit that they have committed mistakes/and that they are trying to make them good. This is a curious socio-psychological phenomenon which can perhaps be explained by the dictatorial structure of the Russian Communist Party and the over-politicised frame of mind of the Soviet leaders, a psychological make-up which does not facilitate the frank admission that one has erred. The Communists in Russia, whether rightly or wrongly, still imagine themselves surrounded by internal and external foes and might think that an avowed attestation of defeat could be interpreted as a sign of weakness.

Hence, they did not admit that the original provisions of the Credit Reform were utopian to a considerable degree. They preferred to explain the economic muddle which followed as due to a perversion of their real intentions and they very significantly referred to the legislative amendments as merely explanatory and supplementary in character.
To a certain extent the Soviet planners were justified in blaming the lack of appreciation, on the part of their followers, of the true spirit of the Credit Reforms, inasmuch as the utopian and over-enthusiastic elements of the Communist Party belonged to the Left Wing which stood in violent opposition to the so-called General Line, which was characterised by its enlightened pragmatism and realism. Arnold's painstaking and relatively dispassionate analysis of the "Leftist ideology" in the sphere of credit as one cause of the difficulties shows that the Left Opposition was not always merely a convenient scapegoat for the sins of the General Line.

The protagonists of this Leftist ideology had always dreamt of the time when the Central Bank would, in the words of Lenin, have become "the skeleton of a socialist society" and the system of money and credit would merge into the system of direct socialist accounting and distribution. The theoretical pundits of the Left Opposition like Trakhtenberg and Kozlov actually declared that the time had come when banks, credit and money could be eliminated and be replaced by a direct scheme of distribution. And, what was of more practical importance and consequence, these theoreticians had found supporters among the responsible officials of the State Bank who tried to put their theories into practice either for purely "ideological" reasons, or (like the former Mensheviks Sher and Berlatsky who were exposed as "wreckers" by

\[\text{Ibid., p. 360 et seq.}\]
the State prosecutor) for the political purpose of weakening the authority of the Soviet Government.

This may suffice for an exposition of the various causes which led to the complete failure of the original Credit Reform.

What exactly did these "weaknesses" consist of?

Firstly, the "mechanical", "non-operative" and "impersonal" observance of the set credit-limits led to an indiscriminate crediting of economic organisations "according to plan", indiscriminate in the sense that the Gosbank was only concerned about the strict formal compliance of enterprises with the credit plans, and was not particularly interested, as it should have been, in crediting and facilitating, within the set limits, of individual economic transactions. In other words, the procedure was far too rigid to suit the real requirements of the Soviet economy at that stage, viz., the stimulation of disciplined contractual links between the economic units and, if possible, of additional (extra-planned) productive effort! This would have required a strict (daily) control by the Gosbank of the exact way in which the credit was being utilised. Such a control did not exist.

The second "weakness" or "distortion" of the Credit Reform was the "automatism" in the procedure of settling debts between enterprises.

On the surface, the procedure, which we have described, seemed to be very simple and, as Arnold remarks, "charmed a good many people at home and

*Cf.* below our remarks on Khozraschet, pp. 431 seq.
abroad." In actual practice, however, this system, "by violating an accepted accounting principle—namely, that the bookkeeping entry begin with a *debit item* rather than with a credit item;* amounted to unfair preferences being granted to the supplier whose account was credited irrespective of the state of the buyer's account and of whether the buyer was at all willing to accept the goods so purchased. This had the most demoralising effects on the supplying organisations. Since the Gosbank paid their invoices, so long as they did not exceed their credit plans, there was no inducement to keep finances in good order and to please the purchaser. Careless attitude towards the purchaser (so typical of Russian economic life through the decades) became rampant and contractual discipline was in abeyance. Buyers began to lodge innumerable protests about poor quality, excessive terms, late delivery, but the Gosbank could not possibly assume its proper functions, and financial that of economic/control of individual transactions, and could thus not put a stop to the existing flagrant abuses.

Another damaging consequence of this misguided and fallacious over-simplification of planning was that, while the Gosbank did not discharge the functions appropriate to it, it quite clearly overstepped its duties by attempting to become the regulator and planner of the country's entire economic life.

Lastly, the practical operation of the original Credit Reform revealed Gosbank's utter technical unpreparedness and incompetence to deal with such an


enormous task as being the keeper of accounts of hundreds of economic organisations.

The Sovnarkom tried to improve conditions by a number of fresh regulations and instructions, but it soon became apparent that, in order really to eradicate the existing "distortions", legal amendments were necessary. Such were passed in January, March and June 1931.

The first of these mandatory measures, dated January 14, 1931, was significantly called "Concerning the measures of improving the practice of the Credit Reform." Its main provisions came to the following:

The payment of the seller's invoice by the Bank was to be effected only on condition that the purchaser agreed to it, i.e. was satisfied with the goods. The ordinary practice of first debiting the borrower's account was thus reverted to, but in such a manner that it protected the buyer from the seller's monopolistic abuses. The two methods of settling debts were the acceptance and the accreditive methods, and the law of January 14, 1931, laid down that the former method was, if possible, to be preferred.

Additional credit was to be granted for "sums in transit." In case values in transit were held up by reasons for which the economic organisations could not be held responsible (e.g., difficulties in transport as certified by the railway authorities), the economic organisations were to be granted a commodity-credit amounting to 90 per cent. of the planned cost of production of the merchandise in question. Lastly, the

\[^{3}\text{For details and definition, cf. Arnold, op. cit., pp. 376 et seq.}\]
\[^{2}\text{If, Economics of Soviet Trade, op. cit., p. 423.}\]
\[^{3}\text{75 per cent. in case of transport difficulties.}\]
indiscriminate crediting "according to plan" was to cease; credits were to be granted for specific purposes and had to be repaid after a specified period.

The second amendment law (dated March 20, 1931) laid stress on the importance of contractual obligations between economic enterprises and made the granting of short-term accommodation dependent upon the fulfilment of the stipulated undertakings. In cases, where blatant lack of economic and financial discipline could be observed, the Gosbank was expected to withhold credit and by that means to improve conditions. Under no circumstances were losses to be covered by the Gosbank. The function of the Gosbank, as the centre of short-term crediting, was thus declared to be one of economic control by financial means.

Very important for the evolution of the new system of finance was the Act of July 23, 1931, published by the S.T.O. and entitled "Concerning the working capital of State combinations, Trusts and other economic organisations." This Act was a serious attempt to come to grips with the problem of turnover capital which, it will be remembered, had been badly neglected under the NEP. In fact, up till July 1931, there had been no legal provision for any definite amount of working capital and the automatic crediting procedure under the original Credit Reform was hardly a suitable inducement to the managers of the enterprises to pay attention to this most vital prerequisite of sound business management. According to

\[\text{For details cf., e.g., the periodical Finance and Socialist Economy, (R), 1931, No. 9.}\] For full
the new Act a minimum "fixed" working capital had to be provided by each enterprise either by investment or by long-term borrowing. Under no circumstances was it to be raised by short-term credit. The formation of working capital was achieved by the industrial combinations distributing their liquid funds "among their component enterprises, such as productive, transport and commercial enterprises which had been re-organised on the basis of Khozraschet, as well as among organisations concerned with supply and marketing." The growth of the liquid funds of economic combinations, when caused by the extension of production and circulation, was, if possible, to be assured by accumulations of their own, but could be replenished by budgetary grants. The minimum working capital thus formed was to be employed by the enterprises "for maintaining minimum stocks of raw materials, productive and auxiliary materials, fuel, partly manufactured goods, uncompleted production of manufactured articles and goods and also of the re-

(continued from previous page): translation of its text cf. the appendix to Banking and Credit in the Soviet Union, op.cit., pp. 74 et seq.

As regards the co-operatives, however, the formation of turnover capital had to be accomplished exclusively by means of their own and not by the conversion of short-term indebtedness or by subsidies out of the budget. On February 15, 1932, the Sovnarkom published a decree according to which the redistribution of accumulations in the co-operatives had to proceed through the so-called "Fund of Regulation", set up for the purpose out of certain deductions from profits and/or members' contributions. (Cf. Economics of Soviet Trade, op.cit., pp. 424-25).

We discern here the attempt to call a halt to inflationary issues. In actual fact, however, the lion's share of the working capital - involving the huge total of 5,500,000,000 roubles - was raised through a special loan! (Comp. Arnold, op.cit., p. 371).
quisite reserves for future expenditure necessary for the realisation of their productive, commercial or development 'exploiting' programme."

Apart from laying down the conditions governing the formation of circulating capital, the Act prescribed the exact objects for which short-term accommodation could be sought by the enterprises from the Gosbank. Accordingly, the Bank could plan for loans of the following types: (1) loans in respect of values and commodities in transit; (2) advances for the seasonal needs of production; (3) loans for the accumulation of seasonal stocks of the material requisites of production such as raw materials, fuel, productive and auxiliary materials; (4) loans for the seasonal accumulation of commodities, like seasonal transport of commodities to outlying districts, chiefly with the object of stimulating seasonal collection campaigns. It can be seen clearly that the last two types of accommodation were designated to serve the seasonal needs of such branches of the economy as forestry, fisheries and agriculture. These loans were to be determined by the Gosbank in accordance with the monthly plans presented to the Bank by the borrowers.

The change in the system of crediting necessitated certain adjustments in the technique of settling debts. The former unified *conto corrente* was split into two parts, viz., into a "settlement" or "clearing" account and the "specific purpose time loan account." 2

1 The details of the mechanism of credit-planning are set out in Banking and Credit in the Soviet Union, op.cit., pp. 43 et seq.
2 Arnold, op.cit., p. 378. 3 Arnold's terms (p. 369).
All funds belonging to the enterprise (but being temporarily at the Bank's disposal) had to be paid into the first account, while the indebtedness of the enterprise to the Bank was shown in the second account.

Since the apportionment of credit was determined by the Planning Authorities along the lines of a comprehensive re-distribution of the national revenue and in accordance with considerations of economic and social desirability, rather than those of profitability in each particular case, rates of interest played a very subordinate role in the shaping of the Soviet credit-policy during the First Five-Year Plan. Under these circumstances interest rates charged by the Gosbank were primarily designed to cover the Bank's operative costs and to strengthen the financial responsibility of the economic organisations. "Towards the end of 1931 the interest rates charged by the State Bank for planned loans and loans against "values in transit" stood at 8 percent; those for extra-planned loans, at 10 percent; and, for overdue loans, 15 percent. At the same time the interest paid by the bank on its clients' balances in the settlement accounts was reduced from 5 to 3 percent, and on balances in their current accounts, from 6 to 3 percent."^2

Such was, briefly, the system and the working of crediting enterprises, including commercial organisations, as it existed towards the end of the first planned

^1More will be said on this subject in another context. ^2Arnold, op.cit., p. 385. During the second quinquennium the rates were reduced to the bare cost-level with a view to cheapening the Bank's services. (Ibid., pp. 385-6).
The amendments to the original Credit Reform exerted an appreciable influence in extending commercial turnover which grew from 27,100 million roubles in 1931 to 49,000 million roubles in 1933. The complete elimination of legal private trade in shops by 1933 was also greatly facilitated by the control of short-term accommodations by the Gosbank which withheld any advances from private dealers.

/Economics of Soviet Trade, op.cit., p. 425.
PART II

THE SECOND FIVE-YEAR PLAN
INTRODUCTION

SIGNIFICANCE AND PRINCIPAL RESULTS OF THE SECOND FIVE-YEAR PLAN
SIGNIFICANCE AND PRINCIPAL RESULTS
OF THE SECOND FIVE-YEAR PLAN

From our account of the first planned quinquennium it appears that owing to the unforeseen
costliness of industrial reconstruction the acuteness of the insufficiency
in-the-penury of consumers' goods imposed a very hard
strain on the working population and forced the
Authorities to resort to a most complicated and economically extremely unsatisfactory system of distribution.
Thus, despite the fulfilment of the Plan's fundamental
task and the absolute advance of commodity circulation, the problem of planned consumption remained by far unsolved. In the following we propose to trace the fate of trade under the Second Five-Year Plan. We shall commence with a general discussion of the significance and outstanding features of this period.

The second planned quinquennium embraced the period from January 1, 1932 to December 31, 1937.

It is interesting to note that while it had taken about five years to prepare the First Five-Year Plan, the drawing-up of the Second Five-Year Plan (whose scope was much more considerable) had taken only one-and-a-half to two years. The commission charged with the Plan's elaboration was established on June 4, 1931. Clearly, the experience of the First Five-Year Plan had been useful. (Cf., e.g., Galperin, Information on the preparation of the Second Five-Year Plan, Planovoie Khoziastvo, No.3, 1936, p. 70; W.P. and Zelda K. Coates, Obolensky-Ossinsky, Planning in the Soviet Union, Foreign Affairs, 1935, pp.453 et seq.; The Elaboration of the Second Five-Year Plan, Moscow, 1932,(R.) - The second instalment of the ambitious experiment certainly did not begin under a good omen. The end of the first planned quinquennium (1932) had been marked by serious economic difficulties and the revival of private bazaar trade was interpreted by some as a resurrection of the NEP. (Cf. Brutzkus, op.cit., p. 191.) The unexpectedly abundant harvest of 1933 provided the badly needed tonic for the somewhat disheartened Soviet planners. In January 1934 the Communist Party held its XVII Congress ("Congress of Victors"). Only then, after the introduction of certain modifications, was the draft of the Second Five-Year Plan finally approved. The corresponding law was passed...
The principal tasks of the Second Five-Year Plan were defined as follows: "1) the building of classless, socialist society; 2) the completion of technical reconstruction throughout the whole of national economy; 3) a still more rapid improvement in the standard of material well-being and culture of the entire Soviet population, a 2 to 3-fold increase in per capita consumption."

In his report on the Third Five-Year Plan for the National-Economic Development of the U.S.S.R., made to the XVIII Congress of the C.P.S.U.(B.) in March 1939, Molotov maintained that the principal historical task, viz., the abolition of all exploiting classes and the causes giving rise to the exploitation of man by man, had been accomplished. It would certainly surpass the scope of this treatise to subject an assertion of this kind to an exhaustive scrutiny. The question of whether the Soviet Union of to-day is a classless society or not, depends largely on the formulation of the concept of a social class. Although, owing to the advance of industry and (to a lesser extent) of agriculture and the changes in their productive organisation, the representative "classes" of Soviet society have become workers and salaried employees on the one hand, and collective peasants on the other, social stratification has by no means ceased. Soviet economists explain it by reference to the low standards of efficiency and the need to rely on "capitalistically tinted" incentives (payment according to individual enrichment). Molotov's

(continued from previous page): on November 17, 1934, under the title "Decree of the Central Executive Committee and the Council of People's Commissars of the U.S.S.R. concerning the Second Five-Year Plan for the Development of the National Economy (1933-37)", /The Second Five Year Plan, London p. xv. Moscow 1939, pp. 7 seq.
further assertion that Russia is on the threshold of communism, is likewise exceedingly debatable.

The second task of the Plan, viz., "the completion of technical reconstruction throughout the whole of national economy" has, in essence, been achieved. "More than 80 per cent of Soviet industry's output is produced in enterprises which were built or entirely reconstructed during the two Stalinist five-year plans" and "about 90 per cent of the tractors and harvesters combines in use in agriculture are of Soviet manufacture and were produced during the years of the First and Second Five-Year Plans." In fact, the rate of machine building was considerably overfulfilled. It is plain that the smooth working of such a tremendous industrial system required a highly skilled working class. "Whereas formerly, at the beginning of the reconstruction period, when the country suffered from a dearth of technique, the Party had issued the slogan, "technique in the period of reconstruction decides everything", now, when there was an abundance of technique, when the reconstruction had, in the main, been completed, and when the country was experiencing an acute dearth of cadres, it became incumbent on the Party to issue a new slogan, one that would focus attention not so much on technique, as on people, on cadres capable of utilizing technique to the full." Accordingly, the new slogan "cadres decide everything" was coined by Stalin in his speech to the graduates from the Red Army Academies,

/Cf. below.
3History of the C.P.S.U.(B). etc., op.cit., p. 337.
made in May 1935. In August 1935 the newer Stakhanov inaugurated a movement among workers and peasants for raising the standards of output. The individual achievements of Stakhanovites have been remarkable, but it would be wrong to maintain that the "problem of cadres" had been solved during the Second Five-Year Plan. Although the standards of individual output increased by from 15 to 50 per cent, the average output of the Soviet worker remained very much behind his American and German colleagues. The Soviet Union has still a long way to traverse until it reaches the productivity of labour which exists in its "capitalist surrounding." Furthermore, in so far as the rise of industrial output by virtue of Stakhanovite emulation proceeded spontaneously and was spread unevenly over the economy and, thus "unbalanced", it imposed a strain on the smooth working of the Soviet planning apparatus: "while in one section the Stakhanovist worker succeeded in raising the output considerably, the other sections proved unable to keep pace with it. The acceleration of output at a given stage often did more harm than good by disturbing the regular progress of the products through the successive stages of manufacture."  

Thus, it would seem necessary to qualify the previous statement (to the effect that the completion of technical reconstruction has in essence been achieved) by the very weighty addition that the

1 N. de Basily, Russia under Soviet Rule, London 1939, p. 348.
3 De Basily, op. cit., pp. 348-49.
achievement was confined to the material aspect of reconstruction, i.e., the actual erection of plant etc. Though this can be utilised with the existing labour force in some way or other, the maximum utilisation is not yet within sight.

The quantitative results of the Plan were very impressive. The average annual rate of industrial output was overfulfilled, viz., 17.1 per cent instead of 16.5 per cent as originally contemplated. The greatest successes were scored in the heavy industries. "Here output increased almost two and a half times (by 140 per cent) and the plan was considerably exceeded: this line of production recorded a 122 per cent fulfilment of the Second Five-Year Plan." Pig iron, coal and oil continued to lag behind planned production figures. The proportion of waste in all branches of industry remained excessive and complaints as regards the low quality of products were frequent throughout the whole period. The problem of decreasing the cost of production remained as urgent as ever.

In 1936, particularly, owing to the spread of the Stakhanov movement, the advance in output was spectacular. According to the declaration of the Government on April 28, 1937, the Second Five-Year Plan was completed on April 1, 1937 well ahead of schedule with regard to the main branches of the national economy. (Cf. Encyclopaedia Britannica, Book of the Year 1938, p. 680). It may safely be assumed that the unexpectedly rapid advance of the heavy industries was due to the colossal increase in military expenditure from 1,500 million roubles in 1933 to 20,100 million roubles in 1937. (Cf. Economist, 17.6.39.) According to The Second Five Year Plan, op.cit.p.60, the production of means of production was only to increase two-fold.

For details cf., e.g., International Labour Review, February 1940 (op.cit.), pp. 191 et seq.

In summer 1936 the (late) Commissar for the Heavy Industries, Ordzhonikidze, declared that "the problem of quality has become the cornerstone of our further development" (quoted by Basily, op.cit., p.345), and that one should pay attention to marketable (tovarnaia) and not so much to gross (valovaia) production. The average annual decrease in the
In the last year of the Second Plan these difficulties were aggravated by the series of political "purges" and trials carried out by the Communist Party on a grand scale. The Economist described them as having been both the result and the cause of falterings in the economic drive to "build socialism in one country." There seems to be little doubt that the purges noticeably affected productive (and especially industrial) activity, although it is difficult to tell whether actual sabotage or the demoralising effects of the wave of suspicion that followed the purges on the responsible conduct of the economic administration, bore the greater part of the blame for damage done. There is certainly "abundant evidence to show that the purges have meant, among other things, that a very large number of inexperienced young persons have been appointed to posts of considerable responsibility."2

Turning now to

what about the output of consumers' goods, on which the third principal task of the Second Five-Year Plan, viz., the rapid improvement in the standards of living of the Soviet citizens, depended?

Originally, the Second Plan was drawn up in such a way as to shift the emphasis from the heavy (A)

(continued from previous page): commercial cost of production (i.e., factory cost plus non-factory expense items) for all industry during the Second Five-Year Plan period was fixed at 5.7 per cent (Second Five Year Plan, op. cit., p.465) but that this most crucial aspect of the Plan remained unsatisfactory, can be gleaned from the official admission that in 1935 for the first time in a number of years, completed its plan for lowering production costs. (Ibid., p.xxxi). In 1936 many industries again showed rising production costs. (cf. Planovoe Khziastvo, No.3, 1936, statistical appendix); also International Labour Review, February 1940, op. cit., p.190). (Commercial History and Review of 1937, p.21).
industries to the light and food (B) industries. The First Five-Year Plan had imposed a severe nervous and physical strain on the population and the Soviet Government resolved (for reasons of expediency if for no other) to convince the toiling masses that their sacrifices had not been in vain and that the heavy capital construction would ultimately turn out to be beneficial to the Soviet consumer, since, in time, it would mature into a more plentiful supply of articles of consumption. Accordingly, while the industrialisation of the country was planned to continue, the Second Five-Year Plan provided for a more rapid growth in the production of articles of consumption as compared with the production of means of production (viz., 236.6 per cent against 197.2 per cent). Moreover, capital expenditure in the "B"-industries was scheduled to increase by 360.4 per cent against 151.0 per cent in the "A"-industries.

Owing to "unforeseen circumstances", however, the Soviet Government was compelled to modify its dispositions considerably.² Defence expenditure went up by leaps and bounds.³ Significantly enough, V.I. Mezhlauk, (the then President of Gosplan), in a speech delivered at the second session of the Central Executive Committee of the U.S.S.R. included the task of strengthening the country's defences in the

²The Second Five Year Plan, op.cit., p. 78. Originally Gosplan experts had suggested the figure of 11.4 per cent as the annual increase of the "B"-industries, but the Seventeenth Congress of the Communist Party, at the instigation of Stalin, changed it to 18.5 per cent. The share of consumption in the national income in 1937 was similarly increased from the original 72.3 per cent to 78.7 per cent. (Cf. Planovoe Khoziastvo, No.3, 1936, p.74).
³Compare similar revisions of the First Plan.
central economic tasks of the plan for 1936. And in his review of the results of the Second Plan Molotov stated "that also during the Second Five-Year Plan period the growth of heavy industry was considerably more rapid than that of industry manufacturing consumers' goods. This was mainly due to the circumstance that in the course of fulfilment of the Second Five-Year Plan it became necessary for us to introduce major corrections into the plan for the development of industry. As was the case under the First Five-Year Plan, the international situation compelled us to increase the rates of development that had been laid down for the defence industry. This made it imperative to accelerate considerably the expansion of heavy industry, at the cost of reducing, to a certain extent, the rates of growth of light industry. ... It must be admitted, however, that now attention to the further intensive development of heavy industry must be accompanied by a considerable stimulation of the whole range of industries producing articles of general consumption."

In point of fact, the food industry overfulfilled its plan by 13 per cent, but light industry, owing to unsatisfactory work, fulfilled its plan only to 85 per cent for consumers goods.

1Soviet Union, London 1936, pp. 333-34. Italics ours.
3Ibid. Also Cf. The Land of Socialism etc.,op.cit., p. 367: "(the food industry) has outaken and surpassed the main capitalist countries in the technique of production and the rate of increase of output." Cf. also, International Labour Review, February 1940,p. 194.
4Deficiencies discussed in The Land of Socialism,op.cit., pp. 365 et seq. (The light industries were mainly held back by textiles (cotton in particular). Cf. also International Labour Review, February 1940, p.194.
Let us look now at some of the representative figures relating to the absolute growth of agricultural produce and manufactured consumers' goods.

GROSS PRODUCTION OF GRAIN AND INDUSTRIAL CROPS IN THE U.S.S.R./

In millions of centners

<table>
<thead>
<tr>
<th></th>
<th>1913</th>
<th>1934</th>
<th>1935</th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
<th>1938 in % of 1913</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>801.0</td>
<td>894.0</td>
<td>901.0</td>
<td>827.3</td>
<td>949.9</td>
<td>118.6</td>
<td></td>
</tr>
<tr>
<td>Raw cotton</td>
<td>7.4</td>
<td>11.8</td>
<td>17.2</td>
<td>23.9</td>
<td>25.8</td>
<td>26.9</td>
<td></td>
</tr>
<tr>
<td>Flax fibre</td>
<td>3.3</td>
<td>5.3</td>
<td>5.5</td>
<td>5.8</td>
<td>5.7</td>
<td>5.46</td>
<td></td>
</tr>
<tr>
<td>Sugar-beet</td>
<td>109.0</td>
<td>113.6</td>
<td>162.1</td>
<td>168.3</td>
<td>218.6</td>
<td>168.8</td>
<td></td>
</tr>
<tr>
<td>Oil seed</td>
<td>21.5</td>
<td>36.9</td>
<td>42.7</td>
<td>42.3</td>
<td>51.1</td>
<td>46.6</td>
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</tr>
</tbody>
</table>

Gross production of grain and industrial crops exceeded the Plan's estimates, the increase in the output of industrial crops was much more noticeable, although Molotov emphasised the extremely low level of output of sugar beet in 1933 (viz., 66,000,000 centners) and stated that flax and oilseed remained rather unsatisfactory. The production of tea showed a very marked improvement, viz., from 32,000 centners in 1933 to 301,000 centners in 1937. 

The main difficulty in improving the food situation was the slowness with which (despite continued research and the greatest of care and attention) the recovery of the decimated livestock proceeded.

TOTAL HEAD OF LIVESTOCK IN THE U.S.S.R.

(In millions) 

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Horses</td>
<td>35.8</td>
<td>16.6</td>
<td>15.7</td>
<td>15.9</td>
<td>16.6</td>
<td>16.7</td>
<td>17.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cattle</td>
<td>60.6</td>
<td>38.4</td>
<td>42.4</td>
<td>49.2</td>
<td>56.7</td>
<td>57.0</td>
<td>63.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Sheep and goats</td>
<td>121.2</td>
<td>50.2</td>
<td>51.9</td>
<td>61.1</td>
<td>73.7</td>
<td>81.3</td>
<td>102.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pigs</td>
<td>20.9</td>
<td>12.1</td>
<td>17.4</td>
<td>22.5</td>
<td>30.5</td>
<td>22.8</td>
<td>30.6</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

/3Land of Socialism etc., op. cit., p. 28. In 1929 the total livestock population amounted to 270,200 million heads.
Thus, we see that the Soviet people had to pay dearly for the initial mistakes of collectivisation which, by the end of the Second Plan, had, to all intents and purposes, become universal. But the rationalisation of the food industry (noted above) made full use of the available resources.

As regards the output of manufactured goods of common use there was improvement everywhere:

**PRODUCTION OF SOME TEXTILE GOODS IN THE SOVIET UNION 1932-3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton Cloth</th>
<th>Linen Cloth</th>
<th>Woolen Fabrics</th>
<th>Silk Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>2,694</td>
<td>134</td>
<td>89</td>
<td>22</td>
</tr>
<tr>
<td>1933</td>
<td>2,732</td>
<td>141</td>
<td>86</td>
<td>26</td>
</tr>
<tr>
<td>1934</td>
<td>2,733</td>
<td>162</td>
<td>78</td>
<td>31</td>
</tr>
<tr>
<td>1935</td>
<td>2,640</td>
<td>216</td>
<td>84</td>
<td>38</td>
</tr>
<tr>
<td>1936</td>
<td>3,270</td>
<td>295</td>
<td>102</td>
<td>52</td>
</tr>
<tr>
<td>1937</td>
<td>3,448</td>
<td>285</td>
<td>108</td>
<td>59</td>
</tr>
<tr>
<td>1938</td>
<td>3,496</td>
<td>-</td>
<td>114</td>
<td>-</td>
</tr>
</tbody>
</table>

These figures together with the statistics given

/Miss Doreen Warriner has rightly remarked that "this disaster could have been avoided if the peasants had been allowed to keep their livestock, as they are now encouraged to do." (Economics of Peasant Farming, London, 1939, p. 171.) She refers to the agricultural legislation passed in 1935 which sanctions restricted private ownership, especially of livestock.

Towards the end of the First Piatiletka 61.5 per cent of all peasant holdings were collectivised and at the end of the second quinquennium the figure grew to 93.0 per cent. For further data cf. Memorandum No. 12 of the Birmingham Bureau etc. and International Labour Review, February 1940, pp. 183 et seq.

In 1937 the output of canned goods was 877,200,000 cans as against 484,600,000 in 1932; the output of sausage and smoked meats in 1937 was 326,000 tons as against 59,200 tons in 1932; in 1932 there was no output of hamburger steaks, while in 1937 we produced 56,000,000." (Land of Socialism, op. cit., p. 368)

with regard to the cultural advance of the country suggest that the third principal task of the Second Five-Year Plan was, at least, seriously tackled. A fuller discussion of the problem of the standard during the Second Piatiletka of living in the Soviet Union will be attempted at a later stage.
CHAPTER I

THE TASKS OF TRADE UNDER
THE SECOND FIVE-YEAR PLAN
The tasks of trade
Under the Second Five-Year Plan

Provisions relating to "Commodity Circulation" formed the last (seventh) part of the decree on the Second Five-Year Plan; they ran as follows:

1. To set the increase in retail commodity circulation throughout the country at from 31,900,000,000 rubles in 1932 to 80,000,000 rubles in 1937, or 250.7 per cent of 1932.

2. To reduce retail prices in State and co-operative trade to 35 per cent below the level of 1933, inclusive of a 34.5 per cent reduction in the prices of foodstuffs and a 35.3 per cent reduction in the prices of manufactured articles of general consumption.

3. By the end of the Second Five-Year Plan period, to increase the retail trade network (exclusive of the stationary collective farm trading points) from 295,600 units at the end of the First Five-Year Plan period to 405,000 units and to carry through the technical reconstruction of the retail trading network.

4. To set the number of workers and employees in town and country to be included in the system of public catering by the end of the Second Five-Year Plan period at 52,500,000 persons as against 21,000,000 persons at the end of the First Five-Year Plan period, i.e., a 2.5-fold increase. To fix the number of dishes served annually by the public catering system in State and co-operative dining rooms at 25,100,000,000 as against 9,700,000,000 at the end of the First Five-Year Plan, which constitutes a more than 2.5-fold increase.

The Second Five-Year Plan, op. cit., p. 51
To make it the duty of all public catering organizations to achieve a considerable improvement in the quality of food served."

This section of the Second Five-Year Plan decree shows the Soviet planners' determination to continue with the expansion of Soviet trade. There was no question of relegating the circulation and exchange of commodities as well as its auxiliary processes and services (like the monetary and credit systems) to a minor position in the national economy. The development was planned not along the political lines of the Left Opposition (which aimed at transforming the circulatory process into a mechanical distributive procedure), but was intended to continue along the path of continuous growth and "unfolding" of commodity-flows, centralised and local, for the benefit of the Soviet consumers. At the very outset the Soviet planners set themselves the task to restrict the scope of rationed distribution: "The 2.5-fold increase of commodity circulation and the considerable expansion of the trading network in city and country in turn create every possibility for paving the way to the abolition of the rationed issues of commodities on the basis of going over to widely developed Soviet trading."

The Second Five-Year Plan provided for a further growth of market-funds and realised the significance of marketable or commodity production. Almost the whole of the increase in production of manufactured

\cite{Second Five-Year Plan, op.cit., p. 495. Italics ours. Actually the process of de-rationing could be commenced at an earlier date than was originally intended. Cf. below for details.}
consumers' goods can be accounted in the growth of commodity production. This production was subdivided into the "market" and the "non-market" funds (or resources) depending on whether the consumer obtained it through the commercial network and other trade channels or whether the goods were distributed through other channels. The "specific weight" of the market fund was to increase from 73.4 per cent in 1932 to 83.8 per cent at the end of the Second Five-Year Plan period.

A similar development was envisaged in the domain of agriculture, as can be gleaned from the following table:

<table>
<thead>
<tr>
<th>Indices</th>
<th>1932</th>
<th>1937</th>
<th>% of 1932</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amount harvested</td>
<td>698.7</td>
<td>1,048.0</td>
<td>150.0</td>
</tr>
<tr>
<td>Commodity production</td>
<td>192.55</td>
<td>345.0</td>
<td>173.8</td>
</tr>
<tr>
<td>dito. in % of total</td>
<td>28.5</td>
<td>32.9</td>
<td></td>
</tr>
<tr>
<td>Receipts by the State</td>
<td>189.38</td>
<td>300.0</td>
<td>158.4</td>
</tr>
<tr>
<td>dito. in % of commodity-production</td>
<td>95.4</td>
<td>87.0</td>
<td></td>
</tr>
<tr>
<td>Collective farm trade</td>
<td>9.17</td>
<td>45.0</td>
<td>490.7</td>
</tr>
<tr>
<td>In % of commodity output</td>
<td>4.6</td>
<td>13.0</td>
<td></td>
</tr>
</tbody>
</table>

Thus we see that planned growth in the commodity production was to be greater than that of the gross amount harvested. As regards State agricultural collections, their methods and structure underwent considerable changes during the second planned quinquennium. The decree of February 13, 1932 furnished a strict definition of decentralised collections and

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The terms are slightly misleading for foreign readers. Market-funds included the distribution by "closed" trading centres. Cf. our discussion of planning Soviet trade under the Second Five-Year Plan.

permitted trade in grain by the collective farms and farmers. As regards the centralised collections, the consolidation, both economic and political, of collectivisation, made it possible to substitute, on January 19, 1933, the semi-compulsory system of "contractation" by fixed grain delivery quotas at fixed prices on a definitely binding basis. The new system applied in the first place to grains, but was subsequently extended to the collection of potatoes, sunflower seeds, rice, dairy and milk products.

At the end of the first quinquennium 81.3 per cent of the centralised collections were supplies received by means of the contract system; in 1933 the grain delivery quotas were to account for 70.7 per cent and in 1937 only for 41.7 per cent. At the same time the share of the Machine Tractor Stations, the "M.T.S.", in the form of payments in kind for services rendered to the collective farms, was to increase from 11.5 per cent in 1933 to 40.0 per cent in 1937. It should be noted that in spite of the absolute increase of collections centralised, their "specific weight" in total commodity production was planned to fall somewhat.

"The very term itself explains the character of these collections, which are carried out in a decentralised manner, i.e., without a fixed Government plan, by a large number of organisations and at varying prices." (Nodel, op.cit., p. 120). The system was designed to mitigate the food shortage by inducing the farmers to produce a greater marketable surplus and granting the collecting organisations greater freedom. (Cf. Hubbard, Soviet Trade etc., op.cit., p.176). The system of contractation was retained for the principal "industrial" crops. Its voluntary character, however, was illusory. (Cf. Planovoie Khoziastvo, No.3, 1936, pp. 108-9).
viz., from 95.4 per cent in 1932 to 87 per cent in 1937. More important from our point of view are the figures concerning the growing share of collective farm trade (inclusive of decentralised procurements) in total commodity production of agriculture. They demonstrate the Government's intention of developing this novel form of commercial activity.

It may be asked: Why did the framers of the Second Five-Year Plan insist on the strengthening of trade? Because, there was no question of a transition to direct socialist distribution and because the exchange of products between town and countryside and between districts, together with the improvement of the general standard of living, constituted potent stimuli to additional production, especially of the countryside, a kind of lubricant of the inter-industrial, inter-economic and inter-regional relationships and movements of values.

A further extension of Soviet trade was also necessary in order to increase the productivity of the Soviet worker. The Soviet planners realised that the preservation, beyond necessity, of the system of rationing, would have the most detrimental effects in this respect, since it blunted the efficacy of the principle of payment by results.

The growing production had to be properly accommodated, so as to pass freely to the consumer.

1 All figures taken from The Second Five-Year Plan, op.cit., pp.644-5. 2 Ibid., p.645. 3 For a fuller discussion of the functions of Soviet trade cf. Book III.
Therefore, as it is emphasised in the official document of the Second Five-Year Plan, "the expansion of the retail trade network and the improvement in its work constitutes one of the most important conditions of the vast development of Soviet trade." On the basis of expert estimates the Seventeenth Congress of the Communist Party had resolved that the improvement and development of the circulation of goods during the second planned quinquennium required a 37 per cent increase in the retail State and co-operative trading systems and its technical reconstruction. This rate of increase was not so striking as that under the First Piatiletka, but it was expressly stated by the Soviet planners that, while during the First Five-Year Plan "major successes with regard to the quantitative growth of socialised retail stores" were scored, very little had been done "with regard to the proper geographical distribution of the stores, their specialization and technical reconstruction, the introduction of cultural methods of trading on the part of the trading organisations." 

From the point of view of one of the pivots of Soviet economic policy, viz., the desirability of doing away with the distinctions between town and village, it is significant that the Second Five-Year Plan provided for an extension of the urban trade

\[\text{Second Five-Year Plan, op. cit., p. 506.}\]
\[\text{Quoted by Neiman, op. cit., p. 210. Although the network of State trade was to increase at a quicker rate than that of the co-operatives, the latter were planned to remain the principal channels of commodity circulation. (Cf. V. Bulgakov, Soviet trade under the new period, Moscow-Leningrad, 1932, (R),p. 34). But cf. pp. et seq.}\]
\[\text{Second Five-Year Plan, op.cit., p. 506 Ibtd.}\]
\[\text{Neiman,op.cit., p.211. Cf. our comments on this question in Book III.}\]
network by 35.5 per cent and of the village trade network by 38.2 per cent.

But within the urban and village trading systems there were certain further maladjustments (which were mentioned in the course of our narrative) commanding the attention of the framers of the Second Plan: "At the present time the stores in the trading system, especially in the countryside, are not as evenly distributed by districts as is necessary. This gives rise to a number of unfavourable phenomena in consumer service and increases trading expenses. Within the cities the necessary shift in the allocation of stores from central locations to the outskirts has also not been accomplished by far. The urban retail trade system has been specialized only in the big cities, and even here specialization is still inadequate. The elimination of the unevenness in the distribution of stores throughout town and country, the establishment in the cities and district centers of a ramified system of specialized retail stores for the sale not only of foodstuffs but also of manufactured goods for general consumption, and the development of a trading network in the new industrial and agricultural centres springing up must be included among the most important tasks facing the trading organizations." 

These were certainly not new tasks, but the results achieved in this respect during the First Piatiletkas were considered inadequate, so that efforts

/Neiman, op.cit., p. 211.
2 The Second Five-Year Plan, op.cit., p. 507.
3 Fulfilment etc., op.cit., p. 209.
in the same direction had to be continued. The tasks are not particularly striking; they are elementary pre-requisites of any satisfactory system of distribution. The linking up of the development of the trade network with general economic location is, of course, peculiar to Soviet economic planning.

The craving for "cultured trade" was a kind of reaction against the carelessness, waste and complete disregard of consumers' interests that existed during the period of full-fledged rationing. "Cultured trade" was closely connected with the task of the system's technical reconstruction. The provisions in this respect appear to be somewhat insignificant against the grandiose background of the Second Five-Year Plan: extensive introduction of mechanisation and the standardisation of store equipment, the compulsory introduction of the practice of preliminary packaging and weighing out of commodities and of selling merchandise by the piece, the extension of the system of home delivery of merchandise in large cities and workers' settlements and the radical reform of the methods used in serving customers. Only the further development of the system of itinerant trading, primarily to serve collective farmers during field work seasons as well as sparsely settled districts and suburban settlements without stationary stores, was typical of Soviet conditions. The provisions for organising the systematic study of consumers' demand exhibited (as we shall see later) certain novel features.

"The Second Five-Year Plan, op.cit., pp. 506-7."
Important structural changes were planned to occur in the assortment of commodities. The share of manufactured articles (exclusive of tobacco and alcoholic liquor) in retail turnover was to increase from 62.59 per cent in 1932 to 65.6 per cent in 1937. Correspondingly, the share of foodstuffs was to decrease from 37.5 per cent to 34.4 per cent. Within the manufactured commodity-group the share of the more important articles was to increase, and, as regards foodstuffs the proportion of bread, potatoes and fruit was to diminish, while the share of the more expensive animal products was to go up. These changes which bear out the Soviet planners' desire to make the consumers more prosperous and contented, were intended to affect the cities more than the countryside, although in rural districts the introduction of "urban" foodstuffs (e.g., tinned food, confectionary, etc.) and of "cultured" goods (articles of hygiene, household utensils etc.) was envisaged.

The Second Five-Year Plan provided for a further growth of public catering. The mechanisation of this service, in which notable successes could be registered at the beginning of the period under review, was to proceed. It is important to note that the Second Five-Year Plan provided for the preservation of the principles of selective supply in the system of public catering: the Plan provided for differentiation of the cities, dining rooms belonging to the State and the co-operatives were to account for the bulk of the catering services, while in the villages the main work was to be accomplished by Kolkhoz dining rooms opened on "independent initiative". (Cf. The Second Five-Year Plan, op.cit., table on p. 648 for further details.)

Ibid., p. 509.
in the extension of the public catering service to various groups of the population in order to ensure priority and completeness of service to workers engaged in the leading branches of industry. The Second Plan paid particular attention to the question of public feeding in schools; this had been unsatisfactory during the first planned quinquennium. All school children were to be fed through the public catering services. Furthermore, the framers of the Second Plan drew attention to the important task of improving the quality of food served in the public catering restaurants etc., about which numerous complaints had been accumulating in the preceding years.

The provisions of the Second Five-Year Plan as regards the reduction of prices were ambitious. The general retail price level was to fall by 35 per cent (a 34.1 per cent reduction in urban trading and a 36.6 per cent reduction in rural trading). Public catering prices were to decrease by 15 per cent; this would seem to suggest that they were considered to be relatively low already. It was also hoped that it would prove possible to lower the price level for agricultural products in the collective farmers' bazaars by 3-4 times as compared with the prices ruling in 1932.

The suggested improvement was to be achieved by the following methods: (1) the setting up of preparatory central kitchens supplying semi-prepared food to the various factory dining rooms which would "finish" them; (2) the improvement in the sanitary and hygienic conditions under which food products, semi-finished goods and raw materials are preserved, prepared and transported; (3) a considerable increase in the number of specialists working in the field of public catering. (The Second Five-Year Plan, op. cit., pp. 511-12).
Summarising, it may be said that the tasks of commodity-circulation under the Second Five-Year Plan presented a queer mixture of elementary reforms and ambitious projects. Underlying the whole programme was the desire to free the flow of goods throughout the length and breadth of the Soviet Union from the archaic fetters and shackles of normed, mechanical, lifeless distribution, to transform the circulatory process into a living thing, an active force, stimulating productivity, raising general welfare and fertilising the countryside and the backward districts, serving the interests of the consumer, sensing his needs and demands and thus re-acting on the trend of industrial activity itself.

The following chapters will show how the Plan stood the severe test in actual practice.

*Cf. also Book III.*
CHAPTER II

THE GROWTH OF TURNOVER
THE GROWTH OF TURNOVER

The Soviet planners worked very hard to achieve a more rapid circulation of goods. Rapid goods-circulation tends to mitigate the shortage of goods, requires proportionately less working capital and thus releases funds for other purposes.

The material basis of any increase in commercial turnover is made up of (1) the quantity of goods; (2) the number of trading units and (3) the state of the transport system.

Firstly, as-regards our summary of the main results of the Second Five-Year Plan suggests that, although the achievements of the light industries did not, for a variety of reasons, come up to expectation, the quantity of consumers' goods increased very considerably in the course of the period under review. This is a very general statement but it will suffice for the sake of our present argumentation. Secondly, what were the actual results as regards the expansion of the trading network? To judge by the latest figures at our disposal, the objectives of the Plan were not fulfilled. But the increase in the number of retail outlets is, of course, not necessarily reflective of a proportionate increase in commercial operations. A rising flow of goods can find its way to the consumer either through a great number of small, or through a relatively small number of large stores. According to the Moscow News (17.4.3), the number of stores etc. amounted to 327,361 in 1937. The planned number was, it will be recalled, 405,000. Cf. also The Land of Socialism, op. cit., p. 373 and The Soviet Comes of Age, London, 1938, p. 90.
number of big retail outlets. According to figures supplied by Hubbard, the average size of the retail shops increased considerably between 1930 and 1935, the process of concentration being most pronounced in the cities. In this connection the question of the distribution of shops in relation to population is important. Hubbard has made rather detailed calculations as regards the "density" of retail outlets and has arrived at the following conclusion: "The figures... indicate that among some 600,000 villages there are only about 160,000 shops, or not much more than one shop to every four villages. But since many villages boast of two or more shops the proportion of villages devoid of shopping facilities must be considerably larger. In fact, it would probably be found that not more than one village in six or seven possesses a shop. The density of retail outlets varies very greatly in different parts of the country. In the poorer and more sparsely populated regions large numbers of the peasant population must be without any sort of accessible State or co-operative shop, and must wait to purchase their requirements of manufactured goods till they have an opportunity of travelling to the nearest township, and the double journey might easily take three or four days. In these circumstances it would not be surprising to find that there still exists a considerable amount of private trade carried on surreptitiously."

1Soviet Trade and Distribution, op.cit., p. 227.
2Ibid., pp. 224 et seq. For corresponding figures of the NEP period cf. Gromyko and Riauzov, Soviet Trade during 15 Years, op.cit., p. 17.
If this were so, retardation in the expansion of goods turnover was inevitable. If shopping was such would have a tedious and unpleasant procedure, people tended to abstain from buying certain luxuries and semi-luxuries which they would probably have purchased, had shopping facilities been more adequate. Furthermore, a low "density" of retail outlets is likely to be conducive towards a "jerky" turnover of goods, i.e., big purchases by consumers who are desirous of covering their needs for as long a period as possible, so as to reduce their pilgrimages to the nearest shop. The "jerky" character of goods turnover is clearly of a detrimental nature: it disturbs the smooth working of the enterprise, makes for an undue accumulation of stocks and may cause losses of perishable goods or increase in overheads (e.g., additional measures of supervision, storage etc.) in slack periods.

It is extremely difficult to ascertain how far exactly the low "density" of the retail trade mesh, especially in the villages, retarded the growth of commercial turnover, but it is highly probably that the damage done was not inconsiderable, although, as Hubbard himself hastens to admit, it was counteracted by the custom which grew in sympathy with the extension of Kolkhoz trade, of the peasants making their purchases in the cities.

It is beyond our capacity to inquire competently into the very important question of what would constitute the optimum "density" of retail outlets. We should imagine that apart from the number of the population, Soviet Trade and Distribution, op.cit., p. 227.
those who are responsible for laying out the trade network must take into account the distribution of the population, the demand structure of various regions, the velocity of circulation of the different goods, the proportion of home deliveries, the degree in the specialisation of shops and the like. There can be no doubt that the Soviet retail system, as it existed at the close of the second planned quinquennium, was very far removed from the optimum. On the strength of the available date it can reasonably be assumed that future development in this direction will be governed by the following tendencies: (1) in addition to big department stores, the formation of medium and small size shops with a ramified system of subsidiary services; (2) the opening of house-shops which aim at organising the supply of food products and other necessities to the tenants of the house; (3) the further specialisation of shops; and (4) the preferential treatment of sparsely populated districts and far-flung regions with a view to gradually eliminating the existing pronounced variations in the ratios of population per shop in different parts of the country.

As regards the transport system which is so vital for the development of commercial turnover and is its

"...the existing chain is still inadequate both in town and countryside. Wares and customers have increased faster." (Moscow News, 17.4.39.)

A disquieting feature of the retail network was the excessive size of some of the stores serving the big cities. The periodical "Soviet Trade" complained, for instance, that during the year 1935 three Moscow stores sold 36.1 per cent of all textile fabrics and 34 per cent of all leather footwear sold in the whole of Moscow in the course of a year. (No.6,1936,p.14; quot.by Prokopovich's Bulletin, No. 129, p. 64.). - "Some people have a craze for huge department stores... although at the present moment they are not suitable for us." (Land of Socialism etc.,op.cit.,p.372)
veritable arterial road, its general backwardness in Russia is well known. The Soviet Government performed a certain amount of reconstructive work during the NEP but without, it seems, any spectacular success. The advent of industrialisation "raised a whole series of fresh problems of an urgent nature in regard to the transport services." Up to 1935 or so conditions remained very bad. The state of the permanent way was in many cases simply appalling and accidents were frequent. After 1935, however, conditions began to improve noticeably which was, no doubt, due to the efforts of the energetic Lazar Kaganovich who, on March 1, 1935, was made People's Commissar for Communications. The assignments of the Second Five-Year Plan as regards the reconditioning of the permanent way were not fulfilled, however. Only towards the end of the second planned quinquennium did the rate of increase in transport material (i.e., tractive power and freight capacity) begin to exceed the demands of goods traffic.

The Communists always realised the urgency of the transport problem. During the First Five-Year Plan, however, it consisted essentially in the task of how to further the process of industrialisation with the then existing thoroughly inadequate railway system. It is very significant, therefore, that in the beginning of the Second Five-Year Plan the Soviet

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1 The Soviet Comes of Age, etc., op. cit., p. 101.
2 De Basily, op. cit., pp. 413 et seq.
3 International Labour Review, op. cit. (February 1940, pp. 195 et seq.; Birmingham Memorandum No. 12, p. 17.
& Land of Socialism, op. cit., pp. 330 et seq.
leaders began to view the transport problem not only from the point of view of industry, but also in its relation to trade.

It is noteworthy that, in spite of the deficient material basis, the quantity of goods transported exceeded the original plan. Nevertheless, we are inclined to believe that one of the reasons why the Soviet planners insist on the importance of local supply bases, that they thereby hoped to increase commercial turnover, without overstraining the not too strong transport system which is still primarily engaged in serving constructional and armaments industries. On the other hand, it is plain that there are limits to this kind of "localisation" of Soviet trade and that facilities for conveying goods have to be offered freely to the trading organisations if the increase in goods-circulation is to continue.

What were the results as regards the increase in retail commodity circulation? It will be recalled that both the resolution of the XVII Congress

"It must be pointed out...that we cannot restrict ourselves merely to expanding Soviet trade. If the development of our economy depends upon the development of commodity circulation, upon the development of Soviet trade, then the development of Soviet trade, in its turn, depends upon the development of our transport system... It may happen that goods are available, that all possibilities exist for expanding commodity circulation, but the transport system cannot keep up with the development of commodity circulation and is unable to carry the freight. As we know, this often happens here. Hence, transport is the weak spot which may cause a hitch, and perhaps is already causing a hitch, in the whole of our economy, primarily in the sphere of commodity circulation." (Stalin, Report on the work of the Central Committee of the C.P. of the S.U. at the 17th Congress of the C.P.S.U., London, 1934, p. 47).

demanded a 2.5-fold increase in trade turnover - from 31,900,000,000 roubles in 1932 to 80,000,000 roubles in 1937, valued at 1932 prices. All available statistics as regards the actual performance are calculated on the basis for the corresponding years, so that “it is impossible to make any comparison between the estimates and the results actually obtained.” (Int. Lab. Rev., Feb. ’40).

Statistics are slightly contradictory: Hubbard supplies the following figures, calculated at current prices (Soviet Trade and Distribution, op. cit., table on p. 285):

<table>
<thead>
<tr>
<th>Years</th>
<th>Value of Retail T.O. at current prices</th>
<th>Index R. milliard.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>40.4</td>
<td>100</td>
</tr>
<tr>
<td>1933</td>
<td>49.8</td>
<td>123</td>
</tr>
<tr>
<td>1934</td>
<td>61.8</td>
<td>153</td>
</tr>
<tr>
<td>1935</td>
<td>80.6</td>
<td>200</td>
</tr>
<tr>
<td>1936 (prel.)</td>
<td>106.4</td>
<td>263</td>
</tr>
<tr>
<td>1937 (Plan)</td>
<td>131.0</td>
<td>324</td>
</tr>
</tbody>
</table>

The Soviet Comes of Age (pp. 86-7), gives essentially similar figures, the results for 1937 being slightly lower, viz., 125,000 million roubles. The most recent figures released by the Commissariat for Commerce (reproduced in Internat. Lab. Rev., February 1940, p. 198) are as follows (in million roubles):

<table>
<thead>
<tr>
<th>Years</th>
<th>Value of Retail T.O.</th>
<th>Years</th>
<th>Value of Retail T.O.</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>49,800</td>
<td>1936</td>
<td>106,900</td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>61,800</td>
<td>1937</td>
<td>125,200</td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td>80,400</td>
<td>1938 (prov.)</td>
<td>138,600</td>
<td></td>
</tr>
</tbody>
</table>

Figures quoted by S. Gurovich in the Moscow Naš of April 17, 1939 (Soviet Trade in Third Five-Year Plan) are also essentially the same. Molotov in his report (op. cit., p. 14) stated that the volume of trade in State and co-operative stores increased during the second planned quinquennium from 40,000,000,000 roubles to 126,000,000,000 roubles. The most noticeable inconsistency can be registered as regards the trade turnover for 1935. The statistical yearbook "Soviet Trade in 1935" published by the Central Board of National Economic Accounting (Ts. U. N. Kh. U.) in 1936, calculates total retail turnover at 95,870 million roubles (table No. 28). In reviewing this book in "Soviet Trade", No. 3, 1937, pp. 73 et seq, Kovarsky notices the discrepancy between the Ts. U. N. Kh. U. estimate and the calculation of the Commissariat for Internal Trade and points out that no reasons for this discrepancy are advanced.
In Prof. Prokopovitch's Bulletin (No. 129, June-July 1936, p. 58) we find the following weighty criticism of the official trade statistics which is worth quoting in this connection: "The figures concerning the growth of trade turnover over a period of years are computed on the basis of different prices for the same goods and, consequently, do not provide a reliable indication of the transformations that have taken place in the general goods turnover of the country. They merely reflect the growth of the money-yield from sales, but do not serve as a conclusive proof that the occurred, at the same time, an increase in the quantity of goods sold. Especially in 1935 the "money-expression" of the consumers' goods turnover was bound to rise if only by virtue of the measures taken in connection with the abolition of the card-system." The "Bulletin" goes on to say that a true picture of the growth of goods circulation in the U.S.S.R. can be gleaned only from output-statistics measured in physical terms. Unfortunately, however, there are no systematic data of this nature, the Soviet sources contenting themselves in most cases with giving simply the percentages of growth.

All one can say, then, about the growth of retail trade turnover during the Second Five-Year Plan is that in terms of roubles the originally planned circulation was overfulfilled. It would seem that it increased more quickly than the total output of consumers' goods as measured at fixed prices. Such, at any rate, is the view held by Hubbard (op.cit., p. 286) and is supported by
Molotov's frank admission that "we did not succeed in fulfilling the task set by the Second Five-Year Plan with regard to reducing retail prices of consumers' goods." We shall examine the price trends in due course.

But, quite apart from the highly unsatisfactory basis of trade-statistics, we must not assume that they represent the total level of consumption. To the retail turnover must be added the turnover of co-operative farm trade which increased from 11,500,000,000 roubles in 1933 to 17,799,700,000 roubles in 1937. Furthermore it must be remembered that the rural population "buys agricultural products (bread, meat, milk, butter, vegetables and fruit) direct from the collective farms, or produces them itself: these operations are obviously not included in the above table. Secondly, the figures for retail trade do not include consumption by sick people, holiday makers, etc., and by children in crèches, kindergartens and children's homes. There is an immense number of these establishments in the country, and consumption in them constitutes a large item in the general figures for the whole Union." 3

Several questions arising out of the above discussion will occupy us in another context.

2Moscow News, April 17, 1939. Slightly different figures given by Soviet Comes of Age, op.cit., p. 87.
3Ibid.
CHAPTER III

DE-RATIONING AND ITS CONSEQUENCES
DE-RATIONING AND ITS CONSEQUENCES

Introductory.

It is now time that we discussed the abolition of the card-system, the first stage of which was announced on November 26, 1934 and which was begun from January 1, 1935 onwards. To our mind this event would seem to represent a turning point in the history of Soviet trade and distribution. The decision to allow the sale of bread, grains and other cereal products without cards was a clear indication that the circulation of goods was moving towards greater freedom, elasticity and adaptability. At the same time the measure constituted an eloquent proof of the desire, on the part of the Bolshevik planners, to do away, for ever, with the clumsy and costly methods of rationed distribution whose temporary adaptation the Soviet Government had deemed necessary only with a view to facilitating the carrying out of their ambitious and costly economic programme.

We have chronicled that already towards the end of the First Five-Year Plan the Soviet Government was pursuing a policy of gradually restricting the range of "closed" supply by the development of "commercial" shops. According to information contained in Planovoie Khoziastvo (No. 4, 1934) the so-called "open" trade of "commercial" shops accounted for 2.8 per cent of the total retail turnover in 1932, 22.3 per cent of total retail turnover in 1932. Cf. Pravda, 29.11.34; details announced on December 7; cf. Izvestia, 8.12.34.
in 1933, and was planned to reach 36.4 per cent in 1934.

Many commentators regarded the extension of the network of "commercial" shops as a tacit admission that rationing had broken down and that the Soviet Authorities had perforce to resort to "orthodox" forms of retailing. This analysis is, in our opinion, extremely superficial and misses the whole point of de-rationing. In an earlier part of this study we have stated that the representative opinion of the Communist Party was never under any misapprehensions about the essential weaknesses of rationing and most Soviet economists agreed that rationing had to be abolished as soon as possible.

The proper approach to the question is to regard rationing as an emergency measure; as such it had served its purpose. The development of "commercial" shops was begun not because rationing had failed but because it was realised that the conditions which had necessitated its adoption were slowly disappearing and the foundations of "open" trade had to be laid.

De-rationing came earlier than had been anticipated. In 1932, Bulgakov, in discussing the fundamental tasks of Soviet trade under the Second Five-Year Plan, expressed the opinion that only the preparation for the abolition of rationing could be undertaken during that period. In actual fact, however, the process of de-rationing was completed by January 1, 1936. This

\[ E.g., \] Prof. Prokopovitch's Bulletin, December 1934. 
2 Ibid., p. 3.
3 V. Bulgakov, Soviet trade during the new period (R), Moscow-Leningrad, 1932, p. 32. Cf. also The Second Five-Year Plan, op. cit., pp. xli-xlii.
4 On September 25, 1935, Sovnarkom announced a decree by virtue of which, beginning with October 1, 1935, the de-rationing of meat and its products, oil, butter, vegetable
had been made possible by the rapidity with which the new productive and social organisation, heralded by the First Five-Year Plan, was taking place.

It is important to emphasise this close connection between the changing ways in which merchandise had been reaching the Soviet consumer, and the process of production. The switch-over from rationing to "open" trade had, therefore, not merely formal significance. It is true that some of the Soviet economists tried to turn the abolition of the card-system into a doctrinal controversy, but the main point to remember is that the feasibility of doing away with rationed supply became a practical and practicable issue only when the "acute" (in the context of consumers' goods) was beginning to disappear. This, however, was due to the tangible productive "yields" which began to crop up after the completion of the first quinquennial period. Just as the basic reason for the adoption of rationing in 1928 had been the backwardness of agriculture and the consequent inadequacy of bread supplies, de-rationing was made possible chiefly by the socialisation of the countryside which enabled the State to concentrate in its hands food resources sufficient to be distributed among the population "without limit", or rather to replace bureaucratic interference with demand by the usual method of price-mechanism. In his review of

(continued from previous page): oils, fish and fish products, sugar and potatoes was to begin. On November 14, 1935, the closure of the Torgsin shops was ordained as from February 1, 1936. (Cf. below: for remnants of rationing Cf.: Difficulties of Transition).

Molotov, explaining the Communist Party's decision to do away with rationing to the Plenum of the Central Committee of the C.P.S.U., stated that in 1934 the State disposed over supplies of grain twice bigger than in 1928. (Cf. Izvestia, November 30, 1934: and Consumption and Demand, edited by Malski, (R), Leningrad 1936, p. 30).
the results of the Second Five-Year Plan Molotov emphasised that the abolition of rationing could be achieved "solely because of the rapid growth of industrial output and the considerable progress made in agriculture."

In addition, the structure of Soviet society, the very framework of productive relationships on which it was based, constituted extremely favourable conditions for the simultaneous expansion of production and the development of unrestricted sales of consumers' goods to the population. "The danger of private commercial enterprise reviving to exploit the working masses had been eliminated, and since the State controlled practically all the available supply of consumption goods, and at the same time the money earnings of nearly the whole population, retail distribution could be effected by open market selling at prices that brought supply and demand into equilibrium."

The Difficulties of Transition.

Many critics and students of the Soviet economic system, in their discussion of the abolition of supply-cards, concentrate attention not on the more permanent and long-range consequences of this measure, but on the monetary effects and difficulties which it entailed. ushered in by such a reform bristled with manifold complications. To

\[\text{\footnotesize The Third Five-Year Plan etc., op.cit., pp. 13-14.}\]
\[\text{\footnotesize The End of Rationing etc., Monograph No.3 of the School of Slavonic Studies, op.cit., p. 19.}\]
begin with it had to be carried out piecemeal. That bread was singled out as the first commodity to be de-rationed, is understandable if one considers the importance of this food, particularly in Russia. But even as regards this one commodity the transition had to be effected with the greatest of care. Not only was the price-mechanism brought into play, but certain limitations in bread-purchases were maintained for some time as well. These temporary restrictions were dictated not so much by the possibility of actual shortage, but by the fact of speculative buying-up of bread-supplies. This precaution was soon found to be unnecessary, "for the new, so-called single prices were fixed high enough to keep demand within the limits of supply." 2

The adjustment of prices was, of course, a most complicated process. We shall discuss it under a separate heading. In this connection we may content ourselves with the general observation that the new set of prices had, of course, to be "equilibrium prices", i.e., balancing supply and demand at a certain point, but that, because of the State's"planned grip" on the country's economic life, both supply and demand being

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1 The decree provided that with a view to the non-admission of speculation the sale of baked bread to any person should be fixed at not more than 1 kilogram, irrespective of the social standing of the purchaser. According to W.B. Reddaway (The Russian Financial System, p. 96) the Bolsheviks, apprehensive about the possibility of soaring demands for bread, "were said to be ready if necessary to furnish extra supplies, presumably at the expense of exports."

2 Hubbard, Soviet Trade and Distribution, op.cit.,p. 58. Reddaway's reasons seem to us more to the point: "Firstly, the demand for bread is highly inelastic, so that the reduced price for additional supplies would not lead to a great increase in demand; if the supplies had previously been hopelessly inadequate, then this inelasticity of demand would have necessitated an enormous
subject to planning, the revision of the price-schedules did not amount to an abandonment of the principle of price-planning.

It does not require a great deal of profundity to see that, other things remaining the same, the liquidation of the supply cards for bread dealt, in the first instance, a hard blow to those categories of Soviet consumers who had been the main beneficiaries under rationing. Naturally, this could not be tolerated by a Government whose main body of supporters were among the industrial working class. They could not be deserted with impunity in favour of the salaried employees and non-manual workers. With this in view, the Authorities decreed wage increases, averaging approximately 10 per cent and benefiting particularly those who otherwise would have stood to lose by the reform. They also ordained certain adjustments of stipends granted to students, of pensions, etc. As regards the prices paid to the peasants in respect of their centralised deliveries, it is understood that they were raised by 10 per cent, while the price for decentralised collections went up by 20 per cent.

(continued from previous page): increase in price before restrictions could be removed, but this was not the case. Secondly, the prices charged for other goods in the commercial shops were lowered at the same time, though not so substantially; this partially offset the reduced price of bread as a stimulus to demand. And thirdly, there were previously cases where people were allowed to buy more bread in the closed shops than was really desirable." (Reddaway, op.cit., pp.96-7).

Molotov emphasised that the increase in wages would vary according to ration-categories. The increase in wages of the high-ration categories was to be greatest; increases were to vary in accordance with the price-zones.

Cf. Yakovlev, The Calculation of prices for consumers' goods, (R), Moscow, 1935, p. 12. This did not, of course, mean that the new prices paid for Government collections represented in any way a "fair" return. (Cf. below, Book III).
The authors of the Memorandum No. 9, published by the School of Slavonic and East European Studies in the University of London (op.cit.) are of the opinion that "certainly in few, and probably in no case, did the increase in money income fully compensate the wage earner for the increased cost of living." We do not deny the probability of hardships having been inflicted temporarily during the period of transition upon the high-ration categories. This was certainly not intended by the Government which, through Molotov, announced that it did not anticipate making either a profit or a loss from the change-over. The statement, that bread is a much more important dietary item in Russia than in other countries of Western Europe, is true but by no means a final dictum. Besides, as was already quoted in a footnote, one of the many adverse consequences of rationing was that some consumers obtained more bread than they really required, so that a diminution in their consumption, caused by the transition, did not amount to a real sacrifice.

It is, in our opinion, highly significant that it was not until March 1, 1937, that the institution of the "O.R.S.", the Workers' Supply Departments, was transferred to the Commissariat for Internal Trade. The continued existence of these forms of "closed" trading, despite the abolition of rationing, was noted.

1 It can also be said that big cities lost, since most of the bread they consumed was rationed, while rural breadbuyers gained, because formerly they had to buy bread at the high "open" prices.
by Lorwin and Abramson when summing up the economic development of the U.S.S.R. at the close of 1935. Thus, we see that, although the introduction of uniform prices presumably extended to the "O.R.S."

the State deemed it desirable to preserve, for some time at least, the principle of selective supply, this time, however, no longer in the shape of lower prices but in the form of superior service. That is to say, while every citizen after the abolition of rationing was free to buy whatever he fancied in the various trading points of the State and the co-operatives, or order a meal in a public restaurant or dining hall, all this at uniform prices, in practice he may have been told in the shop that because the supplies of a particular commodity were still scant, his name would have to be put on the "waiting list" first, while in his quest to satisfy his hunger he may have found the catering establishment overcrowded. The continued existence of the "O.R.S." was, we think, intended with a view to preventing this sort of thing from happening to the industrial worker. This, as will be recalled, was in conformity with the original provisions of the Second Five-Year Plan. Furthermore,

2If one can give credence to a letter of Freda Utley in the Spectator (December 1, 1939, p. 780), however, variations in quality occurred as well: "Meals provided at one and the same price vary greatly according to whether the factory is one producing machinery, armaments and other goods considered to be of national importance, or merely consumption goods for the Russian people to buy." There is no indication to which year this information referred. Clothing at low prices continued to be supplied to some classes of workers until the end of 1936.

"rationing" in the villages in the shape of "Otovarivanie" continued. In the Far North District normed distribution persisted until the end of 1936, while members of the armed forces and the People's Commissariat of Internal Affairs were still being served in "closed" shops. Thus, the remnants of "selective supply" lingered on in this way and disappeared only when the difficulties of the transition to "open" trade had, in the main, been overcome, and ample supply of merchandise and meals as well as an increased number of shops and restaurants rendered the maintenance of the privileges conferred by membership of the "O.R.S." no longer necessary.

These are some of the difficulties which arose in the course of the transition to "open" trade. Among the other problems that had to be faced was that of the extirpation of the remnants of the mentality of rationing which refused to disappear from the brains of many trade officials. As late as the beginning of 1937, the atavism of the rationing period continued to make itself felt. In the Planovoe Khoziastvo Yegoroff emphasised that one of the major tasks of the Second Five-Year Plan was "to put an end to mechanistic methods in the distribution of goods." Merchandise was continually being dispatched where it was not wanted. This shows very clearly that the question of de-rationing can be solved

2S. Bergavinov, Trade in the Far North, Soviet Trade, No. 3, 1937, p. 43.
3Hubbard, Soviet Trade and Distribution, p. 87. But the Webbs wrote in 1937 that "the special army (including navy and air force) cooperatives have been converted into open retail shops under the People's Commissariats for Local Trade of the several republics." (Op. cit., second edition, p. 1188, n.; italics ours).
4No. 2, 1937, p. 99. 5Tbid.
only by creating conditions necessary for the unrestricted sale of goods not merely in the retail trading points, but also in transport and wholesale trade as well as in production itself. It seems (as has been remarked so often) that it is easier to create new forms of organisation than to stamp out their "ideological content".

The Resurrection of the Monetary Incentive.

It seems appropriate to examine first the general repercussions of the new measure. De-rationing heralded the victory of socialism in the U.S.S.R., as understood by its leaders, i.e., a state of society where the toilers, ultimately owning the means of production, are being remunerated in proportion to the quality and quantity of the services rendered by them.

The system of rationing was, on the whole, a most unsatisfactory method of remuneration. Although the Authorities tried, as we remember, to link up the supply of the workers with their productivity, this was too crude and too impersonal an incentive because (in spite of all attempts to the contrary) it could not free itself from "levelling" elements which tend to stifle any rise in the productivity of labour, and, furthermore, did not grant the worker the liberty to spend his earnings in the way he liked. As regards the low-ration categories the card-system, by depriving

The particular difficulties of our case have been indicated in our survey of rationing and of the development of the retail trade network under the Second Five-Year Plan. Further reference to this problem will be found in our survey of planning technique under the Second Plan.
the concept of money wages of its significance as the most potent work inducement, proved equally detrimental.

"It is not accidental that the spread of the Stakhanov movement coincides with the abolition of rationing", remarked Malkis in his interesting essay on "Consumption and Demand in capitalist countries and the U.S.S.R." Indeed, the undoubted, if only partial, successes of Stakhanovism would have been impossible without the renaissance of a unique monetary expression of the labour-contribution of every individual, and of the restoration of a certain freedom of choice to all those productively employed. Only by way of de-rationing, which amounted to a "definite liquidation of equalitarian remuneration of labour", could the personal interest in every worker in the results of his labours be fostered, his zeal, care and efficiency evoked and that close connection between production and consumption established which henceforward was to become the quintessence of Soviet trade and distribution.

The careless attitude towards the rouble, typical, in particular, of the high-ration groups, was disappearing. Simultaneously with the abolition of the supply-cards the Government carried out a badly needed monetary reform. The wage increases, by adding some 4,200 million roubles to the annual wages bill, increased labour costs and caused a fall in the purchasing power of the "ration-rouble". All this necessitated a series of adjustments. The

1 Consumption and Demand, op.cit., p. 32.
2 "The abolition of supply-cards means that we have adopted a unique method of material work-stimulation, viz., the monetary method (salaries, prices, taxes, etc.;) (Grinko, The abolition of cards and the strengthening of the rouble, Pravda, October 6, 1935)." Quoted by de Basil, op.cit., p. 362. 
3 Monograph No. 2, op.cit., p. 23.
money value of stocks of materials and goods in industries and of consumers' goods held by former "closed" shops increased suddenly. The position of certain groups of debtors became very favourable. 

"Rather complicated measures had to be decreed to adjust the financial relations between enterprises and the banks and the government to prevent chance paper profits and losses."  

It must be pointed out, however, that it would be somewhat misleading to push such generalised statements too far, for it is apparent from our discussion of the transition to de-rationing that from the point of view of the low-ration categories the purchasing power of the rouble was actually raised, in so far as the prices of the "commercial" shops were lowered. 

"So far as stocks were concerned, it was obviously necessary to revalue these as soon as the new prices, because otherwise all enterprises would make a series of small "unplanned" profits as they disposed of them, and these might mask any losses due to inefficiency. A decree was therefore issued that all stocks and work in progress were to be revalued in accordance with the new prices as soon as these became effective. As a consequence of the revaluation all enterprises showed a windfall profit, and the decree prescribed at great length what was to be done with this. In the first place, profits arising out of stocks held with the enterprises' own capital were to be retained...and added to its capital; this was clearly essential, for it would in future require that amount of additional working capital to finance its minimum stocks. Secondly, profits arising out of stocks held with Gosbank credit were to be offset by writing up the amount of the debt by a corresponding amount; this was also sound, for otherwise the enterprise would have been left with an unearned profit when it sold its excess stocks and paid off the debt. Thirdly, all profits derived from goods held in other ways were to accrue to the treasury; it is a little difficult to see quite what is visualized here, because theoretically an enterprise has no means of obtaining credit except from the Gosbank; however they probably do do so in various ways, possibly by borrowing from various funds under their control, and this provision is designed to ensure that they do not make a profit out of their misdeeds. ...in so far as it penalizes enterprises which have accumulated profits earned by efficient working it appears to be somewhat inequitable." (Reddaway, op. cit., pp.103 se...
CHAPTER IV

SOME EFFECTS OF DE-RATIONING ON SOVIET TRADE
SOME EFFECTS OF DE-RATIONING
ON SOVIET TRADE

We shall now pass over to a survey of the effects of the abolition of selective supply on various domains of trade. It would appear that all these effects, although at first, perhaps, producing complications and friction, were of a salutary character.

Economies in Distribution.

The abolition of supply-cards made all the considerable expenses which the administration of rationing entailed, and from which the consumers derived no advantages whatsoever, unnecessary. On the other hand, it created certain cost-items which did not figure under rationing at all, for instance advertising, and tended, because of the greater respect paid to the wishes and welfare of the consumer, to increase such expenses as packing etc. But this was all to the good. It is a mistake to aim at an indiscriminate reduction of distributive costs. Costs which yield definite advantages to the consumer, either by way of instruction, convenience and quality, can and should be raised.

Perhaps the greatest technical benefit which made itself almost immediately, was the economy in shopping time. Even under normal conditions the time spent by the housewives in shops is very considerable. But the queuing for scarce rations is particularly predatory as regards time, nerves and general health. Although occasional queuing has not yet disappeared from Soviet cities, there can be

\textit{Cf. Book III.}
little doubt that the introduction of unrestricted sales has enormously decreased this practice. Under conditions of "open" trade, even if there is shortage in one shop there is a great likelihood of the consumer finding more adequate supplies in another. Much of the queuing under rationing was of a "precautionary" character. If a feeling of confidence in the adequacy of supplies is really established, there will no longer be any need thus to waste valuable time. The attempts of the Authorities to develop such forms of trading as house-shops and homedeliveries and to some extent to imitate certain types of capitalist commerce (e.g., standard price shops) have not only the convenience of the consumers in view but aim at economising "socially necessary" time so as to add to the store of "socially necessary" labour power.

**Increased importance of Khozraschet.**

The measures connected with de-rationing and the unification of prices contributed greatly to the strengthening of costing and financial discipline in all provinces of economic life, including that of trade.

The theoretical aspects of Khozraschet will be touched upon elsewhere. Here we want merely to

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1 Reddaway, op. cit., p. 98.  2 Ibid.
3 Cf. p. 140 and Nodel, op. cit., p. 51.  4 Cf. Book III.
5 This abbreviation means literally Economic Calculation, but can loosely be translated as Business Management, Costing, or, in order to underline its peculiar features, as Planned National Economic Accounting and the like.
stress its practical importance. Business accounting was, of course, by no means an innovation introduced by the Second Five-Year Plan. Its application and strict observance had been preached, with varying almost degrees of emphasis, throughout the entire economic history of the U.S.S.R. Particularly under the period of Integral Planning there was a great need for a system of checking economic results in each unit and throughout the entire process of production. Unfortunately, the spirit of recklessness which marked industrialisation during the first planned quinquennium was not conducive towards an efficient functioning of Khozraschet. In the speech delivered at the Conference of Leaders of Industry, Stalin expressed his great concern about this state of affairs: "Owing to mismanagement in a large number of our factories and economic organisations, business principles are not being applied. It is a fact that a number of enterprises and business organisations have long ceased to reckon, to calculate, and to draw up a genuine balance sheet of income and expenditure. It is a fact that in a number of enterprises and business organisations the conceptions "regime of economy", "the cutting down of unproductive expenditures", "rationalisation of production" have long gone out of fashion. They apparently assume that "the State Bank will advance the money anyway." "

The Credit Reform of 1930 and subsequent legislation in this respect (of which we have given a close exposition) did a great deal to improve the
position and instil into the industrial and economic leaders respect for the rouble and its controlling functions. But the system of rationing with its multiplicity of evaluation-standards and the virtual absence under it of the problem of marketing (not to speak of the demoralising practice of subsidies to various industries) limited the efficacy of the then existing costing and financial discipline and undermined the spirit of responsibility of each economic unit towards its individual contribution to the realisation of the central plan.

There can therefore be no doubt that the abolition of rationing, the complete "reinstatement" of money wages, the normalisation of monetary circulation and the unification of prices created very favourable conditions for the strengthening of Khozraschet. The expression of labour costs in terms of money throughout forced the managers to be more careful with the existing resources, while the unique monetary measure of consumption and demand introduced a living element of control into Khozraschet. Only when the various trading organisations were confronted with the possibility of customers refusing to buy certain goods because of their poor quality, or of discontinuing the patronage of shops because of their unsatisfactory service, did they begin to pay increased attention to careful costing, quality, assortment, service, in brief to the qualitative indices of their "Torgfinplan". Thus the new situation

*I.e.*, the Commercial-Financial Plan to which every shop was supposed to conform. Cf. below.
made it necessary to show initiative, and Khozraschet was the sole means of evoking it. Under conditions of unrestricted sale of commodities only those shops which observed the principal canons of costing could hope to be successful in overfulfilling their set tasks and to qualify for the corresponding bonuses, i.e., the retention of part of the realised profits, an operation which the abandonment of "monetary ambiguity" had turned into a very real inducement.

This close connection between Khozraschet and trade cannot be emphasised often enough: it was the retention, at least in the formal sense, of purchase and sale transactions as between economic enterprises themselves and as between the economic enterprises and the trading organisations that made it possible to use the rouble as an instrument for checking efficiency and to keep up the "material interestedness" of those concerned in the results of their work. It is not difficult to see, therefore, that the unfolding of trade without restriction gave a great impetus to the strengthening of Khozraschet in industry as a whole, so that, in resolving that the main foundations on which all economic activity was to rest, was to be the struggle for the introduction of Khozraschet into all provinces of economic life, the XVII Congress of the Communist Party (February 1934) was probably greatly encouraged by the growth of transactions handled by "commercial" shops and by the early prospect of doing

In the Theory of Soviet Economy (edited by Bulat and published in Moscow in 1931 (R) we find the statement that "Khozraschet cannot be separated from Soviet trade." (p. 289).
away with the system of supply-cards altogether. "It is not by chance", wrote the then People's Commissar of Finance, Grinko, in the Pravda (October 6, 1935) "that the abolition of the ration-cards and the State transition to open trade at lowered unified/prices coincides with this broadly unfolded struggle for the mastering of production, for the lowering of the cost of production, and for the refusal, on the part of our factories and works, to accept subsidies ("dotations") from the State."

In its application to trading Khozraschet has developed certain specific features which may now be mentioned in brief. The main maxim of Khozraschet, the so-called "no-loss principle", holds good for trade as much as for any other type of economic activity. The central task is to reduce losses in circulation and to cheapen the services rendered by means of raising and accelerating the turnover of goods.

The recognition, by the Central Planning Authority, of a sphere of autonomous economic manoeuvring, was an indispensable condition for a successful functioning of unrestricted trading. Only thus could one hope to create the new type of shop which was not only interested in fulfilling and overfulfilling its trade plan, but possessed a sufficient degree of elasticity and freedom to adapt itself to the wishes of the consumer and the vicissitudes of a partially re-established market.

"If from the point of view of the consumer open Soviet trade means the possibility of purchasing in any one of the existing retail points any kind of commodity of which he is in need in the quantities required, then the further development of Soviet trade confronts the entire system of the socialist economy with the task
In the Economics of Soviet Trade the following autonomous rights of a shop, founded on Khozraschet, are listed:

1. independent purchases and procurements provided that the Soviet price-policy is strictly observed;
2. recruitment and dismissal of workers at the counter and the right to manoeuvre the labour force within the trading enterprise;
3. the right to carry out repairs and to purchase shop-equipment, provided the expenses so incurred are consistent with the principle of economy and the norms of shop-expenses laid down by the Central Planning Authority;
4. the right to manipulate with circulating resources as well as possess a clearing account and credit facilities with the State Bank. The relations of the trading enterprises with other economic units assumed responsibility for the strict fulfillment of the terms of the contract devolving exclusively on the two parties concerned, while various penalties were prescribed in case of non-observance. In actual practice autonomous rights such as these often led to abuses, varying in degree. Shop-managers continued to strive after profits, to the detriment of the consuming public. Friction between the districts of Khozraschet has continued from previous page):...creating elastic...forms of manoeuvring with commodity-flows. (B.M. Rubinshtain, Soviet Law and Socialist Economy, Leningrad 1939, p. 57). This could only be done within the limits of the centrally decreed wage-funds (which were fixed as a percentage of the turnover); the director could thus employ fewer better paid or more lower paid workers. This very important aspect of Khozraschet in the expansion of the consuming class, which was seen as a deterrent to production.
positions of the Central Planning Authority and the independent actions of the economic units based on Khozraschet was indeed bound to arise if the exhuberance of the autonomous leaders of industry and trade were not quelled in time. All the latest comments made by Soviet economists on Khozraschet emphasise that the new system "does not represent merely a material-operative independence, but, be it noted, an independence which has been granted to the enterprise, the combine or the trust for the purpose of fulfilling the plan within the limits of the plan." This is very important: on no account must there be any deviation from the plan through the neglect of its directives for the sake of unduly enhancing the autonomy of an economic unit.

In our opinion the really significant feature of Khozraschet is perhaps not so much the implied recognition of the importance of economic calculation as such - a thing that ought to go without saying in a highly complex planning organisation - but (1) the way in which costing and financial discipline are linked up with decentralised, autonomous responsibility and "interestedness", and (2) the manner in which the directives of the Central Planning Authority are realised by decentralised initiative. "It would be wrong to imagine", write Abesgaus and Dukor in the Great Soviet Encyclopaedia, "that the administration of our economy proceeds automatically, whereby everything is provided for, decided and determined by the plan, so that once the plan has been drawn up, one can sit down and rest." This planned autonomy

/Vol. 59, p. 856; article on Khozraschet.
(or indirect planning) which is subject to the checks of the consumers and the control of the Centre should therefore not be regarded as in any way similar to the autonomy as it existed under the NEP.

The introduction of Khozraschet into trade had been a very slow process indeed. Generally speaking, trade lagged behind industry in this very important respect and attempts to improve matters, which were undertaken since about 1929, were very badly handled.

On March 24, 1931, Centrosoyuz decided to re-organise all trading enterprises along the lines of Khozraschet and decreed that the bigger units should draw up their own balances. In subsequent years Centrosoyuz tried to cultivate the respect of the managers for Khozraschet chiefly by means of reducing the deductions from profits and shares, the village co-operatives being particularly favoured. In 1934 the greater number of the "O.R.S." was "unremunerative" and it was not until the time of the announcement of de-rationing that real progress was achieved. It must not be imagined, however, that the precepts of Khozraschet were being universally followed by the trading establishments towards the end of the Second Piatiletka. Only the further development of unrestricted sales over a number of years will insure that the canons of Khozraschet—financial independence, sound business management, perpetual check, and respect for the interests of consumers and the broad dispositions of the economic plan—will become firmly established in Soviet trade.

\[\text{Economics of Soviet Trade, p. 439.}\]
\[\text{2Neiman, op.cit., p. 268.}\]
The "De-rationing" of Credit.

It will be recalled that towards the close of the first planned quinquennium the Soviet planners had, after a great deal of muddle and many mistakes, evolved a system of crediting commercial turnover that was closely linked up with the quality of work of each trading unit. The task of expanding the trade turnover (which was such an outstanding feature of the Second Five-Year Plan) was hampered by the then existing rather stringent rules of short-term crediting. Only a very small proportion of the additional turnover was financed by the Gosbank.

The badly needed changes were embodied in a Sovnarkom decree, dated August 16, 1933.

The following principles underlay these new regulations:

(1) The new types of credit were to be granted only to sound and profitable undertakings, i.e., those which fulfilled the plan of trade turnover.

(2) Every commercial organisation was expected to possess a certain "normativ" of liquid funds sufficient to serve current commercial turnover at the slackest period.

\[\text{This implied sound accounting and periodic audit, and the timely fulfilment of obligations towards the Bank. Some enterprises, like public catering and the department of chemists' shops were excepted from the new order of crediting. (Cf., Economics of Soviet Trade, op.cit., p. 427.)}\]

\[\text{The Normativ of a trading enterprise is determined by a somewhat involved calculation. The total value of goods sold during the slackest month, less the value of goods of a purely seasonal character, divided by 30, gives the daily cash turnover. For example, if a given enterprise sells goods to the value of R. 900 thousand in the month including R. 90 thousand worth of purely seasonal goods (fruit, vegetables and such perishables), its daily cash turnover will}\]
(3) The growth of turnover and seasonal needs were to be covered by bank credit.

The raison d'etre of this new system of crediting goods circulation was to "fertilise" additional turnover of goods (i.e., over and above the "Normativ") and, at the same time, enforce profitability of trading enterprises by relying on their own resources and accumulations. These were certainly not new principles, but the decree of August 16, 1933, is marked by greater exactitude and explicitness in this respect than previous enactments passed during the First Five-Year Plan period.

The two types of bank credit under the new Act were:

(1) a transitory commodity credit, repayable within a year, for the temporary replenishment of the minimum circulating resources with a view to stimulating, in time, the formation of this minimum by the enter-

(continued from previous page): be $900-90=810+30=R.27$ thousand. The planned period for the turnover of all trading stocks in hand is, say, 13 days. The planned turnover of all cash is, say, 2.5 days. The planned turnover period of all other liquid assets consumed in the business (packing, material, etc.) is say, 2 days. The Normativ is the sum of the daily cash turnover multiplied by each of the turnover periods, plus the average value of goods in transit, thus:-

\[
\begin{align*}
27 \times 13 &= 351 \\
27 \times 2.5 &= 67.5 \text{ or rounded off } = 68 \\
27 \times 2 &= 54
\end{align*}
\]

Average value of goods in transit \(= \frac{139}{612}\)

Thus the official Normativ for the enterprise in question would be R. 612 thousand. Under the above-mentioned law the Bank granted a transitory credit to any trading enterprise whose own capital and reserves, plus certain borrowed resources, covered its fixed assets, plus 10 per cent. of the Normativ for goods in stock and in transit and 100 per cent. of the Normativ for cash turnover and other consumable goods. (Banking and Credit in the U.S.S.R., op.cit., pp. 49-50).

/Cf. n. above.
prise's own resources. It was to be used in the first place for the repayment of overdue loans, non-planned loans and loans in respect of values in transit.

The current credit was designed to meet the needs of commercial circulation during the months with peak turnovers and thus to accelerate the turnover periods. The old loans for values in transit and the planned seasonal loans were retained. Non-planned loans were temporarily retained only in respect of financially weak undertakings.

On the whole the Act of August 16, 1933 improved the Soviet financial system, in spite of certain weaknesses in its execution, like the tendency to underestimate or (worse still) entirely to miscalculate on the "Normativs" (which resulted in excessive share of current credit in the volume of the Bank's total short-term accommodation); insufficient elasticity of current credit like the discrepancy between the dates of repayment and the planned turnover periods of the various commodity-groups, the incapacity to meet the "peak" demands of commercial enterprises etc. But the main improvement of the 1933 Reform was that it provided elastic credit-facilities in respect of general and not merely of seasonal increases in goods turnover and at the same time made the advance of accommodation dependent on a much stricter observance, by the trading organisations, of Khozraschet. Nevertheless the new order of crediting bore distinct marks of the rationing period. In so far as the trade organisations continued to work with specific goods-funds allotted
to them, credit-limits had by necessity to be retained by the Gosbank. Furthermore, the advances were based on the average period of turnover of all goods taken together, i.e., they did not distinguish between different goods with different "velocities of circulation". This arrangement was quite satisfactory at that time when, because of the existence of the so-called "deficit-goods", the variations in turnover periods were not considerable.

But the transition to "open" trade made adjustments in crediting procedure imperative. Now attention had to be directed not merely towards the quantitative fulfillment of the plan of goods turnover, but in the first place towards the observance of the plan of assortment and of qualitative indices generally. But in spite of the new situation within which Soviet trade was functioning, the crediting of trade continued to be worked on the old basis. Weaknesses of the then existing arrangements had become apparent even under the conditions of growing "commercial" trade, but nothing was being done until the beginning of 1936. Persistent clinging to obsolete methods caused financial difficulties among trading enterprises, particularly at the beginning of 1935 when they were so busy re-organising their work along the new lines. This was clearly established by a special enquiry. At the same time the work of the Gosbank showed many deficiencies. Cases of excessive and insufficient crediting of trading units were very frequent. One

[G. Goberman, Questions of Crediting State Trade, Planovie Khoziastvo, No. 12, 1936, p. 82.]
of the most blatant abuses was the practice of many Gosbank branches arbitrarily to curtail credit facilities.

At last, on June 4, 1936, a decree was passed introducing the badly needed reforms. Its main provisions are summarised by Goberman as follows:

(1) In conformity with the liquidation of the card-system and the transition to open trade, crediting was to proceed without limits in the measure of the development, by the trading organisations, of trade turnover.

(2) In the interests of a qualitative improvement of trade, a steady enlargement of the assortment of goods and of the transmission to the lower trade links (i.e., shops) of the full assortment of available commodities, crediting was to be fixed not in accordance with the average turnover period, but with individual periods of each separate good.

(3) With a view to providing an incentive for the qualitative overfulfilment of the plan those organisations which do overfulfil it were to obtain special privileges, so as to render possible without the investment of additional circulating resources.

(4) In order to strengthen Khozraschet and to stimulate the overfulfilment, by the trading organisations, of the qualitative indices of their work, special favours were to be granted to those organisations which managed to accelerate the actual turnover period of goods as compared with the planned norms; /Op.cit., p. 84.
furthermore, contractual discipline as between supplier and purchaser was to be enhanced considerably. (The right to reject unwanted goods was to be firmly established, sanctions were to be applied to suppliers who were late in their deliveries, and the responsibility of the purchaser as regards a prompt settlement of his financial obligations was to be increased). 

Generally speaking the new order of crediting strived after the strengthening of the financial independence of the individual trading organisations under the new conditions of trade. The relative share of the participation of the trading organisation's own circulating resources in carrying on the business, both as regards surplus stocks and the actual with creditors settlement, was to grow. 

In point of fact, the financial strength of trade had been rising during the period which preceded de-rationing. Profits of State trade went up appreciably from 1934 to 1935, but the financial status of the co-operatives remained unsatisfactory. By 1936 most State trade undertakings, both wholesale and retail, industrial and "mixed" (with the notable exception of the Food Torgi) showed profits. The new order of crediting acted, without a doubt, a powerful impetus in the striving of commercial enterprises after profitability for the simple reason that it could only be applied in respect of trading units which did not incur losses. Financial indifference (in theory, at least) was tantamount to a forfeiture of

"Writing in the beginning of 1935 Neiman observed that "more than half of the Selpo operate at a loss." (Op.cit., p. 306)."
credit facilities.

Goberman observes that the first results of the new credit procedure were quite satisfactory, but he qualifies his statement by adding that, in the beginning, only the more efficient trading organisations were admitted into the new scheme. The degree of solvency certainly increased, but it must be emphasised that, to begin with, the trade officials who were still unfamiliar with the new regulations, exercised the greatest caution in conducting their operations on the new basis.

As regards the new procedure of differentiating the granting of credits in accordance with the turnover periods of different goods many complications arose which remained unsolved during the Second Five-Year Plan. Differentiated turnover periods were established for six commodity groups on the basis of the planned average turnover period in the light of past experience. Apparently the various turnover periods were either under- or overestimated depending on whether, at the time of transition to the new method of commercial crediting, the proportion of "deficit goods" (which had an inordinately rapid turnover) was small or big. This just shows how difficult it is to base planned forecasts on past experience, if economic conditions change swiftly.

A correct estimate of turnover periods was, of course, essential for the success of the new scheme. Over-estimates caused an unwarranted superfluity in circulating capital and under-estimates impeded the...
the growth of trade. Mistakes in this connection must have been committed right until the beginning of the third planned quinquennium, for they were bitterly criticised by Yagodin and Danilov in two articles published by the organ of the Gosbank, "Credit and Khozraschet", at the beginning of 1938. "Is it tolerable", it was asked by the author of the first article, "that at the beginning of 1938 the validity of (turnover) periods, based on economic conditions of 1935, remains unimpaired?"

Apparently, the Gosbank and the Narkomvnutorg became alive to the importance of this question, for at the end of 1937, they ordered a thoroughgoing revision of existing credit periods. Needless to say, their work remained incomplete during the Second Five-Year Plan.

Yagodin and Danilov cite examples of gross mistakes and insist that, unless the whole purpose of the new credit policy is to be missed, the new credit periods should be orientated towards the normal turnover periods of the different commodities. This does not mean that in fixing the credit periods Gosbank and Narkomvnutorg have to accommodate themselves blindly to the actual speed of individual turnovers over a period of time. An important function of credit differentiation is to stimulate the development of trade in one particular line of goods before others. In order to perform this function satisfactorily the degree of differentiation as

between the various commodity-groups should be appreciable. Arbitrary changes by local organs in the various turnover periods should be punished, but in order to eradicate these practices the Authorities should issue detailed regulations by which a constant review and revision of the credit-periods can be undertaken by local organs, since only in a decentralised manner can a perpetual adjustment to a changing local situation be achieved.

A great deal of incompetence and of excessive accountability have yet to be cleared away until attractive theories can be reconciled with living practice and the Soviet credit system can finally be freed from all its shackles.

Although at the close of the second quinquennium the tendency was for the financial independence of trading units to increase, the scope for an additional expansion of goods turnover was nevertheless so enormous that an adequate supply of credit facilities was likely to remain most essential in the years to come. In 1935 the short-term indebtedness of purely commercial enterprises amounted to 5,872 million roubles or 33.8 per cent of the total indebtedness of economic organisations, while in 1936 the figures were 7,562 million roubles and 28.4 per cent respectively, a clear proof of the vital significance of the "de-rationed" Soviet credit machinery for the unfolding of "de-rationed" Soviet Trade.

At the beginning of 1935 the percentage amounted to 40 per cent of all Gosbank credits. (Cf. P. Miroshnichenko, Concerning the Question of Remunerativeness in Soviet Trade, Under the Marxist-Leninist Banner (theoretical journal of the Ukrainian C.P.), No. 3, 1936, p. 90). The declining share of trade in total credits certainly betokens a noticeable financial improvement. (The share of the food industry grew however. Cf. Goberman, op. cit., p. 26).
CHAPTER V

THE EVOLUTION OF TRADE SYSTEMS AFTER DE-RATIONING
THE EVOLUTION OF TRADE SYSTEMS AFTER DE-RATIONING

Such a far-reaching step as the abolition of rationed trade could not but have repercussions on the evolution of the various trading systems. The de-rationing measure was heralded by the reorganisation of the Narkomsnab which took place on July 29, 1934, by virtue of a decree of the Central Executive Committee and the Government. Accordingly, the Narkomsnab was divided into the People's Commissariat of Internal Trade (Narkomvnutorg) and the People's Commissariat of Food Industries (Narkompishcheprom). Hubbard rightly attributes this organisational reform to the fact that "with the revival of retail trade in the "commercial" shops and the impending abandonment of rationing, the prejudice against the word "trade" declined: and many new problems connected with the marketing and pricing of goods arose, requiring a more elaborate organisation than the Commissariat of Supplies."

Owing to the unfolding of the wide trade network since about 1933 (when, apart from trade carried on by the Narkomsnab, the co-operatives and the Kolkhozy, specialised trade in their own produce was conducted by the People's Commissariats of the Heavy Industries, Timber, Agriculture and a number of other economic organisations) the need for a new co-ordinating

1 A description of the structure and organisation of the Narkomtorg can be found in Hubbard, Soviet Trade etc., op. cit., pp. 61 et seq.; Neiman, op. cit., pp. 309 et seq.; Zberzhkovsky, The Narkomvnutorg of the U.S.S.R. and its future tasks, Soviet Trade, No. 5, 1934, pp. 11 et seq.
2 Zberzhkovsky, op. cit., p. 11.
3 Hubbard, Soviet Trade and Distribution, op. cit., p. 61.
body was most pressing.

When the process of de-rationing was concluded in 1936 and, as we shall see later, new methods of planning the turnover and circulation of goods had to be devised, the Narkomvnutorg was (on January 5, 1936) reorganised anew along the lines of "delegating most of its controlling and regulating functions to the corresponding departments of the Republican and Provincial Governments." The supervising and planning functions of the new Commissariat were performed by a number of general departments, while Chief Administrations (Glavnye upravlenia) co-ordinated the work of various trading organisations. In addition to the central administration of the Commissariat special executive organisations subordinate to it were created, viz., the so-called All-Union Offices for Wholesale and Retail Trade of various classes of goods and special All-Union Bureaus, e.g., for organising the supply of consumption goods and public feeding in holiday resorts, homes of rest etc.

Local retailing was organised in so-called Torgi which Hubbard aptly defines as autonomous State organisations at the head of a number of retail shops supplying a given area. The overwhelming part (about two-thirds) of the trade controlled by the Narkomvnutorg was handled by them. This uniformity of

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1 Cf. Hubbard, Soviet Trade etc., op. cit., p. 63. The latest act of re-organisation was confirmed by the Sovnarkom on April 3, 1938. Accordingly, the People's Commissariat of Internal Trade was renamed People's Commissariat of Trade (Narkomtorg). The change of name was perhaps due to the decreasing importance of Foreign Trade (which remained within the purview of a separate Commissariat) and the increasing importance of domestic turnover. (For full text of the decree, cf., Questions of Soviet Trade, March 1938, pp. 7-14). 2 For details cf. Hubbard, op. cit., p. 63 et seq. 3 Ibid., p. 66. 4 Ibid., p. 81.
organisation became possible when, in connection with
the process of de-rationing, the various "class shops"
were gradually done away with. The Torgi were composed
of a number of shops (from fair-sized autonomous
shops down to booths) and were, as a rule, managed by
the Republican or Provincial Narkomnmutorgs, although
after the re-organisation of the Narkomnmutorg in 1936
the specialised All-Union Torgi were set up for organisation
of a "network of urban shops for the sale of their
particular goods" (e.g., haberdashery, tricotage,
cultural goods, building material etc.); these shops
were regarded as model establishments. Because of the
new conditions of trade, multiform retail trade outlets
were developed along lines not very different from
conditions in other counties: specialised shops and
universal stores (the Univermagi) were being opened
in great numbers. The desire to standardise the
handling and the sale of groceries and provisions
prompted the Authorities to set up an All-Union State
Bureau for Retail Trade in Provisions and Groceries
("Soyuzprodmag"). It was charged with the taking
over of the model provision shops in Moscow (which
were controlled by two Narkomnmutorg offices, the
"Gastronom" and the "Bakaleya") as well as with the
extension of the existing network to the provinces
on the basis of the chain store principle.

As can be imagined, the reconstruction of State
trade did not always proceed smoothly: there was, for

etc., op. cit., pp. 87-88. For historical data and economic
data cf. the article in the Great Soviet Encycl., Vol. 56, pp. 78-83.
instance, a tendency for the Torgi to become cumbersome and unwieldy (a tendency which invariably seems to emerge where there is too much organisation). The work of wholesale trade, too, left much to be desired: the mesh of the wholesale trade network was not wide enough to serve the complex requirements of a rapidly growing trade turnover.

The period of de-rationing remained one of certain productive Commissariats (e.g. the Narkompisheprom) diversity of State trade systems, and the handicrafts co-operatives continuing to carry on their specialised trading activities, although the overwhelming share of State trade (approximately three quarters) was under the supervision (direct or indirect) of the Narkomvnutorg. Rather significant changes occurred in the meals system of public feeding which, during the Second Piatiletkha, had become an important branch of trade (accounting for some 13 per cent of the trade in foodstuffs). The abolition of rationing, the gradual liquidation of the "closed" O.R.S., the noticeable improvement in the food-situation generally and in the supply of semi-prepared foods in particular, put the whole institution of public feeding to a severe test. Thus F. Le Gros Clark and L. Noel Brinton, writing in 1936 ("Men, Medicine and Food in the U.S.S.R", p. 78-4) observed: "Up to the present day, of course, the idea of taking many meals communally has appealed to the workers, mainly because it saves

In the beginning of 1938 (the first year of the Third Piatiletkha) the Government ordered the splitting-up of Torgi which were considered too big with a view to enabling the Torg administration to carry out an "operative" control of the activity of each constituent shop. (Cf. A. Smirnov, Organise correctly the work of the Torgi, Questions of Soviet Trade, No. 6, 1935, p. 44 at sec.)
time, conserves food supplies, and, above all, is far less expensive. The cost of a satisfactory dinner in a factory restaurant has been considerably below what the worker would have to pay for a meal in his own home. ... But now a change is certainly taking place. Foodstuffs are cheaper on the market; they are becoming very varied in quality. The staunch adherents of the new custom are quite aware that it now becomes a real struggle between one social habit and another. ... If the people of the U.S.S.R. wish gradually to revert to the old family system of preparing and eating their meals, there will be little in the material facts of life to prevent them doing so." In point of fact, even prior to the abolition of rationing, viz., in 1934, a marked retardation in the growth of public meals could be observed with the result that the plans drawn up for the public meals establishments were not being fulfilled. After the formal re-introduction of unrestricted sales, conditions even worsened: the growth of the public feeding system began to lag behind the expansion of the retail trade turnover as a whole. The legacy of rationing could not easily be disposed of and a growing number of workers preferred to eat their meals at home. But the Soviet planners do not seem to have given up their fight for a system of catering of whose superiority they are convinced. On the other hand, they recognised the necessity of making concessions to the interests of the home life of the citizens (which is looked upon

\[\text{Consumption and Demand in the U.S.S.R., op. cit., p. 75 and 98. Calculations show that a dish served by a public catering establishment takes about 15 minutes less time to prepare that a similar dish prepared by the housewife. Total economy thus achieved in 1935 was 300 million man-days.} \]
\[\text{E. Daichman, Basic Tasks of Public Feeding, Planovoie Khoziastvo, No.} \text{5, 1936, p. 71.} \text{3 Ibid., p. 72. and Soviet Trade, No. 7, 1937, p. 24.} \]
as a stabilising influence in the new society) and aimed at the reconstruction of the system of public catering in such a way as to enable it to hold its own ground under adverse circumstances. First of all, by placing it under the supervision of the Narkomnuntorg in the cities and the Centrosoyuz in the villages, they simplified its organisation. But this was not enough. At the end of the Second Piatiletka it appeared that the network of the public catering establishments bore the distinct marks of the rationing era. The greater part of the dining halls was attached to factories, i.e., out of reach of the ordinary consumer. Although the factory network was to be maintained, the opinion was expressed that new and attractive restaurants should be opened in lively centres, in parks, sports grounds and the like with a view to bringing them ever closer to the consumer. Snack-counters etc. and the provision of sundry entertainments in restaurants were intended to increase the attraction of public catering for the more sophisticated Soviet consumer.

The vital importance for the countryside of the development of the custom of eating socially was also emphasised, especially from the point of view of removing the differences between town and country. The extent of rural public catering at the close of the Second Piatiletka was, however, by no means considerable.

1 But in doing so the Soviet planners emphasised the superiority of labour-saving house utensils. Cf. e.g., Land of Socialism, op. cit., p. 368.
2 S. Epshtain, Problems of Public Catering during the Third Five-Year Plan, Soviet Trade, No. 6, 1937, pp. 43-4.
4 Epshtain, op. cit., pp. 46-47.
It was clear that new and original methods of public catering (e.g., in the form of "picnics" during harvesting when the peasants are away from their homes) were necessary to make the system really popular among the farmers.

Collective farm trade, likewise, thrived under conditions of de-rationing. We have seen that, in spite of the increased flow of foodstuffs, the releasing of demand from the straight-jacket of the ration-card presented great difficulties. The presence of additional supplies coming from the countryside was designed to mitigate the existing shortage of foodstuffs and to furnish the urban purchaser with alternative sources of supply. From the point of view of the collectivised peasant the receipts from the sale of their surpluses represented an important addition to their incomes, and, since these surpluses could more easily be exchanged against the growing industrial output of the cities, the zeal for production among the farmers was thereby increased.

The Model Charter of the Kolkhozy (February 1935) which sanctioned subsidiary private husbandries was a manifestation of the Soviet Government's perpetual efforts to reconcile the private and the public interests of the peasantry, and it is certainly no mere coincidence that its publication coincided, pretty closely, with the first stages of the de-rationing.

7 The specific weight of decentralised collections in total trade turnover amounted to 20.8 per cent in 1937. (21.6 per cent in 1938). (Cf. V. Golubev, Trade Turnover in 1938, Questions of Soviet Trade, No. 3, 1938, p. 40.) Cf. also p. 415.
process.

Important structural changes, also, took place in the co-operative system (and the village trade as a whole). These will be considered in the following chapter.
CHAPTER VI

THE REFORM OF THE CO-OPERATIVE SYSTEM
THE REFORM OF THE CO-OPERATIVE SYSTEM

According to the decree, dated September 29, 1935, all urban co-operative societies were transferred to the Commissariat of Internal Trade. Centrosoyuz was to devote itself thenceforward "solely to the organisation of distributive co-operative societies in rural districts." The Webbs observe that "this drastic transfer from the voluntary consumers' co-operative societies to various governmental organs, of the magnificent central stores and mechanised bakeries in all but the smallest cities of the USSR, was misunderstood by cooperators in the capitalist countries, among whom it provoked some animadversion."

In order to appreciate the reasons which prompted the Soviet Authorities to take the step, we must understand (1) the essentially different character of the Soviet co-operative system as compared with its capitalist counterpart and (2) the rôle which it has played in the history of Soviet trade and distribution.

As regards the first question, there was similarity, to some extent, between capitalist and Soviet co-operatives at the time of the NEP. But the basis of comparison between the two movements was increasingly abated by the extension of Integral Planning, in so far as Centrosoyuz became more and more a constituent part and executive organ

2 For details of organisation under the Second Plan cf. Hubbard, Soviet Trade etc., pp.70 et seq.
3 Lorwin etc., op. cit., p.13.
4 Webbs, op. cit., p. 1187. The Webbs refer to the discussions on the position of consumers' co-operation in
of the planned economy. Therefore its voluntary
ccharacter had, by necessity, to be restricted to the
voluntary membership (except for such abnormal periods
as during rationing) and the wide scope for independence
and initiative in the domain of "decentralised"
operations as well as in the internal running of the
organisation itself. We are not aware that the Soviet
planners have ever pretended that the freedom of
co-operation should go further or that it should
function along lines parallel to those in the
capitalist world. On the contrary, the Bolsheviks
have constantly re-emphasised the distinction between
the capitalist and the Soviet co-operative movements.

Hence it is misleading to regard the decree of
September 29, 1935 as a measure so serious in its
consequences as to amount to a death-warrant to the
co-operative movement.

As regards the second question, viz., the rôle
which consumers' co-operatives have played in the
growth of Soviet trade, it will be recalled how, in
the course of the first quinquennium and after the
elimination of private commerce, the co-operative
movement had assumed a dominating position in the
marketing and retailing of consumers' goods. According
to Bolotin "practice has shown that the consumers'
co-operative movement has not fulfilled the
expectations which this immensely responsible task
entailed."  

(continued from previous page): the U.S.S.R. by the
executive of the International Co-operative Alliance
in February and April 1937. Cf. also Sir Walter Citrine,
I search for Truth in Russia, London, 1938, pp.303 and 396-7;
J. Webb, op. cit., p.320, The decisive year in the unfolding of
This unsatisfactory working of the movement was due to several causes, some of which were entirely without the control of the co-operatives themselves. By these latter we mean those organisational weaknesses which were brought about by the inherent inefficiency which were brought about by the inherent inefficiency of rationing as such which we have analysed in detail. As the Webbs remark "all this has been plainly not so much the fault of the consumers' cooperative movement as one of the shortcomings in the organisation for production" which, in its turn, demoralised the officials of Centrostoyuz.

Of the remaining causes which led to frequent complaints one consisted in unwieldy size of the whole movement. This again was in the last resort due to the dominating position in the country's distributive system granted to Centrostoyuz by the Soviet Government and thus not, or not entirely, the fault of the co-operators. The fact of the matter is that the co-operative societies were unable to cope with the ever increasing demands of the public and the Government. The "astonishing increase in membership and turnover sorely tried the capacity of the movement. Year after year the leaders and committees have been incessantly struggling to keep pace with the rapid multiplication of their customers, and at the same time to make good one defect after another that experience has revealed in the organisation."

This unfortunate development had, however, a

1Webbs, op. cit., p. 324.
2Ibid., p. 310.
subjective aspect as well. For historic and socio-psychological reasons - the active Communist never regarded the Movement as a particularly inspiring sphere of activity and ambition - the staff of Centrosoyuz was recruited from elements which were not altogether enthusiastic supporters of the Soviet régime.

It was felt that men who not only lacked the Party spirit, but were in fact inimical to the new political ideology and system, would in time become infected with the dizziness of high turnovers, profits and speculation with scarce stocks, leading to dishonesty, pilfering and embezzlement of common property. Inefficiency and political unreliability - it was an infelicitous combination. The Government was forced to drive home to the leaders of Centrosoyuz the importance of political watchfulness and of the insistence on efficiency, integrity and experience in the selection of staffs. It also saw itself obliged to encroach upon the co-operatives' monopoly.

It would, of course, be wrong, to attribute the restrictive measures entirely to feelings of dissatisfaction with the work of the movement. The Government had to recognise that no matter how reliable and efficient the apparatus of Centrosoyuz, the co-operatives could not be expected to cope unaided with the steady increase in the circulation of commodities.

It took time until the policy of encroachments culminated in the decree of September 29, 1935. In 1929/30 the turnover of Centrosoyuz accounted for
70.6 per cent of the total turnover; in 1931 it amounted to 73.3 per cent. In that year the Authorities decided to pursue the policy of strengthening other systems of retail distribution, notably State trade; consequently the share of total turnover handled by Centrosoyuz declined to 63.4 per cent in 1932.

In his report on the results of the First Five-Year Plan (delivered at the Joint Plenum of the Central Committee and Central Control Commission of the C.P.S.U. on January 7, 1933) Stalin observed that it would be "wrong to think that Soviet trade can be developed only along one channel, for example, the co-operative societies. In order to develop Soviet trade, all channels must be used: the co-operative societies, the state trading system and collective farm trading.".

This was the announcement of the policy to be pursued during the Second Five-Year Plan in the domain of distribution. In his report to the Seventeenth Congress of the Communist Party (January 1934) Stalin announced that "we had to liquidate the monopoly of the co-operatives in the market. In this connection we instructed all the Commissariats to commence trading in their own goods, and the Commissariat for Supplies was instructed to develop an extensive trade in agricultural produce. On the other hand this led to the improvement of co-operative
trade as a result of competition; on the other hand, it led to a reduction in prices in the market, to the market being put in a sounder condition."

An analysis of the relevant statistics brings out (1) the spectacular growth of State trade; (2) the trends of co-operative trade, viz., the absolute reduction in co-operative turnover in 1933, the volume remaining practically stationary in 1934 and experiencing a further noticeable reduction in 1935, which in 1936, however, was turned into a considerable accretion. It is of interest to note, too, that in spite of a certain degree of fluctuation in the total volume of co-operative trading, Centrosoyuz's absolute and relative share of rural trade was constantly on the increase. (3) Although co-operative trade has been expanding of late, it has been completely overtaken by State trade. But while the dominating position of co-operative trade in the country's goods-circulation was forfeited, Centrosoyuz's position in the rural districts became much stronger than it used to be during the first years of the second quinquennium when State trade controlled a fairly large share of rural commerce, amounting to about half of the Centrosoyuz-turnover. Towards the close of the Second Five-Year Plan Centrosoyuz held a position of virtual monopoly in the countryside.

This is a very significant development which calls for some comment.

that the decree of September 25, 1935, represented the climax of a development, steady but for one major interruption. That the ultimate intention of the Government was the handing over to the co-operative movement of the rural sphere is evidenced, for instance, in the deliberations of the plenum of the Central Committee and the Central Control Commission of the C.P.S.U. as far back as 1930 when the Party "recommended" to the leaders of Centrosoyuz that they should concentrate their attention on the growth of rural trade. The rather noticeable appearance of State trade in the villages towards the end of the first planned quinquennium should, in our opinion, be interpreted as having been prompted (1) by the Government's desire to add to the channels of rural goods-circulation whose extension was deemed vital, and (2) to exert the co-operatives, by the emergence of a "competitive" trading system, to improve its work in the villages in every direction.

The necessity for introducing rationing interfered with the organic process of Centrosoyuz slowly transferring its centre of gravity to the countryside; but, with the disappearance of the card-system, a new phase opened for the co-operative system. In the larger towns the tendency, rather naturally, was for specialisation in shops. The co-operative system was not adapted to providing shops for the exclusive sale of clothing, footwear, hardware etc. The principle of consumers' co-operatives always was to provide their members with every sort of ordinary necessity, clothing, household equipment, food, etc.,
in a single shop; and this in the new conditions was considered "uncultured"... State organisations were set up in the towns to organise retail trade in specific goods, and these rendered co-operative shops redundant."

It was emphasised by Soviet economists that exclusion of the co-operatives from the trade of the cities was by no means to be regarded as a relegation.

On the contrary, the development of rural commerce was considered as one of the focal points of the State's economic policy. Trade in the villages had, during a number of years, lagged behind the expansion of trade in the cities. As compared with a total increase of trade turnover by 20.3 per cent in 1933, village turnover rose only by 16.3 per cent, and in 1934 it amounted to only 14 per cent as compared with the general growth of 29 per cent. One of the most important and salutory consequences of the decree of September 29, 1935, was that this disparity in the development of Soviet trade was overcome. Moreover, the speed of development of rural co-operative trade soon began to outstrip that of general turnover. In 1936 the turnover of Centrostoyuz grew by 50.8 per cent as compared with 1935, while the turnover of the remaining trading systems increased only by 31.7 per cent. If this information is correct, we can register an economic

2 Neiman, op.cit., p. 335.
3 Soviet Trade, No. 6, 1936. (Zelensky, Concerning the execution of the decision of the Sovnarkom of the U.S.S.R and the Central Committee of the C.P.S.U.(B). of September 29, 1935: "Concerning the work of consumers' co-operatives in the villages"). 4 Ibid. The growth was uneven, however. 5 A. Kukhtin, Rural Co-operative Trade in 1937, Soviet Trade, No. 4, 1937, p. 29.
and social trend of the first importance pointing in the direction of a fairer treatment of the countryside by the Soviet planners.

What were the other structural changes in the rural goods-circulation brought about by the Government's decision of September 29, 1935?

From the reasons which Hubbard adduces for the transfer of Centrosoyuz to the countryside it might be assumed that the main difference in the tasks of rural and urban trade is specialisation of retail points in the cities and the further development and perfection of composite small shops in the villages. This superficial impression is only partially true and omits to consider vital trends which, in our opinion, are peculiar to Soviet trade. It is, of course, true that for many years yet to come the dominant feature and form of village trade in the Soviet Union (as, for that matter, of rural commerce in any other country) must be the single composite shop, stocking all the goods which are in constant demand by the peasant, situated within fairly easy access to the rural consumer and supplemented, where necessary, by peripatetic forms of retail distribution suitable for the purpose. But to content oneself merely with classifying urban trade under the heading of "analytical" and rural trade under that of "synthetic" would be to tell only the introduction to a vital development.

For the decree of September 29, 1935, provided for several important transformations of the rural
network. It "recommended" the closure of excessively small, and therefore unprofitable, Selpo (village co-operative) shops and their re-organisation into bigger units well stocked with goods of daily demand. Very soon 9,399 Selpo (29 per cent of the total) and 23,810 Selpo shops (20 per cent of the total) were closed down. But this was not all. In order to mitigate the differences between the countryside and the towns, specialised shops, under the direction of Centrosoyuz, were opened in the rural areas, selling industrial wares, foodstuffs, haberdashery, toys, "cultural" articles, perfumery, etc. At the end of 1936 Centrosoyuz possessed 10,519 of such specialised shops in the villages.

While it may be doubted that equipment and personnel of these retail outlets reach the standards of the leading, or even the average shops in the cities, and although the number of the specialised shops in the countryside is still small, the novelty and revolutionary significance of this development should not be underestimated in a country that possessed one of Europe's most backward peasantries at the time of the revolution. Already it is evident that these structural changes of the rural trade network are rapidly moulding the demands and habits of the Soviet villages. It is proudly reported, for instance, that as compared with

1Zelensky, op.cit. 2Kukhtin, op.cit., p.29. and V. Lavrentyev, Consumers' Co-operation at a New Stage, Economics Survey (issued by the USSR Chamber of Commerce, Moscow), No.9, 1936, p. 31.
3The poor equipment of village shops is stressed by D. Kurnin, The material-technical base of Village Trade, Questions of Soviet Trade, No.3, 1938, p.58.
1935 the trade turnover of the co-operatives in 1936 increased at a particularly marked rate in such commodities as: sugar (202 per cent), confectionary (168 per cent), household soap (141 per cent), toilet soap (234 per cent), gramophones (372 per cent) wireless sets (385 per cent), bicycles (167 per cent) etc. The collectivised women peasants began to prefer to buy baked bread in the Selpo, instead of baking it at home and thus losing valuable time which could be employed for augmenting their incomes. A development of this kind transcends the merely belated progress in the standards of the Russian peasantry; it means in effect the urbanisation of the Soviet countryside.

On the whole it may be said that the policy of restricting the co-operatives to village trade, has been a wise and correct one. A pernicious monopoly has been broken and the existence of State trade in the villages as well as the alternatives open to the collectivised peasants to make their purchases in the cities in connection with the Kolkhoz bazaars are sufficient safeguards that a new rural monopoly has not been granted to Centросоюз; while the introduction of unified prices ruling both in co-operative and State shops makes a comparison of the qualitative indices possible. At the present stage

1 Kukhtin, op. cit., p. 29.
3 In the days of rationing this was impossible: because of higher prices charged the "commercial" shops were in a position to pay higher salaries and were thus able to attract the services of the best shop-personnel available. (Cf. Neiman, op. cit., p. 337). It was thus impossible to compare distributive costs of the "closed" and "open" systems. 4 In 1937 about 23 per cent of rural purchases were made in city shops. (Cf. G. Natchikovsky, Questions of Soviet Trade in the Third Five-Year Plan, Sov. Tr., No.7, 1937, p.15.)
of development of Russia's agriculture and its co-operative set-up, co-operative trading is, and is likely to remain for some time, the most adequate form of rural goods-circulation. It would seem that co-operative societies are particularly well fitted to develop local resources. Because of the inadequacy in communications and the general trend for decentralisation this remains as important as ever.

Another circumstance which explains the suitability of co-operative trade in village surroundings is the "intimacy" of its organisation. De-rationing necessitated the adaptation, in some measure at least, to local conditions of demand. This task, however, had to be tackled in different ways in town and country respectively. In the villages, where the density of population is so markedly below that of the towns, the approach has to be more individualistic.

The members' meeting which is "at the base of the cooperative pyramid", is held every two or three months throughout the year and is attended by the greater part of the members of the local or primary society in question, is a most useful means for the ventilation of complaints and grievances and for the discussion of individual suggestions. Such an intimate connection between shop and consumer is not necessary in the towns where the population is more compact and its demands more uniform, so that super-

"As regards rural trade turnover the system of consumers' co-operatives represents at the present time the basic trade system; this is connected... with the necessity of the existence in the country-side of smaller trading units, which must be based on the self-activity of the consumers themselves. In view of this, the co-operative form of rural trade possesses many advantages." (Neiman, op.cit., p.336; cf. also ibid., p.306; Lavrentyev, op.cit., p.32; Zelinsky, op.cit., p.33; Webb, op.cit., p.311."
vision of the work of the trade system can be more centralised. The division of rural and urban trade into two spheres enabled Narkomvnutorg to work out methods of adaptation to the new conditions that were specific to the towns. The absence of rivalry in either town or countryside clearly facilitated the work of revision and planning.

Within the framework of a factual account of the dynamics of Soviet goods-circulation during the Second Five-Year Plan it would be idle to speculate upon the future development of the trading systems. Here, the opinion may be hazarded that the present arrangement is likely to continue so long as the Kolkhoz system persists. A unified trading system, formed by the merging of co-operative and State trade is conceivable at some distant date. But the formation of such a synthetic trading system depends on a variety of circumstances which exceed the range of reasonable estimates. Among these factors the most important are movements of population, its size and density, and the measure of success achieved by the Soviet policy of "urbanising" the countryside and of "lifting" the backward regions of the Soviet Union.
CHAPTER VII

PRICE MOVEMENTS AND PRICE REGULATION
AFTER THE ABOLITION OF RATIONING
In our survey of the transition period from rationing to the unrestricted sale of goods we observed that the unification of prices was a most complex task. What were the broad principles which guided the Soviet planners in fixing the new prices? It is clear that the matter could not be left to the operation of some kind of socialist "laissez-faire". So long as purchasing power remained in excess of the volume of consumable goods the State could not tolerate the formation of "true" equilibrium prices more than ever before and was compelled to intervene in the processes of price-formation.

If prices had to be regulated somehow, a more or less consistent price-policy was needed to make the price-reforms into something more than mere arbitrary changes.

Obviously, the price-unification could not be carried out uniformly over the whole Union. That is why the Government decided on the introduction of eight price-zones for the different kinds of baked bread, flour, groats and several other goods the prices of which had been most patently divorced from actual market conditions at the time of rationing! As regards the question "why Central Asia should be treated more favourably than the

Southern Provinces of European Russia and the Ukraine. Hubbard thinks that this was done because, during the rationing period, the cotton growing districts used to obtain cheap grain by way of "Otovarivanie" and had to be recompensed for the loss of this privilege. Just as "Otovarivanie" was designed to stimulate the additional cultivation of technical crops, the State had to preserve the principle of planned regional protectionism under conditions of price-unification by keeping prices relatively low in certain price-zones.

As regards the level of the new prices, all that can be said is that it was fixed somewhere between the artificially low prices of the "closed" distributive centres and the higher "commercial" prices. Indeed, what more can be said on this point, if relative prices were allowed or even made to adjust themselves at different levels in different cases? The position was made even more complex by the fact that certain particularly low prices of the rationing period underwent no or no considerable change. The position was made even more complex by the fact that certain particularly low prices of the rationing period were fixed on January 1, 1935 amounted, on the average, to 62.8% of the "commercial" prices of 1934. The new prices for millet amounted to from 52 to 30% of the "commercial" price in the various zones, and for groats to from 37 to 14.3 per cent. (Neiman, op. cit., p. 233).

Cf. also Reddaway, op. cit., p. 93 and p. 106. Reddaway's remark that "the point which calls for most criticism is the decision to encourage cotton growing by means of concealed subsidy (the low regional price for bread) rather than by paying the growers a higher price" is contradicted in Memorandum No. 9 of the School of Slavonic Studies (op. cit.), p. 23.

The new unified price for bread which was fixed on January 1, 1935 amounted, on the average, to 62.8% of the "commercial" prices of 1934. The new prices for millet amounted to from 52 to 30% of the "commercial" price in the various zones, and for groats to from 37 to 14.3 per cent. (Neiman, op. cit., p. 293).

Hubbard, Soviet Trade etc., op. cit., p. 195.
underwent no or no considerable changes. We have already stated that the nominal prices at which the State collected grain, i.e., remained without a doubt artificially low. Unfortunately, we do not possess information as to whether rent and the prices for other cheap municipal services were raised after the abolition of rationing, but we have reason to believe that charges for these have remained inordinately low. Similarly it would appear that the relatively cheap prices of meals charged by the communal feeding establishments remained essentially unaffected. By virtue of a regulation of the Sovnarkom, dated January 22, 1935, "Concerning the Prices of Lunches and School Breakfasts", prices were stabilised at a very low level (viz., 65 kopeks for vegetable meals and 95 kopeks for meat meals) and it seems that these prices could not be altered.

What have been the price-trends since the introduction of unrestricted trade? It will be recalled that the Second Five-Year Plan provided for a price-decrease of 35 per cent and that this provision could not be fulfilled. In fact, the price-trends have by no means been uniformly downwards.

Reductions of "commercial" and bazaar prices had been taking place since 1933 and a lowering of "commercial" prices certainly took place in 1935.  

1 But, though the peasants did not benefit by the increased retail prices for food, their income from "free" sales of surpluses went up considerably.  
2 Deichman, Basic Tasks of Communal Feeding, Planovoie KhozISTVO, No. 5, 1935, p. 74. Colin Clark, Critique of Russian Statistics, London, 1939, p. 63. - The price for individual dishes could be increased if one of their constituents was flour, groats or macaroni, and only if the prices for these had increased within the given price-zone. 
3 For details cf. Boletin, The Unified Price and the current
As Molotov remarked in his speech announcing the abolition of rationing, "when talking about the lowering of prices one could only speak of lowering in comparison with "commercial" prices and not with the "normal" prices of the "closed" shops which were totally divorced from the market. Most foreign observers do not question this contention, but de Basily, when discussing an official comparison between the "uniform State prices" of 1937 and the "commercial" prices of 1933, finds that these two sets of figures are "absolutely incommensurable". He supports this argument (with which we are unable to agree) by the statement that in 1933, the working classes bought 90 per cent of their foodstuffs and manufactured articles at "normalized" prices (which again does not seem to stand the test of facts).

With de Basily's complaint, however, that the scantiness of information on prices remained after their unification we readily concur. The price-table which he reproduces from the newspaper "Light Industry" of May 9, 1937 is both incomplete as regards the items listed - the prices of manufactured goods are not shown -


(The reduction of bazaar prices - due to increased agricultural surpluses and the pressure of "commercial" trade in foodstuffs proceeded at first extremely unevenly in different parts of the country.) 2Quoted by Bulletin, No.118, 1934, p.6. Cf. Neiman, op.cit., pp.282-3 for reasons why unified bread prices could not be fixed at the normal level; also Bolotin, Planovoie Khoziastvo, No.8, 1935, p.93. 2Op.cit., p.363. 3Cf., e.g., Monograph No.9, op.cit., p.22 and 23; Hubbard, Soviet Trade etc., op.cit., p.58.
and as regards the years compared. The comparison between 1833 and 1937 (although in our estimate perfectly legitimate) does not throw light on the year-to-year changes in which we are interested.

The following facts seem to be beyond dispute, however: (1) the "planned" fall in prices was not realised; (2) the prices of foodstuffs (in State shops, co-operatives and the bazaars) underwent a substantial reduction; (3) prices for manufactured goods, on the other hand, did not follow the downward trend to the same degree, and in some cases, like leatherware, prices had to be raised. On the whole, slight "net" price-reductions appear to have occurred in the years 1935-1937. The unexpectedly intensive

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7 Cf., e.g., International Labour Review, February 1940, op.cit., p.198. The Soviet Comes of Age, op.cit., p.36.

This was due to various causes: (1) in some cases prices were fixed too low to satisfy the growing demands; (2) because of the addition to the Red Army's numerical strength which occurred during the period under review, it was not always possible to increase the supply to a point where it would absorb the demand at the planned price; (3) the higher price for certain manufactured goods - e.g. footwear - was due to the greater proportion of better quality goods placed on the market. (Cf. Henry Ware, op.cit., p. 41). On April 28, 1937, however, a decree was published reducing retail prices of various manufactured goods from 5 to 16 per cent. (For details cf. the leader Soviet Price Policy, Soviet Trade, No.6., 1937, p. 3 and the Encyclopaedia Britannica Book of the Year 1938, p. 686).  

In 1935 alone the total reduction of prices in state and co-operative trade amounted to 5000 million roubles. Reductions in 1936 amounted to approximately the same sum. In 1937 they amounted to 1500 million roubles. These reductions naturally caused a similar movement in collective farm and peasant trade." (The Soviet Comes of Age, op.cit., p. 86; cf. also the leader in Soviet Trade, No.6., 1937, pp.3-4.)
demand for consumers' goods in general (and for certain classes of manufactured commodities in particular) can be explained by the fact that nominal wages increased at a faster rate than was originally intended; but it is probable that only the better-off groups of Soviet workers were able to make the fullest use of buying opportunities. The failure of prices for manufactured goods to fall from their excessively high level was, no doubt, keenly felt by the less prosperous toilers. 1

A few details may now be given about the mechanism of price-planning in the last years of the Second Five-Year Plan. We prefer to treat this subject separately from trade-planning, since it transgresses the framework of the latter.

Elsewhere we have dealt in great detail with the manner in which price-planning was organised towards the end of the First Five-Year Plan and have also given a rough classification of existing price-categories (which remained unchanged during the Second Piatiletka). The abolition of rationing did not, it seems, greatly alter the procedure of price-planning. Naturally, certain organisational adjustments

1/International Labour Review, February 1940, op.cit., p. 197. Although, as a general rule, price increases are unlikely to follow "automatically" wage-advances - because of the peculiarities of Soviet economic planning and since any increase in remuneration is dependent on an increase in output with the result that there is a tendency for the ratio of wages costs to total costs for each unit of output (cf. I.L.R., op.cit., p.197) - we must remember that at the time of the transition of rationed distribution to "open" trade the "compensatory" wage increases involved "not only a direct rise in the prices of those consumers' goods which had previously been rationed, but also a rise in the price of other commodities, which had to be priced in future on the basis of a higher wage cost." (League of Nations, World Econ. Survey 1938/39, p. 80.) Cf. below.
proved imperative. By virtue of the decree of the Sovnarkom, dated August 25, 1934, the S.T.O. Committee of Goods Funds was abolished in connection with the re-organisation of the Narkomnab into the Narkomvnutorg; the division of the total market-fund into "normal" and "commercial" funds was, of course, discontinued as well. But the old procedure of subjecting different commodity-groups to varying degrees of intensity of centralised price-planning persisted.

The technique of retail price-planning, too, remained essentially the same as during the First Piatiletka: retail prices for the most important articles of common consumption (both foodstuffs and manufactured goods, like bread, meat, boots, clothes etc.) were fixed centrally by the Government and could be enforced by law. They could be raised only by the U.S.S.R. Government itself. The prices for the less important or more "local" consumption goods (e.g., sweets, milk) were set by local organs of the Government and the Narkomvnutorg, while prices for the least important consumers' goods (e.g., semi-luxuries like ties and musical instruments) were fixed by the retail trading departments of the Narkomvnutorg on the basis of central regulations concerning the calculation of these charges; only these departments and on no account could the shops themselves set these prices, although it was possible to see different prices in different shops for the same goods of the "third group"; but (in theory) only if the shops concerned belonged to different trading organisations. In this last case.

Yakovlev, Calculation of Prices etc., op.cit., p.7.
price-control was particularly essential and was exercised by the Narkomvnutorg through its department of State Trade Inspection which tried to verify whether the presence of unsold stocks of the third commodity-groups was due to excessive prices. Since the Torgi worked on the basis of economic independence, it may be presumed that they were interested in keeping retail prices at a level which would ensure at least the planned volume of turnover.

This is, of course, an extremely simplified picture of retail price-planning during the Second Piatiletka and might suggest that the complexity and chaos in the actual execution of price-planning (which we observed at the close of our review of price-planning during the First Five-Year Plan) was finally overcome in the years 1933-1937. This is not the case. The non-observance of the centrally fixed prices by the shop managers as well as the unauthorised increase of the legitimate price-additions continued. An examination of the working of shops, carried out by the Department/State Trade Inspection, e.g., revealed that out of 100 examined co-operative shops the non-observance of official prices could be registered in 37.

Besides, in spite of supposed central price-fixing

7This body was incorporated in the re-organised Nar-
komvnutorg (Sept.,11, 1934); it was based on the Price
Inspection which had originally been within the purview
of the People's Commissariat of Finance and had later
been transferred to the Narkomvnutorg.
8Pravda, 7.8.37. This despite the fact that on July
26, 1934, the Central Committee of the Communist Party
passed a resolution entitled "Concerning the struggle
against the cheating of consumers in weighing and measuring
and against the non-observance of the retail prices in
for the more important manufactured consumers' goods there were, in fact, conspicuous differences in the price for the same article of approximately similar quality. Thus, one factory turned out leather boots at a price 22 roubles higher than that charged by another factory for very similar footwear. There were also appreciable differences in the prices for fruit, even as between Moscow and Leningrad (e.g., 1 kgm tomatoes in Moscow cost 1 rouble 20 kopeks and in Leningrad 70 kopeks only). Furthermore, there were marked differences in the prices for almost analogous goods, depending on whether they were produced by State Union industry or by local industry and the handicrafts co-operatives.

Thus, price-planning turned out to be not so simple in practice as might be imagined from our simplified description. Towards the end of the Second Piatiletkas the Narkomnoutorg pursued a policy of differentiated retail price-additions. According to Kukhtin, who severely criticised this policy in the Pravda (6.7.37.), there were altogether no less than 120 different additions and discounts on various goods. Besides, the

(continued from previous page): trade." (Cf. G. Aronshtam, The Struggle for a Soviet Price-Policy, Soviet Trade, Nos. 2-3, 1935, p. 17. From this article it appears that the non-observance of price-regulations was rampant in the first years of the Second Piatiletkas.) Cf. also Pravda, 19.4.36. All these abuses cannot be simply attributed to defective retail price-planning; the regulation of delivery prices for consumers' goods showed many irregularities. The textile industry showed a particularly bad record. (Cf. Mikoyan's speech at the XVIII Congress, Land of Soc., op.cit., p. 372). Cf. also G.I. Kuznetsov (ed.), Collection of delivery and retail prices and trade additions on foodstuffs, Moscow-Leningrad, 1936, (R). Pravda, 22.9.37.
etc. in the work of price-planning led to muddle and overlapping and confused both the consumer, who became suspicious, and the shop manager, who was not supplied with sufficiently lucid and consistent regulations of how to calculate the additional charges.

Thus the need for reform was evident. Kukhtin, for instance, proposed (1) the liquidation of the system of excessively differentiated retail price-additions and the adoption of the system of establishing uniform additions for broad groups of related commodities; (2) the setting up of a unified system of regulating these additions; (3) the making compulsory of the additions for all trading organisations; (4) the extension of the practice of the supply organisations charging "carriage paid" prices; (5) the limitation of the right of price-fixing of the various economic organisations in strict conformity with the type and the radius of those commodities whose prices are not fixed by the Government and the entrusting of the general supervision of price-fixing to the Narkomvnutorg; (6) the equalising of prices for the products of local industries and the handicrafts co-operatives with those of Union industry; (7) the regularisation of the publication of price-lists.

The former People's Commissar of Internal Trade, Weitzer, defended the policy of differentiating retail price-additions in an article (published in the Pravda on August 7, 1937) on the following grounds: (1) the introduction of uniform retail price-additions would necessitate a revision of existing prices which, he thought, was undesirable; (2) differentiation was
necessary, because the conditions of purchase (season, demand etc.) vary. An elastic framework (i.e., changes in additions and discounts) was an important instrument for shaping demand for a particular good, and for influencing the quality of service in different shops. Instead of unifying retail price-additions Weitzer suggested the extension of the system of zone prices whose absolute extent is fixed by the Centre. Such a reform would, he claimed, enable the consumer to check for himself whether or not he is charged the officially established price, and would likewise relieve the trading organisations of the burden of calculating (and mis-calculating) prices. He agreed with Kukhtin, however, that the price-difference between products of State and local industry could be abolished and subscribed also to the need for delineating the exact functions of the price-fixing organs.

To judge by Mikoyan's speech delivered at the XVIII Party Congress on March 13, 1939, this is what happened: "There has been some confusion in prices, due to the fact that the wholesale prices were fixed by the Government, while the retail prices were fixed by the local trading departments and branches of the Co-operative Societies by adding an additional charge to cover overhead, transport expenses, etc. Often this gave rise to abuses. Yet think of the number of clerks it would have taken to calculate the prices properly. Now the Government has adjusted matters by putting fixed retail prices on most commodities, and the consumer
can now check prices with the price lists endorsed by the Economic Council which nobody has the right to change."

In conclusion, it might be observed that price-planning during the second planned quinquennium did not reach that degree of perfection which is demanded by an efficiently and smoothly operating mechanism of integral planning. It was found that overcentralisation in the procedure of fixing prices handicapped the economic independence and versatility of the trading units and was not always practicable because of the diversity of economic, social and geographic conditions, while lack of centralisation in price planning led to manifold abuses. "Until the ambit of men's altruism grows wider" (Keynes) it is not always easy to reconcile the centrifugal tendencies of the General Economic Administration with the centrifugal forces of the plan's "self-supporting edges". As regards price-planning, division of functions is clearly imperative, but the optimum arrangement has not yet been attained. It may be assumed that if and when all trading enterprises of the Soviet Union become remunerative and their standard of efficiency more uniform throughout the country (while conditions of production will become more standardised) centralised fixing of retail prices will become the most appropriate method.

The Land of Socialism To Day and Tomorrow, op. cit., p. 372.
As far as price-trends are concerned, the failure of the planned price-reductions to materialise points to the conclusion that it is extremely difficult, under conditions of industrialisation and re-armament, to pursue a policy of simultaneous wage-increases and of lowering prices. Hence the improvement in living standards has been much more modest than anticipated.
CHAPTER VIII

SOME REMARKS ON THE IMPROVEMENT IN THE
STANDARDS OF LIVING UNDER THE
SECOND FIVE-YEAR PLAN
IN THE STANDARD OF LIVING UNDER THE SECOND FIVE-YEAR PLAN

In our account of the principal results of the Second Five-Year Plan we have given some figures illustrating the growth in the output of consumers' goods. From this it was tentatively deduced that a certain amount of improvement in living standards took place during the period under review. The problem of the standard of living in the U.S.S.R., however, raises rather complicated questions which must receive special consideration. The following comments are not intended to be exhaustive, but are designed to bring out some of the difficulties with which an investigator of this most vital question is confronted, and to supplement the remarks which were made on the standard of living of the Soviet people during the First Five-Year Plan.

The main difficulty refers to that of comparison and its terms. This difficulty does not arise only in the case of the Soviet Union; it is present, to all intents and purposes, in all comparative studies of standards of living and often renders their results quite misleading. The comparison, e.g., of average money incomes of two countries is only possible, if these countries "resemble each other in population and culture." But even in such a case their average

/Australian Standards of Living, Melbourne, 1939, p. 62.
real income cannot be compared directly "unless either the two countries are practically identical in population, and consumers' wants and inequality of incomes, or one happens to produce all that the other does, plus something more which clearly gives it a higher standard of living."

But such cases, if they exist at all, are extremely rare. If one comes to compare the standards of dissimilar countries, the "difficulties encountered in the calculation and comparisons of the average real incomes...reappear, to a great extent, in any attempt to compare the average real incomes of particular classes in these countries." Furthermore, if, on the basis of money incomes "it is possible to compare the dispersion of incomes in different countries ... the significance of different degrees of dispersion about the average is only apparent if the countries in question have similar cultures." Hence, not only are "most international comparisons of living standards misguided in intention, but those to which approval can be accorded are practically impossible; except between nations which resemble each other so closely as to rob the comparisons of much of their interest."

The difference in "culture" is, of course, patent in the case of the Soviet Union, and it is therefore not surprising that the attempts of "economists, visitors to Russia and organisations...to compare

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1 Ibid.
2 Ibid., p. 63. Italics ours.
3 Ibid., p. 63.
4 Ibid., p. 64.
the present standard of life of Russian workers with that at previous periods, as well as with workers' earnings abroad ... are very incomplete and somewhat contradictory when compared with each other. Owing to the peculiarities of the Soviet monetary and price systems, comparisons in monetary terms are particularly futile, both as regards capitalist countries and Czarist Russia. "Pre-war statistics are probably much more unreliable than any Soviet figures. ... (Besides) money wages are... not the only indicators of real income. Public amenities form a substantial addition to it, ...(while) the extraordinary qualitative changes in demand in favour of semi-luxuries and luxuries introduce further complications. The collective satisfaction of wants and the growth of public catering is an entirely new phenomenon for which there is no comparison."

On the subject of contrasting wage-rates in the U.S.S.R. with those in other countries, Kuczynski has this to say: "It is comparatively easy to translate wages in marks into wages expressed in shillings and since the role of wages is about the same in Germany and Great Britain, it is possible to compare the development of wage indices in these two countries. But it is absolutely impossible to translate roubles into shillings, for roubles have formerly had such a different purchasing power in different markets...; and it is equally impossible to compare wages in Great

Britain and in the Soviet Union, if to wages in the
latter are added immense social and cultural services
rendered free while the social services added to wages
are of relatively minor importance in Great Britain."

As regards the method of comparing the standard
of living of the Soviet Union with that ruling in
other countries or in pre-war Russia in physical
terms of per capita consumption, the accuracy of the
average as the standard of comparison between countries
with different social make-ups would remain extremely
questionable. Under capitalism there exist extreme
inequalities in consumption and a high per capita
consumption does not necessarily bear out a high
degree of prosperity among the working population.

Even such a realistic approach to our question
as the "comparative study of the actual content of
typical family budgets of different classes in the
relevant countries" would have to be used with great
cautions as regards the Soviet Union, since its social
divisions do not conform to the capitalist pattern.

Still, such a comparison would probably yield the
most tangible results.

2 In connection with the measurement of Soviet Russia's
national income per head of population Dobb has this
to say: "...figures of income per head here represent
the industrial achievements of recent years averaged
over a population of 170 million, nearly two-thirds
of whom are still agricultural. It is an average,
not only for European Russia, but for a population
that is largely Asiatic; and being an average...the
contrast with Britain and America is peculiarly
accentuated." (Science and Society, Vol. IV, No. 1,
pp. 85-6; rev. of Clark's Critique of Russian Statistics).
Similar arguments can be advanced in connection with
comparisons of standards of living. 3 Australian Standards, p. 64.
4 In the course of the Soviet Union's economic history
the relative proportions of expenditure have radically
changed so as to become almost incommensurable with
those prevailing in the capitalist world. Henry Ward
Apart from incidental comparisons we shall not attempt to contrast systematically the standards of living of Soviet Russia with those of other countries, but will limit ourselves to some observations on the trends in the growth of well-being of the representative groups of Soviet society.

As regards the rate of progress it must constantly be borne in mind that recovery of the Soviet standards of living proceeded from an extremely low level reached at the end of War Communism and that a major setback to the upward movement occurred during the First Five-Year Plan.

Food was (and is) the most important item of all toilers. According to "Labour in the U.S.S.R." quoted by de Basil, food accounted for 67.5 per cent of all expenditure (p. 377), says very aptly that "it is impossible to say how much the rouble is worth in terms of dollars. It all depends upon what you are buying. The crux of the matter is that while in most parts of the world the various items composing a family budget are to be found in relatively unchanging proportions for any particular standard of living, these proportions are basically different in a socialist economy. While ordinarily a person spending 65 per cent of his income on food and clothing would be on a very low standard of living, this would not necessarily be the case in the Soviet Union. ... Take the hypothetical example of a family living on a real income of an unchanging size, represented by 10 units. In America, England, China or Australia the family might spend the units about as follows: Food and Clothing 5, Health 1, Everything else 4. If this same family went to live in the U.S.S.R., it would find that its ten units had to be spent in different proportions - approximately as follows: Food and Clothing 7, Health free, Everything else 3." 

Ware goes on to emphasise how erroneous it is to take the relations between prices of goods and services in different countries for granted and to forget that they are potentially variable. - For Family Budgets in the Soviet Unions cf. Turin, op. cit., pp. 151 et seq., de Basil, op. cit., p. 377; Monthly Review of the Soviet Trade Delegation in Britain, Nov., 1937, Consumption and Demand, op. cit., p. 114 and pp. 128-9. / For first attempts in this field cf. Kuczynski, op. cit., particularly his conclusions, pp. 90 et seq. 2 As a result of war and civil strife, national income per capita had fallen by more than 80 per cent in 1921. (Cf. C. Clark, Critique, p. 16).
of the total expenditure (but not the total wage) in a workman's budget. Strangely enough, de Basily deduces from this fact that the real wages of Soviet workers must be very low, since it is "common knowledge that the lower the real wages are, the greater is the proportional part of earnings that has to be spent on food." In the first place, if comparisons must be made, there is not such a marked difference in this respect between the Russian and, say, the British workmen, the latter being reputed to enjoy a relatively high standard of living. According to the index of the Ministry of Labour the food item accounts for 60 per cent in the cost of living. The mere fact that the Soviet worker spends such a high proportion of his budget on food does not by itself signify a low standard. It is a well known fact that the expenditure on rent in contemporary Russia is extremely low, even if housing facilities remain extremely inadequate. Furthermore, it is equally well-known that the proportion of the "socialised wage" is higher in the Soviet Union than in other countries. "Social services expressed in money terms amount to about one-third of the wages the worker gets." Hence, it

1Basily's statistics refer to 1935. It is interesting to note that, according to an investigation into the expenditures of 600 families of Dniepropetrovsk's workers (chiefly metal), undertaken by the regional Board of National Economic Accounting, expenditure on food fell from 62 per cent in the first quarter 1935 to 54 per cent in the corresponding quarter of 1936. (Cf. Pravda, 25.4.36.) 2In 1935 it amounted to 5.7 per cent of the average worker's budget; in 1939 it fell to 4.3 per cent. (Cf. de Basily, op.cit., p.377 and Scientific Publishing Institute of Pictorial Statistics, USSR, An Album Illustrating the Statistical Organisation and National Economy of the USSR, Moscow 1938, p. 103). 3Cf. Int. Lab. Rev., Feb.'40. 4Kuczynski, op.cit., p.86. This is confirmed by Citrine, op.cit., pp. 334-5. For details during the First Plätilka and general importance for the standard of living in the
is erroneous to imply, as de Basily apparently does (op.cit., p. 377), that only because the expenditure on food amounted only to 50 per cent of the total budget before the Revolution and during the NEP, the real wages of Soviet workers must have fallen recently. In view of the relative cheapness of certain services and the gratuity of others, the food item is bound to figure very prominently.

The improvement of the food situation of the whole population in the course of the Second Five-Year Plan was remarkable. At first (1934) this improvement was only slight, but according to Kuczynski progress has been very rapid since then. This is confirmed by such a cautious investigator as Colin Clark according to whose "Critique of Russian Statistics" (p. 63) food consumption in the aggregate rose by 14 per cent between 1934 and 1937. It must not be forgotten, however, that the food situation had been very precarious during the First Five-Year Plan owing to harvest difficulties and the slaughter of livestock - about half the cattle were destroyed after 1929. Although it is recognised by many orthodox economists that the long-range consequences of collectivisation (increase in productivity per agricultural worker, extension of the cultivated area and in the cultivation of the labour-intensive industrial crops) are likely

to prove salutary, the short-term consequences as regards the production of animal foodstuffs were disastrous. Only recently have cattle and pigs passed the pre-revolutionary level, while the number of sheep and goats remained well below the 1916-mark.

"Friendly" critics like F. Le Gros Clark and L. Noel Brinton ("Men, Medicine and Food in the U.S.S.R.", London, 1936) could not help admitting that the supply of meat was very inadequate towards the end of the Second Five-Year Plan (p.66) and pointed to the official admission that the milk supply, while steadily increasing, was (towards the end of 1935) insufficient for the full nutritional needs of the people. The position as regards grain has been more satisfactory, the volume of harvests exceeding the pre-war level throughout the years under review.

Thus it can safely be said that while the food situation improved markedly as compared with the first quinquennium, it was not much different from what it was at the end of the New Economic Policy. But the noteworthy feature of the food situation is the rapid improvement from year to year, especially after 1934.

Another very important point to be noticed is the qualitative improvement of the food consumed. The Monthly Review (November 1937) gave the following information as to the per capita consumption of important foodstuffs in the Soviet Union and its changes:

1 Colin Clark observed "A much more generous diet for the Russian population, at any rate so far as pork is concerned, will soon become possible." (op.cit., p. 59).
2 The marked diminution in the export of foodstuffs, which occurred in the course of the Second Piatiletka, eased the situation considerably.
3 The League's World Economic Survey (1932-33) asserted that the production of foodstuffs per head between 1933 and 1937 appeared to have fallen. (p.64).
between 1932 and 1936: (in %)

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>1932</th>
<th>1936</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>100</td>
<td>128</td>
</tr>
<tr>
<td>Potatoes</td>
<td>100</td>
<td>107</td>
</tr>
<tr>
<td>Fruits and Berries</td>
<td>100</td>
<td>195</td>
</tr>
<tr>
<td>Meat and Fats</td>
<td>100</td>
<td>188</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>100</td>
<td>192</td>
</tr>
<tr>
<td>Sugar</td>
<td>100</td>
<td>143</td>
</tr>
</tbody>
</table>

Sir E.J. Russell, D. Sc., F.R.S., gave the following per capita figures for 1937: (lbs per head per annum):

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flour (rye etc.)</td>
<td>484</td>
</tr>
<tr>
<td>Potatoes</td>
<td>338</td>
</tr>
<tr>
<td>Vegetables</td>
<td>246</td>
</tr>
<tr>
<td>Meat</td>
<td>74</td>
</tr>
<tr>
<td>Eggs (number)</td>
<td>67</td>
</tr>
<tr>
<td>Milk and milk</td>
<td></td>
</tr>
<tr>
<td>products (gals.)</td>
<td>37</td>
</tr>
<tr>
<td>Margarine</td>
<td>10</td>
</tr>
<tr>
<td>Sugar</td>
<td>30</td>
</tr>
<tr>
<td>Conserves and Pastries</td>
<td>38</td>
</tr>
<tr>
<td>Fruit</td>
<td>--</td>
</tr>
<tr>
<td>Fish</td>
<td>24</td>
</tr>
</tbody>
</table>

As Kuczynski rightly remarks, the consumption of potatoes and bread increased least, that of fruit, meat and dairy products has increased most. Furthermore, the tendency among the urban working population has been recently to prefer prepared and semi-prepared to unprepared foodstuffs. All this is not the result of an elemental development of productive forces, but to a great extent due to conscious and scientific planning of the nation's food requirements. This has been recognised by such a disinterested body as:

"For purposes of illustrating these figures I may point out that the quantities of meat, eggs, milk and milk products, margarine and fish are somewhat less than half those consumed in Great Britain, the sugar is about one-third, the flour is more than double and the potatoes..."
the League of Nations Health Organisation, whose Quarterly Bulletin for June 1935 remarked that the U.S.S.R. "in conformity with the doctrine of the Communist Party, aims at organizing the nutrition of the people in accordance with the laws of physiology and the norms of hygiene. ... The norms, or standards of alimentary requirements govern production and supply."

As regards clothing, the principal production figures which have already been given elsewhere, indicate an even more rapid improvement than in foodstuffs. Here the advance has unquestionably outstripped both the 1913 and the 1928 levels, the increase in the number of footwear being particularly remarkable. Thus, the effects of industrialisation and of collectivisation (industrial crops!) were much more in evidence in connection with the improvement of the clothing standard. But to judge by Molotov's per capita figures, the Soviet Union is still a long way behind the other countries.

Before considering the standard of living of industrial workers and peasants one important point of difference between the Soviet Union and other countries must be borne in mind. In Russia the average number of dependents is estimated at 1.7, which is much lower than in most other countries.

(continued from previous page): represent an increase of about 60 per cent. But comparisons are meaningless because of the differences in customs and standards. (Ibid.)

Quoted in "Men, Medicine and Food in the U.S.S.R.", op. cit. (cf., e.g., Handbook, op. cit., p. 149; Colin Clark, op. cit., p. 42). In 1937 there was 1 pair of leather footwear available per head of the population. "On the basis of the 1913 output, however, each individual would have had a pair only in seventeen years." (Winterton, op. cit., p. 487).

(Cf. Molotov's Report on the Third Five-Year Plan, op. cit.)
This means that figures as to average individual earnings of workers and peasants do not indicate the standard of family consumption.

As regards the standard of living of the peasantry, the output of grain has not only kept pace with the rising total population and, since the rural population has fallen recently, the per capita output has increased slightly, but it is still very poor as compared with other countries. In many other respects, however, the Kolkhoz peasant was infinitely better off than before the World War. Hubbard thinks that the improved material position of the peasant is not due to the advantages rendered by the Soviet system, but he gives much of his argument ineffective by adding that the old régime peasant who might have afforded things like watches, bicycles etc. "had no particular urge to possess them." 2

There is little doubt that vis à vis the industrial proletariat the standard of living of the rural population during the period under review improved as well. Indications to this effect could be gleaned from our survey of recent trends of rural trade. D. Warriner is right in saying that as the volume of industrial production increases "the ratio must change in the farmer's favour or there will be no market for the industrial products". 3 Writing in 1933, she adds that this stage "has now been reached; the State is trying to pump back purchasing power for industrial products on the land."

(continued from previous page): p. 18. On the basis of Molotov's forecasts (p.28) the following (rough) per capita prod. figures can be computed for the end of the Third Planiletka (on the assumption of an extrapolated (even) population growth): cotton fabrics (sq.metres): 21.3; woolen fabrics (metres): 18.23; leather footwear (pairs): 1.3. 4 Agriculture, op.cit., p.289. 5 Op.cit., p.182. 1 Ibid.
Another tendency noticeable in the standard of living during the Second Five-Year Plan is the presence of a considerable degree of inequality in wellbeing, both in town and country. As regards the workers, even the figures of average earnings of the various classes of workers show wide discrepancies in purchasing power. According to figures contained in the statistical Yearbook "Socialist Construction" (op.cit.) the average monthly wage of the technical and engineering workers in the heavy industry as a whole came to 436.97 roubles in 1935, that of "employees" to 234.20 roubles and that of the junior staff to 118.38 roubles.

Pronounced variations in the daily earnings could also be observed in the case of Stakhanovite workers. The daily wage of Leningrad Stakhanovites fluctuated between 42 and 170 roubles. Many other examples could be given.

In the countryside, likewise, inequalities of income were frequent. "It was beyond the power of the Bolsheviks to overcome differences in density of population and in fertility of soil, and therefore the average prosperity of Kolhoz in districts such as the North Caucasus and South-East Russia where the area of crops per head is large, is higher than in the central agricultural regions where the area per head is much smaller. But the actual differences in the well-being of the Kolhozniki are much greater than cannot be accounted for by local and natural conditions, and are the results much more of differences in the ...

2 For details cf. Consumption and Demand, op.cit., p. 80.
in the efficiency and honesty of Kolhoz managements and local party and government officials than of differences in productive resources and capacities. It is stated that in 1937 tens of thousands of Kolhoz dvory (homesteads) received over 1000 puds (over 16 tons) of grain, and millions of dvory more than 500 puds. Thus, only the more prosperous peasants could, it seems, afford to buy the small luxuries and semi-luxuries. But the average expenditure per dvor has been continually rising. According to official figures quoted by Hubbard it was 33.5 per cent more than in 1936 and 76 per cent more than in 1935 ("in which year, however, average retail prices were lower than in 1937").

The concept of the average in this connection is more admissible in the Soviet Union than in other countries, where the class-structure of society is much more rigid. In our estimate it is wrong to think of the various income-groups among the Soviet agriculturalists and the Soviet proletariat "as immobile social castes with vested interests, whose extravagant tastes the distributive system is eager to serve. There is a constant moving up from the bottom, since equality of opportunity is, on the whole, assured and the advance does not entail the encroachment of the standard of life of those at the top." On the other hand, however different in its economic roots Soviet inequality is from capitalist inequality, it would be wrong to overlook the

1 Agiculture, op.cit., p. 224.
2 Ibid., p. 221. "The average amount of the cash income per peasant holding in the collective farms is said to have increased to 3.5 times the 1932 figure." (Int. Lab. Rev., Febr. 1940, p. 197).
3 This does not tally with our information. 4SIA Journal, op.cit., 469.
propensity for all social groups that are privileged and generally better placed in society to try to perpetuate their particular status.

Apart from these complications there is little doubt that the trend in the standard of living of the Soviet peoples during the second planned quinquennium was one of fast forward movement (though towards the end of the period, it appears to have been severely retarded by intensified rearmament.) As the "Economist" observed, "the conjecture that both industrial and agricultural output have been increasing faster than population in the most recent period is not extravagant." ²

At the end of the Second Five-Year Plan all economic pre-requisites existed for the further improvement in the standard of living. Industrial activity was in full swing. As regards agriculture, although the average yield did not materially increase, it was "certainly better than on pre-War peasant land" and it can be expected that eventually, when the extension of the area under cultivation has been pushed to its possible limits, intensive cultivation will bring higher yields.³ This, in conjunction with the high productivity of agricultural labour and the natural recovery in the numbers of livestock, should in time more than solve the food situation of the entire Soviet population. As regards industry, the production of consumers' goods will

¹Cf. Hubbard, Soviet Trade etc., op.cit., for characterisation of inequality under capitalism and in the U.S.S.R. (pp. 103-4). Cf. also Book III.
²Issue of 10.6.39, p. 581. ³Hubbard, Economics of Soviet Agriculture, op.cit., p. 253. In 1942 average grain yield is planned to be 13 centners per hectare. (Land of Soc., op.cit.)
sooner or later "expand more rapidly than capital goods and the rate of savings will be modified to a a more tolerable burden, and both the landworker and the industrial worker will benefit from mutually expanding markets." The task of Soviet trade in this connection becomes evident: a smooth working of the distributive machinery should help to to accelerate this process.

[Hubbard, Economics of Soviet Agriculture, op.cit., p. 287.]
CHAPTER IX

THE PLANNING OF TRADE "FROM BELOW": METHODS OF STUDYING CONSUMERS' DEMAND
THE PLANNING OF TRADE "FROM BELOW"
METHODS OF STUDYING CONSUMERS' DEMANDS

The greater emphasis alone that was placed on the growth of consumers' goods industries and the development of trade explained the greater care which was shown towards the consumer during the Second Five-Year Plan. The de-rationing of trade and its consequences which we have surveyed made the setting up of a system of adjustments to the interests of the consumers absolutely necessary: under conditions of Khozraschet and unrestricted sales the failure, on the part of the trading units, to pay diligent attention to the wishes of the consumer would have entailed the accumulation of unsold stocks and thus caused financial difficulties.

These material changes (brought about, in the last resort, by the growth of productive forces) caused a revision, or rather a precision, of the official attitude towards consumption. At the time of the goods-famine and even before, the prime importance of consumption as the crowning act of economic activity was hardly ever stressed. In

As early as January 1924 the XIII Party Conference observed that one of the greatest shortcomings of the co-operatives was their inability to serve the demands of the peasant market. The resolution of the Central Committee of the C.P.S.U. "Concerning Internal Trade and Co-operation" (April 1924) prescribed that the assortment of goods handled by the co-operatives should be adjusted to the needs of workers and peasants. The XIII Party Congress and the XIV Party Conference re-emphasised the importance of the co-operatives concentrating their attention on goods in demand by workers and peasants. During the first quinquennium even pronouncements of the Authorities on questions of demand were relatively rare. In 1930, e.g., the Central Committee of the C.P.S.U. urged the organisations concerned to stop supplying villages with goods which did not correspond to local rural demand, and appealed to the co-operatives to voice the demands of their
the few discussions on this subject the dangerously utopian ideas of equalitarianism were to be met with quite frequently.

A change of attitude occurred in the first years of the second quinquennium. The Soviet leaders began to remind themselves and their followers of the commonplace that means of production are ultimately destined not for production but for consumption. At the XVII Party Congress Stalin condemned as non-Marxist all those theories according to which uniformity in consumption, tastes, likes etc., was a thing to be desired. "We cannot ask of people", he exclaimed, "that all their needs and desires should be uniform, that all of them should conduct their private lives along the same pattern." He continued that it was utter nonsense to maintain that "according to Marxists all have to wear similar clothes, eat the same dishes in equal quantities." These rather platitudinous statements are only interesting in so far as they illustrate the then occurring change in attitude in this respect.

But a change in attitude was not sufficient in itself. If the newly gained freedom of the consumer

(continued from previous page): customers when ordering goods from their suppliers. The 1931 Appeal of the Sovnarkom and the Centrosoyuz censured the co-operatives for showing neglect of the consumer and allowing the depersonalisation of trade. (Cf. L.N. Mikhalovsky, "System and Methods of Studying Consumers' Demand", Consumption and Demand in the U.S.S.R., op.cit., pp.165-6). "We are developing production for the sake of consumption. Speaking of the development of our national economy and transport, Comrade Stalin said in his report at the Seventeenth Party Congress: "It is high time we realized that in the last analysis goods are produced not for the sake of producing but to be consumed." And we make machines... in order that they may produce goods for consumption." (A.I. Mikoyan, speech delivered on Jan. 16, 1936, Soviet Union 1936, London, p.313). Both quotations from
was to become real; methods had to be devised by which the preferences of the buying public could be registered and passed on to the various industries concerned.

This field was almost wholly unexplored. There is very little trace of any original schemes of registering consumers' demands during the NEP. We know that socialised trade in those days was content with following the broad trends of the market which were determined by the individualist peasant-economy and that market planning, though present, was still extremely immature. During the first planned quinquennium researches into the question of measuring consumers' demand were extremely rare, while the few practical measures relating thereto did not go very far. More interest for this type of work was shown in the second half of 1931, but right


The February Plenum of the Central Committee of the C.P.S.U. (1927) drew attention to the importance of the study of consumers' demand for the national economy as a whole and for industry in particular. For this purpose State and co-operative trade were called upon to develop methods which would in good time sense changes in demand and pass them on to industry. (Cf. L. Mikhalovsky, op. cit., p. 166). Shnirlin, article in Plan, op. cit., p. 34.

In accordance with a decree of the S.T.O. dated July 3, 1929, permanently functioning so-called "Assortment Bureaus" attached to the branches of Syndicates, and "Control-Assortment Points", attached to trading organisations were set up. The "Points" were to work in close co-operation with the "Bureaus" and their main task was to act as "feelers" in the study of mass-demands. The "Points" were established in certain shops and were supposed (1) to study changes in demand of different groups of the population for different classes of goods brought about by the improvement in the standard of living; (2) to control the quality of products of State industry; (3) to ascertain the velocity
until 1934 the Communist Party paid very little attention to it. Shortly before the introduction of "open" trade there were quite a number of methods of registering consumers' demands in operation. These methods were being applied to the then existing "open" forms of trade with varying degrees of success, but, generally speaking, their efficacy was limited so long as the distribution of the most essential commodities proceeded by way of rationing and so (continued from previous page): of turnover of various commodities and (4) to analyse the costs connected with their realisation. (Mikhalovsky, op. cit., pp. 167-68). Compare also Shnirlin, op. cit., p. 35). Another system of studying demand and adapting production to the needs of consumption was that of preliminary orders given to industry which were orientated towards the particular wishes of the clientele. It was being tried out towards the end of the First Five-Year Plan. On October 28, 1932 the Sovnarkom resolved that 45 per cent of the market-fund of sown cotton goods, 60 per cent of cotton goods, sown woollen goods and footwear, silicates, and 75 per cent of the output of goloshes was to be handled on the basis of preliminary orders. It was hoped to develop this system still further in the course of the second quinquennium. (M. Lifits, The System of Preliminary Orders and the Study of Consumers' Demand, Soviet Trade, No. 1., 1933, p. 118). Cf. also Shnirlin, Planovoie Khoziastvo, p. 88 et seq. Shnirlin considered it possible to extend this system, in course of time, to all basic industrial and agricultural commodities. (ibid., p. 77). /Shnirlin, ibid.

/For details cf. Shnirlin, article in Plan, op. cit., p. 35.
long as general scarcity of merchandise was not overcome. Only when it was abolished could the suitability of the various methods be fully tested and, if necessary, replaced by entirely fresh devices conforming to the new conditions of Soviet trade.

Now, the methods of studying consumers' demand which were in operation during the Second Five-Year Plan have first to be classified in accordance with the purpose they had in view.

The first group of methods was designed to ascertain the broad trends and the rough volume of demand in the country. Since the volume of demand depends on many economic factors outside the control of the trading unit (wages, prices, population movements etc.), these methods were predominantly utilised by such planning bodies as the Gosplan, the Ts.U.N.Kh.U. and various research institutes and the like, e.g., those attached to the Narkom-vnoutorg and the Centросоюз. The methods were applied either as studies of budgets (by means of systematic questionnaires submitted to representative cross-sections of consumers) or in the form of balances, e.g., by contrasting incomes and outlays or the production and the distribution of goods. Such studies extended by necessity over longer periods and could not pay attention to particular commodities. They provided extremely valuable data for the long-term planning of trade and of the entire economy, but they were insufficient from the point of view of the "operative" day-to-day requirements of shops. More will be said about them /Mikhalovsky, op.cit., p. 169.
in another context.

The main purpose of the second group of methods was to attempt to ascertain not what and how much the broad mass of consumers have been buying during the last quarter or the last year, and how they were likely to plan their future purchases, but what a fairly small group of customers is going to demand to-morrow in one particular shop or district. With this end in view the data had to be made definite in terms of quantity, quality, season, district, shop etc. Hence it follows that, as far as the last group of methods is concerned, the main work had to be performed by the retail shops themselves "as the points of direct contact with the consumers." Only after the completion of de-rationing could this work yield tangible results in the sense of influencing the production programmes of the light and food industries.

A summary of the more interesting and novel methods of the second category throws light on the status of the consumer, on the degree of his freedom and on the peculiarities of Soviet trade. It also illustrates the subsequent general treatment of our subject. It is based on information gleaned from Mikhalovsky, Shnirlin and various other sources.

Mikhalovsky and Shnirlin divide these "operative" methods into two groups: (1) methods of studying demand on the basis of direct contacts with the

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1Ibid. (i.e., Mikhalovsky, op. cit.).
2Cf. our discussion of the "retroactive influence" of Soviet trade in Book III.
3Strictly speaking there is really no difference in purpose between the two kinds of methods (since both study volume and structure of demand) but only in their scope.
consumer and (2) methods based on the utilisation of statistical data obtained either without any reference to the consumers (i.e., by such means as, e.g., analysis of surplus stocks) or with the help only of their indirect participation (e.g., registration of rejected goods and the like).

Towards the end of 1935, retail shops used the following devices for registering consumers' demands: (1) books were provided for the entry of suggestions; (2) questionnaires were either distributed among, or sent to, the clients; (3) facilities were provided for taking into consideration the demands submitted by organised bodies of consumers; (4) receipt-books of salesmen were scrutinised; (5) the velocity of turnover of various commodities was ascertained by means of card-indices (i.e., by registering the realisation of a particular lot of goods); (6) surplus stocks were analysed with a view to establishing the degree of "popularity" of different goods; and (7) conferences of the sales-staffs were being held. As regards wholesale organisations, consumers' demand was, in the main, gauged in the following two ways: (1) visits of specially appointed representatives to fairs, bazaars etc.; and (2) questionnaires sent to the consumers.

On the whole it may safely be said that the methods of registering consumers' demands in the countryside were not so far advanced as those practised in the towns. Suggestion books existed, but were hardly ever used or used in such a manner as to frustrate their whole purpose. In addition, the administration
of the village co-operative did not possess sufficiently exact data about the number of people it was supposed to serve and did not know the exact numerical strength of the various collective farms etc. in its district. One should have thought that this was not such a very difficult task. In any case, this statistical backwardness explains why the orders and requests of collectivised consumers, which should have been an almost perfect indication of the demands of the Soviet village, were not systematised and could only be used as a rough guidance in connection with the orders of a Selpo. Too much reliance, it seems, was placed by the managers of the rural co-operatives on their personal knowledge of local conditions etc. and this supposed intimacy in the relations between a Selpo and its customers was made an excuse for failing to register systematically the demand according to farms, sexes, age-groups, commodities, quality, seasons etc. Personal contacts may be satisfactory for the purpose of a very small shop, but they are certainly antiquated, haphazard and unscientific in a planned system of consumption.

In the countryside registration of consumers' preferences was carried out chiefly by the Raymagi (district stores) by inviting entries in the so-called "Books of Demand" which were supposed to be conscientiously perused and passed on to the wholesale bases. The practice of sales-staffs meeting together and discussing questions concerning the

It must not be assumed, however, that the position in the cities left nothing to be desired. Cf., e.g., Mikhalovsky, op. cit., p. 170.
assortment of goods according to the wishes of consumers can also be recorded. The work of studying rural demand was clearly becoming concentrated in the Raymagi as the leading branches of "cultured" Soviet trade in the villages. But it must not be imagined that the results achieved in this direction were more than modest. Consequently the co-operative wholesale bases (Mezhraybasy) tried to supplement the meagre information they obtained from the co-operative retailers on the state of consumers' demand by calculations of their own. These proceeded along two lines: first, there was the attempt to get to know the requirements of purchasers by such direct measures as asking the Selpo to fill in chits of its quarterly requirements in the various commodities. As often as not, however, the requirements thus voiced were irreconcilable with the financial status of the Selpo. Hence the Mezhraybazy began to resort increasingly to the practice of sending their own agents to bazaars which dealt in goods that had been rejected by the Selpo as "unpopular". These agents noted the state of supply and demand, and on the basis of this information the Mezhraybazy made up their mind whether or not the commodity in question was "popular in fact. The Selpo was informed accordingly and was also advised what class of consumers could be expected to purchase the supposedly "unpopular" merchandise and in approximately what quantities.

Among the remaining devices whereby the Mezhraybazy of the rural co-operatives tried to get
into direct touch with the consumer, the first, viz., the sending out of small printed questionnaires, did not yield tangible results. The other, however, which consisted in personal interviews, proved extremely valuable (although practised but rarely). Lastly there was the device of the appointment by the wholesale bases of correspondents, usually shopmanagers, who were asked to keep an exact account of their customers' wishes, but apparently the importance of this very appropriate method was not sufficiently recognised and no practical results ensued from the material thus collected.

Somewhat different methods were applied in the cities and towns.

Many Univermagi (which were supposed to serve as model establishments) tried to utilise all the "operative" methods described above. In most cases the task of studying consumers' demand was in charge of the so-called "Control-Assortment Points". Usually the managers complained about the failure on the part of the customers to make manifest their complaints or suggestions in a book specially provided for the purpose, however prominently it was being displayed. This failure was not attributed to the indifference of the purchasers but rather to their preference to lodge their criticism or to state their wishes orally to the shop-personnel. The obvious conclusion was to train the staffs to receive the suggestions. This was by no means easy, since the shop assistants usually relied on their own memory with the result that the data obtained
were vague, lacked numerical exactitude and hence could not be systematised. In the Central Univermag of the Narkomvnutorg, the biggest trading unit of the U.S.S.R., the salesmen were supplied with special "day cards for the registration of unsatisfied demand" which contained appropriate rulings. The salesmen were supposed to fill them in while serving the customers. Naturally, only fairly intelligent, well-trained and therefore quickly serving salesmen could be expected to discharge this duty adequately. At the end of each day the cards were collected and passed on to, e.g., the shop-"economist" or statistician whose exclusive duty it was to attend to this kind of work. The work consisted in transferring all entries on to one single card, and twice a month a "half-monthly card of unsatisfied demand" was prepared. In this way the material collected was used as the basis of the quarterly statements to the suppliers in connection with the question of supplementing the assortment of goods in conformity with the wishes of the consumers. The Central Univermag of the U.S.S.R. used this method (towards the end of 1936) only in case of head-dresses, haberdashery, musical instruments, perfume, glass and china ware, handicrafts and art products and children's articles.

The other two principal methods used by the Central Univermag were as follows: (1) calculation of the turnover period of goods; and (2) the systematic

\[1\] Cf. A. Petrunin and M. Evsovich, The Study of Consumers' Demand in the Central Univermag of the Narkomvnutorg of the U.S.S.R., Soviet Trade, No. 3., 1937, p. 53

\[2\] Ibid.
collection of opinions etc. voiced by clients on the occasion of exhibitions and the like. At the end of 1936 calculation of turnover periods was compulsory in the case of ready made clothes, underwear, silk, carpets and drapery, knitted goods (over 150 roubles), handicrafts and art goods (over 100 roubles).

Space does not permit a closer description and classification of all methods of studying consumers' demand according to the various distributive organisations. The student of this particular aspect of Soviet trade is amazed by the multiplicity of the devices employed. Their number strikes one as somewhat excessive, but there seems to be little doubt that, during the Second Five-Year Plan, many of these were used sporadically, feebly and amateurishly. But the mere fact of the existence of registering the wishes of the Soviet consumers is perhaps more important than their transitory imperfection. As Mikhalovsky observes proudly: "There is nowadays no corner in our enormous country where at least one of the methods which have been described above is not employed."

The registration of the existing structure of Soviet demand was only one function of the various methods indicated. An equally important task was the moulding and shaping of the wishes of the consumers and their direction along lines desired by the Central Economic Administration. These "passive" and "active"

1 For details on exhibitions cf. Shnirlin, Planovoie Khoziastvo, op.cit., p. 83.
3 Shnirlin, Planovoie Khoziastvo, No.7, 1935, p. 76.
4 Petrunin and Evsovitch,op.cit., p. 56.
functions of the methods of studying consumers' demand are perhaps best seen in the organisation of exhibitions where certain new lines of goods were displayed whose introduction was deemed desirable, while at the same time the reactions of the buying public were tested and their modifying suggestions or even their disapproval considered. Thus, according to the Soviet economists, a "dialectic unity of opposites" was achieved whereby production and consumption were in a state of continuous interaction, the former, however, retaining its leading position.

Mention should be made, in conclusion, of the controlling bodies of the consumers themselves. At the time of rationing special "shop-commissions" fulfilled this duty. When unrestricted trading was proclaimed, conferences of purchasers and trade officials as well as of purchasers alone came into existence. But these surveys of the "microscopic" trends of consumers' demands, too, did not proceed independently and atomistically, but were linked up, and subject to, the "macroscopic" planning of the whole of trade and the whole of the economy.
CHAPTER X

PLANNING "FROM ABOVE":
NEW PROBLEMS OF REGULATION
PLANNING "FROM ABOVE"
NEW PROBLEMS OF REGULATION

The object of the following account is (1) to recapitulate the changes in planning methods as the transformation of the economic system proceeded, (2) to explain the close connection between trade-planning and the plan of the national economy as a whole, and (3) to describe some of the methods employed in the regulation during the Second Five-Year Plan with particular reference to the changes necessitated by the abolition of rationing.

It will be remembered that under War Communism the planning of the movement of commodities was limited to (1) requisition and (2) rationed distribution. In the beginning of the NEP, the main economic function of trade being the re-established contact between town and country, trade-planning in the towns was absent unless one were to regard the struggle against the private merchant and the learning of the art of buying and selling as a unified and considered scheme of economic control. In agricultural trade the State sought to regulate and "plan" transactions by price intervention, organised and contractual purchases and the "planning" of grain collection campaigns with a view to abolishing competition between various State collectors. The idea of a comprehensive planning scheme for trade was opposed by many on the plea that the goods should follow market-demand. With the transition to Integral Planning the system of contracts functioning in agricultural trade was turned in effect into that of obligatory deliveries. Trade was
centralised, the allocation of goods over the country, their prices and distributive costs as well as the "material-technical" basis of the trading network were more and more subjected to centralised planning.

Planning spread to the domain of trade. Thanks to the increased importance laid upon the improvement of the workers' standard of life during the second planned quinquennium, "the plan covering turnover of goods received particular attention and is extensively developed." The trade-plan became an important component part of the whole planning scheme. From the formal point of view, it was considered both as a "branch-plan" (in so far as it provided for the retail trade-turnover of the whole Union and its districts) and as a "synthetic plan" (in the sense that the planning of the volume of trade could only be decided in conjunction with the plan of industrial and agricultural production and was also closely linked up with transport, finance, remuneration, national income and cash-planning of the Gosbank.) In fact, every part of the general plan had to be considered in connection with the trade-plan.

The sequence of trade-planning "from above" was relatively simple. The initial stage was to draw up a plan of utilisation of total "commercial production" by dividing it into the "non-market fund", i.e., those goods which were to be consumed by the army, the industries (clothes for workers), the hospitals, sanatoria, and crèches, or to be

2 I. S. Plotnikov, Method and Technique of Planning Soviet Trade, Moscow-Leningrad, 1936,(R),p.8. This
set aside for purposes of export, and the "market-fund", i.e., those goods which were destined for consumption by the population through the system of Soviet trade. These plans of realisation were approved by the Government at quarterly intervals and their preparation was entrusted to a special trade-department of the State Planning Commission (Gosplan). Gosplan also prepared quinquennial, yearly and quarterly plans of trade-turnover. While the quinquennial plans were, of course, largely based on long-term expectations, the position as regards the yearly and quarterly plans was this: in order to ascertain the quantity of consumable goods which were likely to be produced within the respective periods, Gosplan studied closely the programmes of the various productive Commissariats which it received either directly or through its provincial or republican branches. On the basis of these reports Gosplan then proceeded to work out the quantity, assortment and value of the production which the trading systems were to receive, the things which were to remain in stock; it worked out the distributive cost-norms, fixed the number of workers to be employed in the distributive apparatus and the conditions of their recruitment, the general limits of retail price-additions etc.

Usually, the preponderating share of merchandise to be distributed through the retail trade network

(continued from previous page): book purported to be the first comprehensive of the subject. On the whole it was a very poor effort, clumsy and incoherent. The "non-market fund" amounted to about 15 per cent of the "market-fund". A part of the "market-fund" was earmarked as a "manoeuvring reserve". The Government laid down the relative share of town and village. For scope of
(the so-called "retail fund" as distinct, presumably, from the "bazaar fund") was to be supplied by the "centralised fund" of State producers. The remainder was to be procured by the trading organisations in a decentralised way (e.g., surpluses of handicraft co-operatives, i.e., what they produce over and above the plan and are free to dispose of as they wish, surpluses of collective farms, the output of local industries etc.).

This trade-planning proceeding "from above" relied, of course, on data, plans and estimates passed on to the centre "from below". On the basis of the trade-plans the various trading organisations drew up their own trade-plans and entered into general agreements with the producers, within the limits of which the individual shops worked out their plans (the so-called Torgfinplans, i.e. Trade and Financial Plans) and made detailed agreements with particular factories and their wholesale departments (mainly locally situated) concerning the quantity, quality, assortment, conditions of delivery together with provisions for fines for failure of either side to keep to the terms of the contract.

How did the Commissariat of Internal Trade come into the picture? It is not always easy to establish a clear demarcation line between the activities and functions of Gosplan on the one hand, and of the Narkomvnutorg on the other, in matters of trade-planning.

(continued from previous page): trade-planning cf. Planovoie Khoziastvo, No. 12, 1938, p. 125.

(During the Second Five-Year Plan the importance of "decentralised funds" was growing, particularly, on the "edges" of the country.)
Miller has observed that in "recent years, as the experience of the province and republic Planning Commissions and the planning-economic departments of the commissariats has increased, Gosplan USSR has tended to occupy itself less with local and industrial detail, and more with the general co-ordination work, while all the time extending the scope of planning."

It would seem that in the last years of the Second Five-Year Plan, prospective and general-synthetic planning being reserved to Gosplan's local branches and collated by the Centre, Narkommmutorg and its organs as well as the trading organisations themselves performed the "operative", current and specialised planning, always taking into account, however, the limits, directives, norms etc. laid down by Gosplan.

Such was, in brief outline, the set-up of trade-planning during the Second Five-Year Plan, but, as can be expected, the abolition of rationing wrought important changes not so much in the formal structure of trade-planning but in its content, purpose and operating technique.

Up till the beginning of de-rationing most valuable supplies were, it will be recalled, earmarked for the consumption by the workers employed in industrial key-positions. The shortage of goods of prime necessity which existed in those days demanded the division of the "market-fund" into "planned", "regulated" and "unplanned" goods. Hubbard shows quite clearly that

this division was primarily the reflection of the dearth of goods in those days. "Planned goods" were those which commanded a particularly intense demand, while "regulated goods" were considered to be less essential or more plentiful (e.g., standard foodstuffs, silk, linen textiles, household and "cultural" goods), and "unplanned goods" consisted, in the main, of luxuries and local produce.

The first category was subjected to minute planning by the S.T.O. in co-operation with the Narkomvnutorg and the Centrosoyuz which drew up regional plans of distribution, their detailed distribution between districts being left to the republican or provincial Narkomvnutorgs. The centralised planning of "regulated goods" was limited to "dividing the market fund between the various retail organisations" (State, co-operatives, O.R.S.), while the distribution of "un-planned goods" was planned "without interference from the Central authorities."

As can be expected, the importance of this division diminished when centralisation of distribution was abandoned in favour of unrestricted trade, and the administration of production was decentralised.

This change, however, did not signify a weakening of trade-planning, but merely the adaptation of planning technique to the new conditions. It is true that in

1Soviet Trade etc., op.cit., p. 108.
2Ibid., p. 109.
3Ibid., p. 110.
4Ibid., p. 110.
5After 1934 the "participation of local, regional, and republican bodies in the management of industry was increased. "Combines" were abolished, the number of trusts was reduced, and the ties of the enterprises with the central departments were strengthened. The purpose of the reform was the elimination of bureaucracy and the substitution for it of personal contact and guidance." (Florinsky, Toward an Understanding of the U.S.S.R., N.Y., 1939, p. 179).
a formal sense the abolition of rationing simplified the task of regulating and planning trade. First of all, the complex division of consumers' goods into normed and non-normed was no longer necessary, while their classification into "planned", "regulated" and "unplanned" goods, though it was retained in the first instance, lost much of its importance. Soon after the introduction of unrestricted trade the number of "planned" industrial goods decreased from nine to six. In the spring of 1937 "planned" goods included only cotton textiles, ready-made clothing, footwear and knitted goods produced by All-Union enterprises.

Generally speaking, there is little doubt that when the disparity between available purchasing power and the supply of the various commodities disappears, this classification will be completely discarded.

In spite of this apparent simplification, however, the new conditions created new problems and tasks which in effect called for a strengthening, deepening and widening of trade-planning.

We have described in detail how, under the influence of de-rationing, the trading practice had been transformed, how it had become imperative to enhance financial discipline and to adapt oneself to the wishes of the consumer. The changes in the "shop-periphery", however, cannot be properly understood unless they are viewed in conjunction with, and as part of, changes in planning technique and planning methods within Soviet trade as a whole and also within the entire national economy.

1 Z. Bolotin, New Situation New Methods of Planning Trade Turnover, Plavnoyce Khoziastvo, No. 8, 1936, p. 109.
2 Hubbard, Soviet Trade etc., op. cit., p. 108.
It has already been indicated that the day-to-day registration of the structure of consumers' demands would remain ineffective unless it was supplemented by large-scale ("macросометрические") studies covering a much wider field, surveys which, although they depended on the data supplied by the various trading units, could only be properly co-ordinated by the planning organisations.

If the slogans of "cultured trade" and of "adaptation of production to consumption" were not to remain merely empty phrases, it was necessary to follow and watch very carefully the dynamics of demand in their social and territorial cross-sections, so as to obtain reliable data for the drawing up of the trade-plans in accordance with the new conditions.

For, if the centralised and crudely mechanical allocation and distribution of goods—funds was no longer permissible, how could the flow of goods be properly directed unless one took into account such factors as the assortment of commodities, the special economic and social features of various districts etc.? The very geography of Soviet trade was assuming a new face. More and more the flow of goods began to follow effective demand. But in many districts the disparity between purchasing power and the turnover of goods remained very noticeable! That this was not always due to the continued shortage of goods is shown by the fact that in some parts of the country

trade turnover more than satisfied the existing purchasing power.

The new conditions necessitated, therefore, a thorough revision of the methodological approach to planning as a whole and to trade-planning in particular. The method of balancing used by Gosplan since 1923/24 was greatly perfected under the Second Five-Year Plan. Its essence was to insure the mobility of factors of production and to equilibrate planned consumption (both of industries and the citizens) with the available sources of supply within a changing economy and a growing society. In connection with rationed trade this method was presumably used only in its cruder material form (i.e., by contrasting a regimented demand with a scarce supply in terms of physical quantities), since the conception of effective demand had then but little meaning. The scrapping of rationing changed all this, making it possible to express the total volume of demand in terms of a synthetic denominator, viz., money.

It was symptomatic of the changed circumstances under which Soviet trade began to function after January 1, 1935, that the Soviet economists began to discuss the necessity of strengthening the synthetic balancing method in the planning of trade. The elaboration of the "balance of monetary income and expenditure of the population and the methodology of its construction received a very searching

examination. The importance of this balance went, of course, beyond mere trade-planning, but its particular significance for the latter was emphasised, for detailed data about the level of demand and structure of expenditure provided the Planning Authorities with a reliable guide as to how to divide the goods-funds between town and country and to direct them in such a manner as to satisfy the demand of the population in every district. Theoretically, this is a simple enough proposition, but it would seem that the drawing up of a detailed balance of incomes and expenditures of the population was still in its experimental stage during the Second Five-Year Plan. There was no consensus of opinion as to the correct methodological approach to that question; different planning institutions seem to have employed different methods of calculation and many of them entertained rather vague ideas about the very purpose of the balance. In a very sensible article Morgolin emphasised that the balance in question "reflects the movement of that part of the national income which is distributed individually between the various members of the community in a monetary form." After criticising the existing methodological deficiencies he dealt at great length with what he thought was the proper method of arriving at a correct estimate of

Cf., e.g., N. Morgolin, Concerning the Balance of Money Incomes and Expenditures of the Population and the Methodology of its Construction, Planovoie Khoziastvo, Nos. 11-12, 1937, pp. 102 et seq.; Briukhov, Balance of Monetary Incomes and Expenditures of the Population, Planovoie Khoziastvo, No. 12, 1938, pp. 98 et seq.; Tcherniavsky and Krivetsky, op.cit., pp. 102 et seq.

that part of the citizens' incomes which was destined for the acquisition of consumers' goods. But, although supremely important, this calculation was not sufficient by itself. "The tasks of the balance for the purpose of planning the turnover of goods are not limited to the ascertainment of the general volume of the purchasing fund of the population." Due regard had to be paid to its local and social characteristics: "Of no less importance is it to find out the distribution of the purchasing power between town and country. The changes within a constant volume of the purchasing fund can greatly influence the character of demand. A rouble's worth of income represents different demands in the case of a collective farmer and a workman respectively." While the urban population receives its entire purchasing fund in a monetary form and uses it for the acquisition of manufactured goods and foodstuffs, the collective peasants obtain only a part of their income in a monetary form, the remaining part being allotted to them in nature in the shape of various agricultural products. The purchasing fund of the Kolkhozniki is thus, in the main, spent on non-foodstuffs.

The increasing money-yields of collective farm-trade exerted a most decisive influence on the structure and manufactured of rural demand causing the share of industrial/goods demanded to increase. In this connection Morgolin

\[\text{Ibid.}\] Furthermore, while the incomes of the urban population in any one district did not show any marked deviation from the All-Union averages, the constituent parts of agricultural incomes (wages and money-incomes from sales) fluctuated widely according to the type of crop. (Cf. Tcherniavsky and Krivetsky, op.cit., p. 111.)
pointed out that from the point of view of a correct methodological construction of the Balance of incomes and expenditures the exclusion of inter-village commercial turnover was inadmissible. Although he admitted the difficulty of obtaining reliable statistics of that nature he emphasised that the plea that such a turnover only re-distributes the purchasing fund of different groups among the village population showed (he claimed) a lack of appreciating the importance of the structure of demand and its study. Apparently, the practice in the drawing up of the balance in question under the Second Five-Year Plan disregarded the vital necessity of presenting the balance in its "class cross-section". A balance which was drawn up for the incomes and the expenditures of the population "as a whole" was of little value for the purpose of trade-planning under conditions of unrestricted trade and from the point of view of a rational distribution of the trade network over town and country.

The "other side" of the balance, viz., the volume of consumers' goods and services put into circulation was likewise subjected to a great deal of scrutiny. In an article entitled "Questions of Planning and Calculating Retail Trade Turnover", published in 1935 in the Planovoie Khoziastvo (No. 5., pp. 122-132) Smushkov raised the question of the proper basis of calculating the turnover of goods. His main objection to the existing method of calculation by the Gosplan and its Central Statistical Department was that it...
could not possibly reflect the true degree of expansion of goods-circulation, since it excluded such vital consumers' services as the use of electrical energy, the acquisition of production goods for the direct use by the consumer (e.g., instruments, building material etc.), independent public catering organised in addition to the co-operative and State network of restaurants and dining halls, etc. Smushkov's contention was that all these items taken together accounted for a substantial part of the consumer's budget and had to be included in the total turnover of goods in the country. Similarly V. Voronov, in an article entitled "Concerning the Calculation of Retail Turnover", published in "Plan" (No.12, 1936) stated that "the basic task of the statistics of trade turnover ... consists, primarily, in bringing out the volume and structure of those commodities which are destined for consumption. ... We are of the opinion that in calculating the retail trade turnover one has to include all those goods which are directly acquired by the population for its personal consumption, irrespective of whether the commodity is handled by a retail-outlet, a wholesale or even a productive organisation." Such a broad definition of retail trade turnover went much further than that given in the book "Bases of the Statistics of Soviet Trade" (published by the Central Statistical Department in /Op. cit., p. 26. Italicics ours.
1936) which determined retail trade turnover only by the criterion of the organisational type of the trade network. Voronov claimed that his broader definition reflected more truly the economic significance of retail trade turnover, since it showed the full extent and the dynamics of consumption. Voronov went on to say that by increasing the retail turnover to the extent of those consumers' goods which have so far not yet been accounted for, "we...shall...obtain...the (necessary) material for the solution of a number of planning questions, particularly for the calculation of the balance of money income and expenditure of the population whose rôle in planning is considerably on the increase just now."

From these references it can be seen quite clearly that the whole technique and the methods of trade-planning had to be reconsidered after the abolition of rationing, and, to judge by the very severe criticism of Bolotin of the then existing practice in the planning of trade, the necessary adaptation can hardly be considered as having been achieved in the course of the period under review. It appeared that the local departments of the Narkomvnutorg showed very little initiative and that, despite the various measures decreeing decentralisation of trade-planning, the 'distributive' tendencies of the Centre remained alive. The planning of wholesale

2 Planovoie Khoziastvo, No.6., 1936.
4 Bolotin, op.cit., p. 98.
trade, in particular, left much to be desired. Quarterly plans of wholesale trade turnover were being confirmed too late by the Centre, while corresponding annual plans were not sufficiently comprehensive. The result of all this was that the wholesale departments of the various industries were frequently forced to operate without any directions from above and to rely on their own judgement and past experience. The existing disparity between the dates of delivery of goods to their destination and the planning of the required traffic-accommodation caused an uneven distribution of goods over different regions. Another weakness of trade-planning in those days consisted in the unsatisfactory nature of market-observations which were so essential in bringing out the changes occurring in a given district, like the arrival of seasonal workers with different demands etc. Similarly, the planning of the labour force within the trade system was inadequate, particularly in connection with the fixing of the turnover norms for the shop-assistants.

The necessity for a really "operative" planning technique after the carrying out of de-rationing revealed the great clumsiness of a super-centralised planning machinery and its lack of adaptation to new conditions. Only the future will show how far

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1 Cf. S.G. Gurovich, Principal Questions of Wholesale Trade in Industrial Goods, Moscow 1936, (R), pp. 89 et seq. The author contended that, under the new conditions, planning of wholesale trade should be simplified; the annual plans more carefully worked out. Generally speaking, "operative" planning, both annual and quarterly, should be accomplished in a "decentralised" fashion, i.e., by the various provincial and local planning bodies. (op.cit., pp.96-7).
2 Bolotin, op.cit., p.100.
3 Ibid., p. 96.
the Soviet experts and economists will be able to develop an elastic system of trade-planning which, while furthering the development of "cultured" trade and allowing freedom to the consumer, will at the same time preserve that degree of central guidance which is necessary for the maintenance of coherence, internal orderliness and homogeneity of the Soviet economy and its trade.
SUMMARY AND OBSERVATIONS
SUMMARY AND OBSERVATIONS

The evolution of trade and distribution during the era of the First and Second Piatiletka is clearly marked by the victory of the principle of integral economic planning in the chief domains of economic life. By virtue of the socialisation of production (including the socialisation of agriculture) the socialisation of the whole sphere of distribution became a practicable proposition. In point of fact, legal private commerce became totally extinct during the period under review, but the complete extirpation of "unplanned" forces from the circulatory process was rendered difficult (1) by the costly, reckless and brutal industrialisation; and (2) by the peculiar features of Soviet agriculture.

The high speed of capital construction was bound to confront the Soviet planners with the problem of how to feed and clothe the rapidly growing ranks of the industrial proletariat, but, because of an over-estimate of the growth in productivity of the Russian worker, the actual situation turned out to be much more precarious than was anticipated. Hence the Soviet planners had to extend the sphere and scope of rationing to a much greater degree than they had expected.

The experiment of "selective supply" during the First and a part of the Second Piatiletka is not without interest: (1) it was the first large-scale experiment of this kind to be undertaken in peace time; (2) its "class-basis" was definitely peculiar to Soviet economic
policy; and (3) it was accompanied by a fierce "ideological battle" (which, again, was typically Russian) centering on the question of whether rationing of consumers' goods was the most suitable system of distribution under Soviet socialism. Many Soviet economists hailed rationing as a step preparatory to the establishment of a Communist economy, while some foreign observers were inclined to think that the Soviet planners were going to make a virtue of necessity and continue with their policy of regimenting demand.

As could be expected, rationing put a premium on inefficiency and bureaucratic red tape. It wasted time and labour, and brought distress even to the privileged sections of the consumers. The bewildering multiplicity of price-levels and, consequently, of purchasing power of one and the same monetary unit, weakened the efficacy of the policy of wage-differentiation, handicapped labour productivity and undermined discipline.

Rationing did not extend to the village - for in the last analysis it was the village which paid for the scheme - but practice dictated the advisability of recompensing diligent farmers by cheap manufactured goods in respect of punctual and abundant deliveries of agricultural produce ("Otovarivanie"). As a rule, however, the price-level of manufactured articles remained patently out of proportion to rural incomes. The illegal bazaar (which the Soviet Authorities could not help tolerating) with its exorbitant prices was the revenge of the peasantry for this iniquitous treatment.
Thus, at the close of the First Piatiletka, despite the unquestionable triumph of planning and the final elimination of legal private trade, the distributive system remained unsatisfactory in almost every respect.

In the course of the Second Five-Year Plan the industrialisation of industry and agriculture began to yield fruit in the shape of a more plentiful supply of consumers' necessities, but owing to the "climatic disturbances" in international relations the harvest was not so rich as had been hoped for. Nevertheless, and notwithstanding the continued inadequacy as regards the number, the size and the distribution of retail-outlets, the trade turnover grew rapidly: so much was evident, however unsatisfactory the statistical evidence. A remarkable feature of the development was the fact that almost the whole of the consumable output was realised through the "market" in its widest "Soviet sense". (It is well known that in pre-revolutionary Russia the lagging behind of marketable production was a serious defect of the economy and, at the same time, a sign of its primitive nature).

The unfolding of productive forces led to the only logical corollary, viz., the unfolding of Soviet trade, its liberation from the anomalies of rationing. An interesting process of re-orientation ensued: (1) the changed situation called for organisational adjustments: in the towns the retail network had to adapt itself to effective and no longer to a "selective" demand. Owing to the peculiar conditions of Soviet agriculture the co-operatives were removed from the towns to the villages, while collective farm trade, i.e., the free
sale of agricultural surpluses, was firmly established by law: in this way Intergal Planning took account of the "co-operative" character of the Soviet village (as distinct from the "socialist" character of the Soviet cities and their industries). At the same time the welfare of the consumer and the "interestedness" of the producer demanded the introduction of efficiency and "culture" into Soviet trade. Consequently, business methods were strengthened, the credit system rendered more elastic, and schemes evolved of how to give the newly gained (though limited) freedom of the consumer real meaning. But the more the fetters were removed from trade, the more complex the situation became. While new problems of regulation demanded solution, the heritage of rationing lingered on. At the same time the more exigent and critical attitude on the part of the consumers revealed that performance did not catch up with its assigned tasks. But, although at the close of the period under review Soviet trade and distribution continued to be afflicted with the various shortcomings, and the standards of living of the population remained frugal and unequal, progress in every respect was noticeable. Thus, "culture" in trade, while not an accomplished fact, was an unmistakable tendency towards the end of the second instalment of the reign of Integral Planning.
BOOK III

THE ECONOMICS OF SOVIET TRADE
INTRODUCTION
INTRODUCTION

In the following pages we propose to discuss the economics of Soviet trade in the light of the foregoing, mainly descriptive, analysis with a view to classifying the factual material, gathering together the threads of the various marginal comments and to presenting a general treatment of the evolution of Soviet trade, its underlying principles and its economic repercussions.

We are aware, throughout, of the existing gulf between Plan and Reality, but a treatment of this kind is necessary, since in the words of Professor Lederer "there is no Economic History without the use of theoretical conceptions."
CHAPTER I

PRODUCTION AND CONSUMPTION IN SOCIALIST SOCIETY
In the first place we think it advisable to survey the attitude of socialist doctrine towards the problems of distribution.

One of the features of Marxian economics is its insistence on the moving forces of production as the motive power of any and every economic system and its emphasis on the ever changing social configuration in which the various agents of production proceed to function (i.e., the productive relationships) as the framework of society.

It is perhaps this emphasis which is responsible for the fact that, up until recently, socialist economists have not paid sufficient attention to a detailed theoretical elaboration of the principles of distribution in a socialist society. This attitude has been changing recently, amongst the socialist economists of the West under the effects of the intellectual assault of the "consumption-centred" Marginalism, and in the U.S.S.R. by virtue of the technical necessity to consummate industrialisation by extending it to the consumption-goods industries coupled with the politico-social task or obligation to improve the standard of living of the inhabitants.

The theoretical and practical importance of consumption and distribution in socialist economics cannot be sufficiently stressed, for the most potent
challenge which socialism throws out to the capitalist world is the latter's gross neglect of the comfort and well-being of the mass of its citizens and the claim that under the new order of things the amenities of life will be immeasurably enhanced for everyone.

The main practical and political pre-requisite for the establishment of the foundations of socialism is the socialisation of the means of production. But once this problem is solved in the course of the transitional period, the main daily task devolving on a socialist administration becomes the organisation of supply, i.e., the dispatch of the communal product and its distribution, according to some principle or a series of principles, among its members. What is the view of socialist economists on this matter?

"The simplest principle of distribution compatible with a system of planned production for use", says Strachey, "would be to give everyone an equal share of the available consumers' goods and services. ... Many people suppose that this arrangement is what the communists and socialists propose; but this is not so. They do not propose, either as an immediate or as an ultimate aim, the provision of equal incomes to all members of the community."

We shall see presently what methods of distribution are suggested, but we must emphasise, first of all, that according to the Marxian view many economists commit a grave mistake by seeing the originality of socialism merely in a newly devised

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scheme of distribution by which the principle of social justice, supposedly frustrated under capitalism, is made to triumph. This, the Marxists assert, is purely a formal differentiation. Indeed, without an appreciation of the changed productive forces and relationships the quintessence of socialist economics will ever remain hidden.

First of all the degree of productive forces may jettison the whole series of problems of distribution which had been valid under capitalism. An immeasurably increased scale of output may throw overboard the whole scale of values handed down by capitalist society. It is conceivable, for instance, that by bringing the consumption of certain low-priced articles, for which demand is quite inelastic, to saturation point, the sphere of free sharing of goods will assume proportions in a socialist system, which can never be dreamt of under the present economic order.

Equally far-reaching qualitative changes will be introduced by the altered productive relationships of socialism, brought about by its political victory. By the transformation of the ways in which the individuals face each other as producers, the whole system of distributing the national dividend and, hence, the extent and nature of consumption itself will be radically altered. We refer, for

"...It is quite conceivable that as wealth increases this sector increases, too, and an increasing number of commodities is distributed by free sharing until, finally, all the prime necessities of life are provided for in this way, the distribution by the price-system being confined to better qualities and luxuries." (O. Lange, On the Economics Theory of Socialism, Review of Economic Studies, October 1936, p. 142.) Cf. also our remarks on the possibilities of communism in the U.S.S.R., p
instance, to the economic category of unearned incomes and its fate under socialism.

A full-blooded communist society envisages a scheme of distribution, whereby the individuals are allotted consumable goods in quantities according to their needs out of the consumption-funds provided for the purpose. Apparently it is thought possible by the protagonists of this economic order to combat successfully the phenomenon of scarcity by the utmost development of productive forces. We shall revert to this assertion later, in connection with its application to the Soviet Union. Here we would like to point out that, if such a degree of plenty were ever attainable, the problem of distribution would cease to be an economic one and become one of pure administration.

But the forerunner of full communism, the socialist state, while destroying rent and interest as sources of unearned income to private individuals, does not altogether extinguish the income-category. In fact, it leaves earned individual incomes unimpaired and distributes consumers' goods in accordance with the quantity and quality of the work performed, after having made provision for the consumption of those who are unable to work or who are engaged in "unproductive" functions (e.g., State administration etc.).

Cf. V. Kats, The Relations of distribution under Capitalism and in the U.S.S.R., Problemy Economiki, 1931, No. 9, p. 59. Children and adolescents are treated as dependents; students are provided for by bursaries and the old by old age pensions. "But these payments do not modify the principle that income is distributed uniquely as a payment for work. For old age pensions are clearly merely postponed payments for work... scholarships... are payments in order to enable their recipients (Strachey, to qualify themselves for work, and payments for accidents op. cit., and invalidity are insurances against the risk of work." p. 96 n.)
In one of the few passages, relating to distribution under socialism (to be found in the Critique of the Gotha Programme) Marx describes "the first or lower stage of socialism" as possessing differentiated money wages (calculated on the basis of quantity and quality of work, individually contributed) and so-called "Labour Certificates" as medium of exchange.

Thus we see clearly that, in contradiction to communism, the problem of distribution under socialism belongs to the domain of economics. It is the problem of allocating purchasing power to the population in a certain manner to be exchanged against a given stock of consumers' goods. This immediately creates the problem of price-formation (which will be discussed later). The method by which the economic problem of distribution under socialism is accomplished is that of conscious economic planning, i.e., the sum total of decisions of a central planning body as regards production and consumption taken in the light of various considerations and guided by various factors.

The problem appears to be simple on paper. Socialism is, by definition, a classless society, in the sense that there are no exploiting groups with vested economic interests and that the source of income of the population is homogeneous, since all of them are (or want to be) tolders. The element of

differentiation is introduced exclusively by variations in quantity and quality of work and the different appraisals attached by society to different types of labour. Thus, in the field of consumption, the problem of distribution under socialism is one of planning the balance between the quantity of distributable goods and the remuneration of the working members of the community. And, inasmuch as most socialist economists are agreed that the incomes can be spent, within certain limits, according to the whim of the individual consumer, the most likely form of contact between producers and consumers in a socialist society appears to be a controlled market-sphere.

Distribution in the U.S.S.R.

Between capitalism and socialism lies an inevitable period of transition, during which new institutions are set going and old adapt themselves to suit the changed circumstances.

The period of transition that has been proceeding in the Soviet Union (and which the country has not yet overcome, particularly in the spiritual field) is in many ways different from that traditionally foreseen by Marxian analysis for the more advanced capitalist countries (which by a kind of "irony of fate" have been deprived of their rôle, customarily assigned to them by the socialist theoreticians, to be the vanguard in the inauguration of the new order of things all over the world). In the introductory parts of this treatise we have drawn attention to the peculiarly Russian conditions which coloured the course of the
country's historic development before the Revolution and conditioned that economic system to which we have referred by the term of "New Economic Policy".

In theory, the period of transition provides for the existence of a private sector, tolerated by society and having its width gradually reduced as the degree of socialisation proceeds. This private sector will probably exist in the domain of industry that has not yet been socialised - presumably in light industry, since heavy industry and transport will be taken over in the first instance - and in distribution. But in the latter sphere it will be rapidly superseded by the ever increasing network of municipal and co-operative shops and the placing under strict surveillance by the state of individual shop-keepers who would thus virtually become distributive agents of Government concerns, from a formal point of view very similar to their servitude to big capitalist monopolies under the old economic order. At first sight this sequence of events does not seem to be so very different from the transition-period of the U.S.S.R. As we know, handi-craft production and a certain amount of small-scale industry remained, to all intents and purposes, in the hands of private capitalists during the NEP, while the dominant position in the sphere of exchange was for a long time held by private commerce. But these features are only superficial similarities and analogies. According to the theory of socialism the period of transition proceeds in a society whose capitalism has fully matured and has had time to stamp out the irritating lingering remnants of bygone social formations and classes,
where the latest devices of productive technique are more or less evenly spread over all fields of economic activity, where the majority of the population is not only sympathetic to the new cause, but also possessing a standard of education and technical training which renders it thoroughly familiar with the intricate economic, technical and organisational tasks of a complex industrial system. All these conditions did not exist in Russia. At the time of the Revolution there was a pampered and over-matured industrial capitalism, shattered by the turmoil of the war, in the midst of a backward and atomistic agriculture, where the old feudal order and even the self-sufficient patriarchal economy continued to hold their sway. Before the collapse of Czardom the almost exclusive beneficiary of the blessings of modern productive technique was capitalist enterprise. An exceedingly abnormal and harmful "division of labour" prevailed between industry and agriculture, while the majority of the population (i.e., the peasantry) was hardly aware or conscious of the wider political issues of the Revolution apart from the events immediately affecting their daily lives such as the re-distribution of land.

Precisely, owing to these characteristically

The special case of agriculture will be discussed below. (Cf. chapter on the Relations of Town and Village).
Russian features, it became necessary for the Soviet Government to make use of capitalist forces and institutions, not as under the "theoretical" period of transition in the interests of economic gradualness and smooth social adaptation, but on account of the preponderance of a semi-feudal agriculture, where future progress lay clearly along capitalist lines, and because of the inability, both material and human, of the Bolshevik Party, to perform certain productive and the bulk of the distributive functions.

Thanks to the interplay of all these circumstances there arose in Russia a period of transition with a peculiar economic **duality** which, although under the dominant and **unified** political pressure exerted by the Soviet State power, was strong enough to endow the whole scheme of distribution with a strangely "dual personality".

Since capitalist and semi-capitalist (owners-producers) forms of enterprise did not only exist in fact, but were even recognised by law, the capitalist sources of income continued to be present, though severely **amputated**.

During the fully developed NEP the private capitalist "compartment" of the Soviet economy could be essentially divided into three spheres, viz., (1) the capitalist sphere proper, (2) simple commodity production \((\text{Commodity} \rightarrow \text{Money} \rightarrow \text{Commodity})\) and (3) a semi-natural sector. The incomes of the second sphere were not of a capitalist nature, in so far as the "surplus value" was not created by the exploitation of labour and was not used for the
purpose of extended reproduction. However, as simple commodity-production entered into contacts with other economic spheres, namely the capitalist and the socialised (State capitalism and socialism according to the Soviet classification) sectors, certain parts of its "surplus-value" could be "pumped" into these channels and thus re-distributed. The forms of contact were exchange, credit-operations and budgetary levies, so that from the point of view of the State's economic and commercial policy, the problem of distribution in the small commodity-sphere resolved itself into one of struggle for the decisive influence on the re-distribution of incomes belonging to that economic "compartment". This struggle was not only a political, but also an economic one: by trying to induce the small owners-producers to come together and co-operate in handicraft artels and the like, the Soviet Authorities did not only mean to reap some of the fruits of the productive efforts of these people, but were also intent on subjecting their productive relationships to a slow (indirect) process of socialisation and on utilising their productive forces for a further growth of the whole economy.

As regards the capitalist sector, the distribution of incomes here differed in some important respects from the "normal" capitalist distribution. The incomes from rent had been abolished by the integral

/For Lenin's definition of these terms cf. Lapidus and Ostrovityanov, An Outline of Political Economy, London, 1929, pp. 92 et seq./
nationalisation of the land. As regards interest, private credit-operations were liable to severe legal penalties, although they existed in actual fact in the shape of the illegal money-market and brought to the individuals concerned inordinate earnings, their main element being, of course, a kind of insurance against the risk of devaluation.2

Profits continued to be a source of income within the rather stringent legal and fiscal limits of the NEP Administration. They were extracted either from the direct exploitation of labour and vastly augmented by an utterly reckless exploitation of the consumer thanks to the capitalists' virtual control of distribution of commodities in the first years of the NEP period. This meant that a certain portion of the national economic surplus was appropriated by the capitalist class which used its net gains for the purpose of consolidating its economic position (extending production and the private distributive network) and of consuming certain semi-luxuries and luxuries over and above their normal requirements. This excessive consumption of the capitalist class during the NEP harmed the economy, in so far as it caused either the allocation of very scarce resources for the production of these "capitalist" consumers' 

/This refers to "absolute" rent, which "even the worst land under cultivation must bring (...) this rent is the result of private property and the limited areas of land. ... as long as the land is nationalised there can be no question of absolute rent." - Lapidus and Ostrovityanov, An Outline of Political Economy, London, 1929, p. 281 and p. 310). Differential rent remained, to some extent in so far as the owners-producers had to dispose of their produce in a market. It accrued to the owners-producers themselves almost fully, (Lapidus, etc., p.300). Cf. also Leontiev and Khmelnitskaia, Soviet Economics, second edition, (R), Moscow 1929, p.29. */
goods at home or the acquisition of these, in view of the general poverty, superfluous merchandise by way of exchange with foreign countries. In either case it amounted to a diversion of national funds to uses which were detrimental to the well-being of the broad masses of the population. We have described in detail how the State attempted to "gather in" a part of the capitalist profits by means of an administrative, economic and fiscal character (sequestration etc., market-operations, taxation). The more the strength of the socialised sector grew, the smaller became the capitalists' share in the national dividend. Direct exploitation of labour by small capitalist entrepreneurs was made almost impossible and we recall that in the later stages of the NEP the remnants of the capitalist class tried to set up a kind of "closed" economic system, "closed" only in the sense that it was intended supposed to be independent from the services of the working class and the help of State-credit. Thus the source of capitalist profits became almost wholly the consumer, especially in those parts of the country where the distributive channels of the State were but poorly developed. In this manner the capitalist sector was forcibly turned into a social parasite, sucking the blood of the national economy and continuing to divert an ever smaller portion of the

credit in that market was very high. In 1925, for instance, after the stabilisation of the currency had been effected, the interest rates in the illegal Moscow market were 6 per cent. per month, in the provincial cities and towns 8 to 10 per cent. and at times up to 20 per cent. per month. These high rates were determined not only by the scarcity of funds but also by the fact that the creditors, in view of the illegality of the transactions, had no standing in the courts, and therefore included a charge for the risk involved." (Atlas, op.cit., p. 319).
common resources for purposes of gratifying its luxurious appetites for luxuries.

In the socialised sector the wage-level presented the main problem of distribution. It is suggested by Soviet economists that the nature of wage-payments was changing under the period of transition and that in this respect the gravity of the distributive problem changed from its capitalist setting - where employers and wage-earners fight a bitter struggle for the division of the surplus product - to the new setting of planned re-distribution of the surplus product into a fund of production and that of consumption, guided by the general principle that increased productivity should be accompanied by an increased share of the wage-earners in the national income, or, in other words, should be translated into a growing fund of consumption. In course of time, the "levelling" principle in remuneration was gradually abandoned in favour of the privileged treatment of wage-earners in the "leading" industries (selective supply) and at present the principle of remuneration according to quantity and quality of work performed is being applied universally.

It is hardly necessary to add that under the Soviet system, as much as under any developed economic order, there exist the categories of "surplus labour" and "surplus product". It is these surpluses which make extended reproduction possible. Therefore the Soviet worker did not, does not, and will not in future, receive "the whole fruit of his labour", even if one takes into account the socialised portion of
his wage. Under socialism (whose edifice, according to the Soviet definition, has, in the main, been completed during the second quinquennium) the chief object of a just wage-policy would seem to consist in allotting to the workers a share in the total product of the economy that would not only guarantee a decent minimum standard of living, but would also be proportional to his labour.

With the consolidation of Integral Planning the scheme of distribution gradually lost its former complexity, since the make-up of Soviet society became more homogeneous. Capitalist profits were, to all intents and purposes, completely eliminated; agricultural earnings of the collectivised peasants became more amenable to direct planning by way of direct taxation in nature, the contract-system and the spread of collective farm-trade. The gains of the socialist sector (which was no longer opposed by a hostile capitalist sphere, but by one of presumably friendly co-operative enterprise with multi-farious variations) were re-distributed on the basis of the profitableness of productive units, while the earnings of workers came to be more minutely planned, particularly after the abolition of rationing, in

The Soviet economists agree that owing to the existence, in the Soviet Union, of modified monetary and market-relations, economic surplus appears in a "value"-form, but they insist that since productive relationships have undergone drastic changes the resemblance to its capitalist replica is only superficial. ("Value"-form in this context connotes to the Soviet economist the essential productive relationship of capitalism, whereby values in use of (goods and services) are realised through the medium of profitable exchange with the help of money, and the surplus is appropriated by the capitalists.) As we have seen, the range of private incomes was most carefully circumscribed. Economically, they are not important.
accordance with a "socialist" scheme of piecework remuneration. Bureaucratic revenue seems to have remained inordinately high (as it was during the NEP period), but its relative weight has, with the country's general cultural advance, presumably decreased. In spite of the disappearance of the private merchant, the exploitation of the consumer/continued by the State through the price system, though from different motives and for different purposes.  

On the whole, the scheme of distribution may be said to have become more "transparent". Ambiguous and "shady" sources of incomes as existed under the NEP in the shape of capitalist profits derived from faked co-operative enterprises have been eradicated stock and barrel, and the streams of national revenue and expenditure as shown in the budget and the unified financial plan became more and more an unmarred reflection of actual distributive processes in a community of working consumers. From our point of view it is important to observe that under such a scheme of distribution it became possible for the State to free consumption from anarchic economic forces and fetters, to disentangle it from parasitic elements and to subject it to an ever growing degree of conscious socio-economic planning.

\cite{Laurat,L'Economie Soviétique. Sa Dynamique, son Mécanisme, e.g., p.175.}
\cite{below (chapter on pricing and costing).}
\cite{Comp. U.S.S.R. Handbook, op.cit., p. 307.}
CHAPTER II
RELATIONS BETWEEN TOWN AND VILLAGE
RELATIONS BETWEEN TOWN AND VILLAGE

Some space should be devoted to an enquiry into the question of the economic relations, in the Soviet Union, between town and countryside. In spite of the spectacular rise of industry, the agricultural population is numerically by far the strongest group, so that its general position in the economy, its contribution to the country's wealth and its share in the national income are decisive for the future of the people of the U.S.S.R.

The theoretical problem of this enquiry consists, briefly, in the following considerations: in modern economic systems one can observe a broad division of functions which consists, roughly, in the production of foodstuffs and agricultural raw-materials on the one hand, and that of industrial articles, on the other. The relations between these two basic forms of economic activity of to-day proceed by way of exchange of agricultural produce against manufactured wares, usually in some form of a market. According to traditional economic analysis, the exchange relations, as determined by the forces of demand and supply constitute, on the supposition of unrestricted movement of economic resources and agents of production and the unhampered operation, everywhere, of the profit-motive, an equilibrium between industry and agriculture.

*Although there has been a spectacular growth in the number of the urban population, the latest census (1939) revealed that the rural population amounted to 67.2 per cent. (Cf. Int. Lab. Rev., February 1940).*
and, hence, "fair" equivalents of exchange. We shall attempt an implicit criticism of this approach when we come to consider the possible theoretical solution of the relations between industry and agriculture in a socialist State. Here it is sufficient to emphasise that most economists are aware that perfect mobility of resources, particularly as between town and country, does not exist and that, for a multitude of reasons and causes, the profit-motive does not operate everywhere (and in agriculture especially) with the same strength.

Let us now look at the relative positions of industry and agriculture in Russia, as determined by its historic past and its socio-political development.

In our introductory chapters we had the occasion to demonstrate how the instability of Russian commerce, both domestic and foreign, was a direct outcome of the disequilibrium between the rural and the urban economies. While capitalism had built up huge industrial combines and concentrated millions of workers in the cities, the peasants squatted in their tiny holdings in cultural darkness, technical backwardness and unspeakable poverty. The Communist economists suggest that such conditions are the usual concomitants of the capitalist system, which refrains from a general introduction of mechanisation and labour-saving devices into the village. The consequent preservation of inefficient and miserable husbandries, it is argued, is in capitalism's interests since it keeps intact a reservoir of cheap labour, to be used, in
the first place, during harvest time, in the few but extremely profitable capitalist farms, and in the second place, as a reserve for replenishing the ranks of the industrial proletariat. In Russia, a further stagnating influence on the state of its agriculture was exercised by the remnants of feudalism. Hubbard states that "although the peasants and the land workers created some 50 per cent or more of the national income, a material portion of the net income from agriculture was enjoyed by the various classes of large landowners and farmers who farmed their own land with the hired labour of peasant proletariat, or took rent from the peasants to whom they leased their land." This means that the peasantry was being robbed of its earnings by a social group which towards the beginning of the World War had become patently parasitic (using the revenue to indulge in excessive spending).

Thus we see that it is extremely difficult to theorise on the distribution of the communal product between town and countryside before the Revolution, because within both these sectors there was internal exploitation. But if we overlook these "inside processes" we may safely state that the countryside did not receive a fair equivalent in return for it's contribution to the country's national dividend, in the sense not only that it failed to observe

\[2\] Soviet Trade and Distribution, op.cit., pp.299-300
quite strikingly the laws of demand and supply as well as the marginal principle, but also that, while it supplied the population with foodstuffs, it received from it only the most indispensable articles of technical and household use and of clothing which were highly priced in relation to the low prices of agricultural goods (possible only because the cheapness of agricultural labour hid the expensive methods of agricultural production.) This is, of course, an extremely sketchy characterisation of the pre-revolutionary position which probably does not give justice to the positive effects of the Stolypin Reforms.

As regards the period of War Communism it becomes extremely difficult to shed light on the obscurity of the relative positions of town and country. The system of enforced equivalents and the compulsory collections of agricultural products are, superficially, a clear proof of the countryside's exploitation in favour of the towns. In actual fact, however, (as we have seen) the incidence of famine and general suffering was greater in the towns than it was in the countryside, although conditions were exceedingly chequered so that a general answer concerning the relative material positions of town and village under War Communism cannot be given. But it is important to register the fact that, as a matter of principle, War Communism introduced a new canon of social distribution, viz., the privileged position of the industrial proletariat.

The peasant, despite all the avowed sympathy
which the Government showed itself eager at all times to bestow upon the so-called village poor and the "middle" peasants and notwithstanding all the disserations which revived round the concept of the "smytchka", was allotted a place in the newly formed Soviet society which was definitely inferior to that of the worker. A clear manifestation of this social arrangement was the inferior voting powers that were granted to the peasantry by the first constitution of Soviet Russia.

In the economic field the less favourable social and political status of the peasantry was aggravated by the serious "scissors"-crisis, whose causes, effects and remedies we have had occasion to analyse. That the Government was alive to the dangers of a continued impoverishment of the countryside, is shown by its determination to put a speedy end to the discrepancy between the agricultural and industrial price-levels. After the liquidation of this crisis the position of the peasantry improved considerably and, on the whole, the rural population enjoyed comparative freedom and prosperity under the NEP. From a purely cynical angle, the New Economic Policy was help to nothing else than a bribe to the peasant to restore the country's productive forces.

The First Five-Year Plan changed this state of affairs rather suddenly: the Government collectivised the farms, dealt very harshly with the kulaks and re-

Chapter III, § 9.
introduced, in effect, the system of compulsory levies. It must not be forgotten, however, that although, from a short-period standpoint, the State was certainly exploiting the countryside in favour of the towns, by making it the source of a new kind of socialist "primary accumulation", it was thinking ahead by trying to improve the technical and material basis of the Russian agriculture and worked hard to change its whole character by inducing a higher degree of specialisation etc. All these considerations, which are those of wide-range economic planning, must be appreciated when one comes across a passage in Hubbard's Soviet Trade and Distribution, where the opinion is expressed that "during the earlier years of economic planning there is no doubt that the peasants were exploited in favour of the urban proletariat to as great, or even greater, a degree than they had been exploited by the landowners and merchant class before the War." While justification of the comparison with pre-war conditions is doubtful, the facts which Hubbard adduces as an illustration for the degree of exploitation of the countryside are very convincing: "Between 1928 and 1932, that is, during the first Five-Year Plan, wage rates generally were doubled, while the prices paid by the State for rye were increased by about 25 per cent and for wheat by less than 10 per cent. At the same time the prices of industrial goods were considerably higher than the ration prices paid by the industrial workers."
That exploitation of the peasant occurred even at the beginning of the first quinquennium is admitted by the Soviet economist Bolotin thus: "It must not be forgotten that the consumption of the urban population materially exceeded that of the rural population. Thus, according to data gathered in 1929 the per head consumption of workers exceeded the consumption of the "middle peasant" as follows: bread (white) - 40 per cent., meat - 115 per cent., sugar - 240 per cent., butter - 80 per cent., industrial goods - 3-4 times."

We know, however, that, of late, the position of the peasantry has been improving considerably. In the agricultural sphere the Second Piatiletka provided for, and carried out, (among other things) a more rapid development of rural trade than of urban trade and by this disposition the Government demonstrated its intention to give a "square deal" to the peasantry. "Nevertheless", as Hubbard observes, "though latterly the peasants seem to have received better treatment in the distribution of the consumable part of the national income, they have not received as large a share as they would if it were in strict proportion to their contribution to the national consumption. Thus in 1935, 66 per cent of the total retail turnover consisted of foodstuffs the raw material of which at least was produced by the agricultural population, but only 24 per cent in value of the retail turnover in foodstuffs was allotted to rural trade; of the retail turnover of manufactured goods..."
less than 35 per cent was allotted to rural trade. And it must be remembered that the bulk of the raw material, such as cotton, flax, hides and timber, used in the production of industrial consumers' goods are produced by the agricultural population. "But he admits that allowance must be made for the ever growing peasant purchases in town shops."

Hubbard seems to be of the opinion that this unfair treatment of the peasantry is due to the non-existence, in the Soviet Union, of a free commodity market of a capitalist pattern. This contention raises a number of highly important issues which can briefly be summarised in one general question: what is meant by "fairness" and "equity" in the treatment of the peasants? Under what circumstances can this condition be best fulfilled?

For the sake of simplicity we shall develop our argument in relation to an isolated economic system which has attained a fairly high degree of specialisation.

The economic part of the question regarding the fair treatment is not difficult to answer: it means, in effect, the sharing, by the countryside, in the common pool of economic values produced, in the measure of its contribution to that pool.

As we have indicated above, the solution for the traditional economist lies in the existence, firstly, of perfect freedom in the movement of

\[\text{Soviet Trade and Distribution, op. cit., p. 305.}\]

Foodstuffs obtained without payment by the peasants have also to be considered. (Cf. Hubbard, The Economics of Soviet Agriculture, p. 217).
factors of production in pursuit of the greatest possible gain in terms of pecuniary profit, which would insure their proper distribution between industry and agriculture; and, secondly, in the unfettered operation of the laws of supply and demand in a perfectly free market. We repeat these general propositions, in order to emphasise that for the traditional economist the solution of the problem of town versus country is one of fair exchange as determined by competition.

It would lead too far to use this occasion for a thorough examination of the premises of laissez-faire economics. Here we can merely refer to the researches of others in this highly important field of economic criticism. One line of assault, as developed, e.g., by T.W. Hutchinson in his essay on the Significance and Basic Postulates of Economic Theory is that many of the deductions of traditional economic analysis are just tautologies, mere manipulations of words. Against this line of argument Dobb has remarked that economic statements "are not simply "verbal manipulations" because the context of discussion does not permit them to be: controversy in economics is never simply a dispute about words, about a dispute about different interpretations of capitalism." (Science and Society, Vol. III, No. 3, p. 394.) From this angle grave doubts may be cast on whether the traditional economic analysis can stand the test of economic actuality which modern capitalist society has engendered. And, concerning our present field of discussion it may be questioned whether the solution of the "dispute" between town and country can ever be satisfactorily attained along the lines of capitalist competitive exchange. Here are just a few realistic objections against the idealised picture of capitalism. The questionable character of the philosophical basis of laissez-faire which claims that economic life is the contest of homines economici animated by economic interests and urges only, and that the sum total of individual gainseeking is bound to be beneficial to society, has been exposed many times. (Cf., e.g., J.M. Keynes, Essays in Persuasion, London, 1931, p. 312, essay on The End of Laissez-Faire). Besides, attention has been drawn by many writers to the inherent quality of capitalist competition to turn, at a certain stage, into its opposite, viz., monopoly; as well as to the inequality of incomes (by which laissez-faire economists do not seem to be greatly troubled) which renders effective demand a manifestation of "plural voting". As regards agriculture, the criticism that factors of production in the agricultural sphere are particularly immobile (influenced,
In a socialist society, on the other hand, the

(continued from previous page): as they are, by historic and legal peculiarities) is extremely weighty.
Furthermore, the often enormous distances involved, with which the economic interchange between town and country has to deal, constitute a particularly unsuitable condition for institutions with but a vague resemblance to their idealist type to emerge. (A case in point, admitted rather on the extreme side, is Russian agriculture in pre-war days).

But even assuming that all the ideal conditions of a capitalist utopia were ever conceivable in practice, it is highly likely that for a very long while to come, at any rate within any reasonable range of economic perspective, the volume of agricultural output will be dependent on forces outside the control of human, and especially of individual-human volition. Even the most dreamlike adherent of idealised capitalism cannot deny that, by definition, the automatic adjustments of the forces of demand and supply imply periods of disturbance, of disequilibrium. They hasten to add, however, that if all the other elements of laissez-faire operate without hinderance, these periods will be extremely short. Whether this is true or not, the important point is that they will continue to exist. And if this is so, it is not true to maintain that because of the great dependence of agriculture on the forces of nature and the utter impossibility of constantly changing from one crop to another just to suit the laws of the market, the faculty of agriculture to adapt its production to movements in urban supplies and demands, or to the price of an important manufactured consumers' good is, owing to the very essence of agriculture, extremely limited and is therefore likely to prolong those periods of disequilibrium and thus inflict severe hardships upon itself? To carry the criticism still further, it might be added that, while a collective constitution of agriculture is much better suited to combat the powers of the elements than the individual farms, e.g., in minimising the consequences of drought (cf., e.g., Mikhaylov, Soviet Geography, London 1935, pp. 138-140), individual farms - and only these figure in the schemes of idealised capitalism - are singularly ill adapted to escape the devastating "dispositions" of nature both as regards the creation of scarcity and of plenty. Another factor to be considered is the specifically peasantlike reasoning in the making of productive arrangements, a psychology which is, as often as not, opposed to the type of logic the homo economicus is supposed to follow under ideal laissez-faire. We must confine ourselves to these well-known criticisms to substantiate our contention that, in the nature of things, "free" interchange between town and country cannot assure a position of true economic balance between these two major fields of economic activity. The positive implication of this situation is contained in the following statement: "Planning is necessary in agriculture in the sense of planned investment and production control, because the great factors of soil fertility and animal breeding and
starting point in the solution of the problem of the relations between town and country would be to determine the amount of food and agricultural raw-materials which the Planning Authorities deem necessary to insure a certain standard of living to the population. This will decide how much labour, land and capital have to be allotted to purely agricultural uses. By this relatively simple central decision the main division between industry and agriculture will be determined. This decision will,

(continued from previous page): disease do not fit into the cost and profit schemes of the individual farmer." (Doreen Warriner, Economics of Peasant Farming, London 1939, p. 193).

The traditional economist would probably retort instantaneously that this is an entirely arbitrary decision as distinct from the "automatic" delineation of functions arrived at by the free play of the individual profit-motive under capitalism. We would reply that the production of food especially is a thing whose volume should not be decided in an competitive market. Under idealised laissez-faire a condition might easily arise when, because of the relatively greater profitableness of certain lines of merchandise, the production of essential foodstuffs is neglected. This state of affairs is, as a matter of fact, almost certain to emerge, if the incomes are unequally distributed; and it will be felt by the broad masses of the population to be extremely arbitrary. Is it not more sensible to entrust the broad decision as to what and how much of each of the different foodstuffs should be eaten to nutrition experts, assisted by economic advisers who would be able to concretise these broad directives on the basis of regional knowledge concerning such factors as economic geography, structure of the population, local habits and preferences, and supplemented by a limited market-sphere where the likes and dislikes of individual consumers could be registered and taken into account?
not remain an immutable one. A better understanding of nutrition will develop, the exactitude of the estimates submitted by economic experts will improve, popular demands will change and, last but not least, population will grow. Besides, the conditions of cultivation in different parts of the country will have to be taken into consideration. Presumably agricultural experts will devise a composite scheme of intensive and extensive cultivation, carefully blended and distributed over the country in such a manner as to leave, on the whole, the reproductive qualities of the soil unimpaired. There will be no such spectre, as the Law of Diminishing Returns, looming in the background.

The next step in the tackling of our problem is the decision on the methods and extent of agricultural remuneration or, in other words, on the ways and the measure in which agriculture will participate in the annual dividend of society. This, we submit, is the crux of the problem.

First of all, the agriculturalist will have to be protected against the vagaries of nature. This protection will assume the form of, e.g., a prudent central policy of temporary subsidies, reserves and, above all, of a guaranteed amount of purchasing power allotted to each agricultural unit irrespective of the fluctuations of the harvest, provided that these

(On the Soviet attitude towards the Law of Diminishing Returns both as regards industry and agriculture cf. a revealing paragraph in Webbs, Soviet Communism, op. cit., pp. 683-4.)
have not been caused by the farmers themselves (which should not be too impossible to ascertain). This principle of a guaranteed remuneration, is, to our mind, an extremely important component in the economic justice which ought to be meted out to agriculture by society.

The next question is that of the extent of remuneration and, here again, a planned society will be able to pursue a course which is more likely to lead ultimately to a position of reciprocal fairness than the methods which are being applied in the modern capitalist world.

An obvious tenet of just treatment of the countryside should be that it should be given, within the limits of the technically possible, all those material goods, services, amenities and the like, that are being enjoyed, at a particular time, by the urban population. To some the aspirations of the Soviet planners to do away, in time, entirely with the differences between town and country, appear to be nonsensical. Indeed, in its literal connotation, the scheme sounds ludicrous. Even assuming that such a uniform lay-out of society were at all feasible, it would be extremely undesirable, because of its utterly depressing monotony. Besides, a division between industry and agriculture will persist so long as the whole of the foodstuffs will not be produced by synthetic chemistry, and agricultural labour will retain a character of its own, inasmuch as cultivation will require some degree of human contact with soil and nature.
In our view the Soviet theory of the abolition of the differences between town and country should be interpreted as the desire to do away, for ever, with the "idiocy" of country life and with the gross discrepancies in the cultural and civilisational standards of the two spheres so as, gradually, to establish a position of absolute equality between the two. This implies a complete revolution in the habits, education and demands of the agricultural folk and can only be achieved by a well thought-out social policy which ordains the inculcation of all those things into the countryside which the inhabitant of the towns enjoys, but the peasant does not.

Such a policy has, however, an important economic side as well. Why, it may be asked, have these extraordinary differences in the standards of culture between town and country come about? Is it not true to say that the economic leaders of capitalism have traditionally been more interested in the building-up of industry and have therefore permitted the continued existence, in the countryside, of feudal forms of organisation and production? It is interesting to

(This policy will have to be gradual and should not be indiscriminate. Pursued in a big country like the U.S.S.R. it would have to alter existing dispositions in the location of industries, so as to spread them more evenly over the country. (This is being done in practice in Russia: cf. N. Mikhaylov, Soviet Geography, op.cit., chapter 4: The New Distribution of Industry). Furthermore, the policy should take into careful consideration, and seek to adapt itself to, local conditions, lest local colouring and precious elements of local culture be destroyed. In simple terms it means that peasantslike architecture should be preserved in the erection of new agricultural housing, but that all the latest devices and gadgets of urban sanitation and conveniences should be installed; that local tunes, costumes and dances should be lovingly cherished, but that modern recreational and dance halls, in no way inferior to the ones that exist in the cities, should be erected; and so on and so forth.)
note that in those countries where agriculture, or parts of it, have been taken over by capitalist enterprise (e.g., U.S.A., Great Britain) this divergence in the modes (but not the standards!) of urban and agricultural living had tended to disappear.!

But a great part of agriculture is still under the influence of relatively primitive forms of production. This, in our estimation, is the reason why, under capitalism, there can be no true balance between town and country. For, obviously, primitive labour is less productive, less efficient, less civilised and, hence, cheaper, however much one takes into account the cheapness of food and the thrill of independence which some of the peasants enjoy. Therefore, because of the singular inability of the market-principle to push the allocation of resources to such a point as would ensure, within certain limitations, an equal degree of productivity in town and country, the peasantry is the losing party in the act of interchange with the towns. This leads us to the conclusion that so long as there is no re-valuation of agricultural labour up to the level of industrial labour, there can be no state of equality between industry and agriculture.

This re-valuation, however, cannot be introduced by a simple decree of a socialist Government. For

/This latter process of equalisation has, in most cases, been extremely sudden and brutal, implanting, as it did, the ways of dreary capitalist-mechanised cities into the villages without the slightest consideration for the maintenance of local colour and culture. Hubbard alleges, however, that the same process has taken place in the Kolhozy. (Cf. Economics of Soviet Agriculture, op. cit., p. 267). On the other hand, Soviet leaders have, time and again, emphasised their determination to preserve local peculiarities, dresses, customs etc.
such a procedure would mean in effect not the furthering of the cause of economic justice, but the opposite. It would mean that the countryside would receive more for its products not by virtue of its own efforts, but by reason of the generosity of the cities. Thus, for the process of re-valuation to be real and lasting, it must possess a material basis in the creation of all the technical pre-requisites that would ensure maximum productivity both under rural and urban conditions. Then, and only then, would society be justified in remunerating its agriculturalists at the same average rate as it does its workers (taking into consideration the "natural wage" which the peasant receives) and to let agriculture, now given a really fair chance, participate in the fruits of the annual social product in proportion to its contribution to society and guaranteed by law against the vicissitudes of the forces of nature. This would, in our view, constitute a true solution of the problem of town versus country, a solution that would establish permanent and growing harmony between the two spheres.

It is hardly necessary to point out, that the process of adjusting the relations between town and village, so utterly knoed out of joint by the queer ways of economic development and economic struggle, will have its difficulties and its painful periods of change. For example, the Planning Authorities would have to consider the effects on the price-mechanism which the re-valuation of agricultural labour would entail. In the first instance the concentration on the technical reconstruction of the methods of agricultural cultivation would constitute a drain on the resources of the towns and, if the distribution or allocation of resources between industry and agriculture were, in a formal sense, managed by means of a price-mechanism (as is almost certain under the period of transition) it would necessitate a raising of the price-level for foodstuffs and agricultural raw-materials to a degree which would
Let us now conclude this section by enquiring whether any trends are discernible in the U.S.S.R. for the solution of its agricultural problem along these lines.

On the whole, we are inclined to believe that, in spite of the manifold historic and political handicaps, that are peculiar to Russia, the country has (notwithstanding the temporary hardships which were imposed on the village population) laid the foundations of the solution of its agricultural problem, mainly along the lines of our theoretical reflections.

While the collectivisation campaign of the "Second Great Agrarian Revolution" inflicted so many sorrows, and wrought (whether directly or indirectly) so much destruction, it created the basis, both material (tractorisation) and social (co-operative production) on which the re-valuation of agricultural labour is justified and might be achieved. And while the Government paid but nominal prices for the centralised

(continued from previous page): finance the reconstruction. This might be resented by the towns. But, on the other hand, since the transition to socialism would presumably, by extinguishing luxury-demands of the possessing classes and equalising urban incomes, raise substantially the standard of living of the town-workers, the justifiability of the temporary levy in favour of the village should be appreciated by the urban population. Even to-day many people (non-economists in most cases, like Sir John Orr) feel very strongly that the agricultural price-level is too low for the peasant to maintain a decent standard of living; and they would without much grumbling (and some even with readiness) be prepared to spend more on food, if their incomes allowed it. Under socialism there should be no difficulties in this respect. In course of time the higher agricultural price-level would be accepted as something natural, the more so, as after a while, when maximum productivity were reached in agriculture and the number of people engaged in the production of food would be reduced to a minimum, both the industrial and the agricultural price-levels could fall simultaneously and sympathetically.
collections, it subscribed to two important prerequisites of a planned solution of the agricultural problem, viz., the centralised decision as regards the minimum requirements of national food production and that of a guaranteed price for agricultural products. This, it should be noted, was done outside the sphere of exchange altogether!

The tendency towards a decline in the number of the agricultural population which set in in recent years in conjunction with the increased productivity of agricultural labour bears out the fact that less and less people will be needed in future to produce a given volume of foodstuffs and agricultural raw materials which will rise with each period of planning.

Our concrete study of the changes in village trade also substantiates our theoretical arguments that the redress of the cultural injustices, which in the past have been meted out to the countryside, is proceeding along the lines of an adjustment in the cultural levels of urban and rural populations. There are, as we have seen, definite signs, however modest and insignificant, not only of changes in the volume, pure and simple, of the consumers' goods-funds allocated for distribution among the peasantry (made possible by industrialisation), but also of the qualitative transformations in the structure of those funds.

It seems, however, that the Soviet planners cannot, as yet, pay undivided attention to the solution of the agricultural difficulties and anomalies, for the maintenance of rearmament weighs more heavily
than ever. All these circumstances impede rapid improvement of the peasants' standards of living, especially as expressed in quantitative terms.

The extension of collective farm-trade calls for special treatment. So long as the representative producing unit of Soviet agriculture remains the Kolkhoz, a social organism in which there is a definite link not only between co-operative success and individual enrichment, but also between individual enrichment and productive results, the existence of a fairly-large market-sphere is used to stimulate an extension (still badly needed) of agricultural production (particularly of perishable foodstuffs) apart from, and in addition to, the economic stimulus provided by the goods-funds offered in "exchange" against centralised and decentralised collections.

But this is only one of the many features of collective farm-trade. By encouraging frequent visits of the peasants to the towns and cultivating the habit of doing a substantial part of their shopping in town-shops, it is also instrumental in bringing town and country closer to each other and thus hasten that cultural revolution of the countryside which is so important for the harmony and understanding between the two spheres. Lastly, the purely economic significance of this development should be noted: collective farm-trade admits, within certain tolerably broad regulative limits, the operation of the law of supply and demand. Since the main dispositions as regards total agricultural production are laid down outside the mechanism of exchange by centralised
planning and cannot be upset by independent decisions of collective farmers, the market-principle is thus freed from its dangerous potentialities (i.e., disturbances perpetrated by atomistic decisions) and can be used as a supplementary method for solving the agricultural problem, without coming into collision with the centralised decisions.

Thus the agricultural question in Soviet Russia is capable of solution mainly by the operation of the principle of planned distribution, the sphere of pure exchange acting as an auxiliary.

As regards State collections of agricultural produce, the delivery prices will have to be raised by leaps and bounds, in order to reach a fair level. It will be recalled that de-rationing heralded a certain improvement in this respect, but agricultural State prices remain ridiculously low. As far as collective farm-trade is concerned, it is to be hoped and expected that this form of an active link between town and country will be preserved. We are aware of the rather hostile sentiments which some of the more radical Soviet economists entertain towards the agricultural bazaars, which they regard as ugly remnants of the past, bastard-like products of the compromise between the profit-motive and socialism. But we are of the opinion that even if, in time, all collective farms should disappear and make room for State farms - the collective farmers becoming State-paid employees - agricultural bazaars should be retained for the registration of urban wants in respect of perishable, seasonable and
and locally produced agricultural products and of the day-to-day demands of the agriculturalists. The existence of these bazaars will ensure that the normalised relations between town and country will not stagnate, but will be subjected to the daily corrective of healthy economic impulses and initiatives generated by the living contact of the two main sections of the toiling population.

This brings us to the end of a lengthy discussion which was motivated by the belief that the problem of town versus country constitutes one of the major problems of modern economic development and the fact that without due appreciation of the relations between industrial and agricultural activity in the U.S.S.R. its distributive problem cannot be fully understood. In addition, our discussion has thrown light on the nature of Soviet trade (and, unavoidably anticipated some generalisations thereon). This subject will occupy us in the following pages.
CHAPTER III

WHAT IS SOVIET TRADE?
WHAT IS SOVIET TRADE?

Nature and Functions.

The evolution of the theory of Soviet trade was rather slow and painful. We recollect how grudgingly the adherents of the Communist Dogma set to work to learn the despicable art of buying and selling when the NEP was proclaimed. Because of constant economic changes and the firm belief, held by many Soviet economists, that the development of "free" exchange of commodities was but a passing phase, theoretical fixation was not considered worth while. Furthermore, so long as "socialised" trade fought with the same weapons as private commerce, it was not easily identifiable.

The anomalous period of rationing only caused confusion, controversy and terminological muddle among the economists who probed into the question of the circulation of goods. It was not before the influence of the private merchants had been reduced almost to naught that the Soviet economists began to realise the necessity of formulating, in a positive way, their views on Soviet trade instead of merely indulging in destructive criticism of the writings of "wreckers" and "deviators". The importance of studying the peculiarities of Soviet trade was underlined by Stalin who drew attention to the special nature of Soviet trade "which has never existed in history before" and defined it (not very exhaustively) as "trade without capitalists - great or small, trade without speculators - great or small."

/From the First to the Second FiveYear Plan, op. cit., p. 47. Cf. also his statement before the XVII Party Congress, quoted by Arnold, op. cit., pp. 445-46.
The more, therefore, the position of Soviet trade was consolidated, the more obvious became the signs that serious efforts were being made to work out a satisfactory theory of this phenomenon. Not only did the economic periodicals (and even the daily press) give a greater prominence to several practical aspects of Soviet trade, but whole articles dealing exclusively with its nature and functions began to appear roughly from the time when socialised trade had finally eliminated any marked traces of private commercial activity.

A close study of many of these articles and books suggests the following theory of Soviet trade, as it exists at present.

(1) In its modern sense the term Soviet trade comprises the whole legal sphere of exchange in the Soviet economy of to-day which is no longer composed of two antagonistic compartments, but is more or less homogeneous. In fact, the homogeneity of Soviet economy is a necessary condition for the existence of Soviet trade as a homogeneous form of economic contact.

(2) Soviet trade in this sense is an economic phenomenon of relative permanency which is based on the necessity of preserving, for the time being, exchange, as an important channel of the economic relations within the Soviet Union. Soviet trade as the method of the circulation and transmission of the socialist or co-operative product to the working consumer will exist so long as archaic work incentives of individual enrichment, and the phenomenon of
economic scarcity are not eliminated. There is, it seems, very little actual discussion as to how long exactly the conditions which make Soviet trade necessary will last, but the general impression one gathers is that they are (and will be) regarded as normal for a considerable time to come (say, ten to twenty years).

(3) The existence of exchange does not imply a market of a capitalist type as the exclusive channel for the movement of values in the economy. Not only are the basic food requirements of the country but also collected in a centralised way; there is, in the Soviet Union of to-day, no market for intermediate or capital goods. These are assigned to various economic enterprises within the framework of the general economic plan (and are only supplemented by decentralised procurements), but - and this is important - their concrete movement is regulated by what has come to be known as Khozraschet (planned economic accounting), that is to say, all values have to be accounted and paid for in terms of an abstract standard of evaluation (money) and are transmitted in the shape of exchange-transactions (purchase and sale at a price) contracted between two or more individual economic units, the execution of the transactions (which assume a contractual form) being controlled by the chief financial administration.

IV. Nodel, in an article entitled Concerning the Nature of Soviet Trade (Soviet Trade, No. 2, 1933) cautiously states (p. 4) that Soviet trade is the only correct form of organised exchange for the whole of the Second Five-Year Plan. (The position under the Third Five-Year Plan remains unchanged in this respect).
("control by the rouble through the Gosbank"). There are, however, still a labour-market (within fairly rigid legal limits), a market for agricultural produce and the decentralised collections in the form of the Kolkhoz bazaars, and, last but not least, a market for finished consumers' goods and foodstuffs in State and co-operative shops. This arrangement differs essentially from capitalism which is unthinkable without a market for capital and "intermediate" goods, and at the same time bears witness to the necessity, at the present stage of the Soviet economy, to bid for labour and to gratify the workers' wishes by providing them with abstract purchasing power; it also indicates the special case of agriculture.

The fact that the circulation of goods is included in the general economic plan indicates that the broad trends of exchange are not left to the operation of elemental economic forces, but are organised. But it is equally true that the plan leaves the elaboration and the solution of concrete tasks to decentralised initiative and leaves room for the autonomous operation of the forces of demand and supply.

Not only is Soviet trade, therefore, the main form of economic contact between socialist undertakings which, because of the immature state of Soviet "socialism", still require the presence of a "material interestedness" in the results of their productive activity for an efficient and honest execution of their work, it is also an almost autonomous instrument in certain economic domains
which the centralised authority of the plan does not (yet) pervade. Hence, Soviet trade is both a component (synthetic) part of centralised economic planning and, at the same time, a method whereby the plan delegates certain tasks, at present beyond its reach, to the solution by the forces of economic spontaneity and adaptation.

This amounts to a tacit recognition of the intrinsic value of the market-mechanism per se, a mechanism, that is, which is cleansed from its ugly capitalist features of speculation and stubborn atomism, and which operates under the close watch and guidance of the sovereign economic plan.

What are the functions of Soviet trade within the framework of the economic plan?

First of all, Soviet trade plays the role of a distributive agency of the national income, in so far as it is the main instrument by which money is turned into goods and income thus given its real meaning. Distribution, under conditions of economic planning, implies, at the same time, re-distribution, i.e., the subjection of the main flows of income to a concrete elaboration and correction in compliance with a certain social policy. Soviet trade is, of course, not the exclusive method, by which these specialised corrections are attained. The wage-fund, taxation and (since de-rationing to a much lesser extent) the operation of the system of various material and non-material privileges are the other levers of the plan which control the complex network of tributaries of the main value-flows.
The second important function of Soviet trade is the creation of links between various parts of the Soviet economy. In our introductory remarks on the nature of Soviet trade we have already observed that it was the main form of economic contact. Now we shall be concerned with an examination of the concrete forms which this contact actually assumes.

The first link is that between producer and consumer and is realised through the multifarious channels of organised or supervised exchange-transactions. Secondly there is the link between town and country, the rôle of Soviet trade consisting in linking together the growth of socialist industry and agriculture with the growth of the material and cultural standards of the working masses (Stalin). The third series of links is that between various regions. In a country of such an enormous expanse as Soviet Russia this is indeed a stupendous task. Soviet trade not only facilitates the planned specialisation of different districts and territories, it is also an important instrument of regional protectionism. Thus Soviet trade not only keeps the different parts of the U.S.S.R. within a unified whole, it also helps to succour backward regions and, by wisely directing thither consumers' goods in appropriate assortment, to stimulate the rapid material

(continued from previous page): of price-planning and will, therefore, be explored in that connection. Here it may be added that the tendency generally is towards effecting re-distribution by a well-considered scheme of price-planning and not by such crude "corrections" in the distribution of the national income as were accomplished by an infantile Soviet trade during the rationing era. (Cf. Concerning the Nature of Soviet Trade at the Present Stage. Lectures and discussion of the Exchange and Distribution Section of the Communist Academy, Moscow-Leningrad 1921, (R), p. 22;
and cultural advancement of the more primitive and backward parts of the country. The third important function of Soviet trade is to act as an incentive on various domains of Soviet economic life. We shall discuss these in order of what we consider to be their importance.

There must be mentioned, in the first instance, the incentive which Soviet trade exerts on production. Soviet economists have termed this function one of "retroactive influence", but they admit that the working out of its theory has, so far, been badly neglected.

In the first place Soviet trade exerts its influence on industry as a whole. The slow (but outspoken) recognition of the obvious fact that, while production is still considered the prime moving force in the chain of economic causation, there is, in economic life, also a sphere of functional relationships where production and consumption both re-act and interact, is, in our view, of no mean importance. For this recognition points not only to a better appreciation of Marxian economics, but, from the practical point of view, also implies the granting, within certain limits, to demand the right to direct production through the medium of Soviet trade. This means that the badly exploited consumer is being

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This stands in sharp contrast to the predatory practices of Czarist commercial policy. Cf. Mikhaylov, Soviet Geography, op. cit., p. 44. Cf. text, p. 7.

Nodel, Concerning the Nature... etc., op. cit., p. 2.
given a fairer deal and in addition amounts to a far-reaching democratic corrective and modification of the centralised fiat of planning.

Some Soviet economic writers show tendencies to regard this "retroactive influence" of Soviet trade as meaning that, in course of time, the principle of individual demand will become so powerful, that the centralised decisions will be taken with a view to suit it. The majority of the authors is, however, emphatic in rejecting the thesis that the individual "retroactive influence" of consumption is (or is ever likely to become) the final determining factor of production. But on the other hand it is pointed out that the other extreme, viz., the ascribing of a merely formal significance to the "retroactive influence" of trade on production, is equally erroneous and dangerously misleading. It is a very real thing (they say) when the furniture or clothing industries adjust the structure of their production (types, fashions etc.) in accordance with the wishes of the consumer (registered by methods which we have described).

Of a similar nature is the incentive which Soviet trade exerts on local production by enabling the handicrafts co-operatives, collective farms etc. to enter into relation with the trading organisations. Here the fertilising nature of Soviet trade becomes particularly apparent, while, at the same time, speculative tendencies are kept in check by the en-

/For concrete examples cf. Z. Bolotin, "Cultural" trade and the Care of the Consumer, Bolshevik, No.3,1936, pp. 34 et seq.
forcement of contractual forms.

It is the living check of Soviet trade, the plain fact namely, that articles of poor quality will not only remain unsold, but will also cause a wave of complaints and public criticism, that provides Khozraschet with a real meaning and a real "punch" in matters of efficiency of individual trading units.

Another, to our mind equally important and significant feature or function of Soviet trade, is that it provides for the body economic a substitute for capitalist competition. It is no longer competition which acts a sole sovereign and elemental arbiter of economic disputes, but a new spirit of "emulation stopped off any action upon prices", acting among the multifarious channels of goods' circulation.

This emulation is, or should be, not one of profit-making, but one of how best to serve the working consumer, who is not only free to spend his purchasing power in any manner he pleases, but has also various alternatives of where he can satisfy identical wants.

An important element in this new competition is, furthermore, that the service which is meted out to the consumer, is supposed to strive after supplying him not only with the things he actually needs, but also that it should be "civilised" or "cultured". The problem of salesmanship is still very acute; on the other hand it is equally plain that the greater the volume of consumers' goods and the more exacting the

/Webbs, op.cit., p. 1192.
Soviet consumer becomes, the greater will be the need for the individual trading units to employ really competent staffs. Otherwise, by virtue of the Soviet "money-economy", they would soon be "bankrupt".

But "cultured" trade does not only mean the courteous and considerate treatment of the consumer, a respect for his freedom to choose, but also the careful and imaginative listening-in to the customers' hidden desires and the active moulding of demand in accordance with public policy.

The desire for clean shops, tidy counters, well-dressed and pleasant attendants, up-to-date equipment, aesthetic wrappings and window-displays is a sign of the general cultural uplift of the country, in which process the Soviet planners have assigned to their trade system, as to one of the most vital day-to-day contacts with the people, a leading and an active part. "The slogan of "civilised trade" links up with the general effort of the Soviets to raise the cultural level of the country."

According to the Soviet planners the most eloquent and practical proof of this desire is the extension of the Stakhanov Movement to trade, the final test of its efficacy being the judgment of the consumer himself. The essence of the Stakhanov Movement in the domain of trade is declared to be a harmonious correl-
ation of the rise in the productivity of labour with the rendering of "cultured" service to the consumer. The indicator of productivity of labour in trade is the "loading" of the individual shop-assistant or shop-worker with a certain turnover (expressed in monetary terms) in relation to some unit of time. On the other hand, the quality of service can only partly be expressed in terms of roubles - e.g., the quicker the salesman works (say, by means of an ingenious arrangement of his counter etc.) the greater is his individual turnover, while certain other elements of good and efficient service (e.g., cleanliness, courteous behaviour etc.) do not lend themselves to such measurement. Therefore it can be assumed that "Stakhanovite norms" in trade can only be achieved if certain general conditions relating to the quality of work (to be tested by careful and periodic supervision) are being fulfilled.

The last function of Soviet trade (but by no means the least in importance), viz., that of effecting economy of resources in the interests of the economy as a whole, will be considered in the concluding part of this section. Enough has been said to begin a comparison of Soviet and capitalist trade.

Soviet versus Capitalist Trade.

The principal charge levelled against capitalist

\footnote{For the Stakhanov Movement... etc., op.cit., p. 15.}
\footnote{Comp. our discussion of the character of labour employed in trade, p. 576 sq.}
\footnote{For the Stakhanov Movement... etc., op.cit., p. 26.}
"Norms of loading" were being revised in 1936 and 1937 in connection with successes of the Stakhanov Movement in trade. (Cf. Soviet Trade, 1937, vol. 6, p. 73).
trade is that it is much costlier than the "planned system of rational distribution of goods" which exists in the U.S.S.R.

Few will deny the presence of elements of waste in capitalist commerce. Capitalist crises, the disparity between production and consumption and all the other contradictions and failings of the capitalist system (especially of its monopolistic stage) find their reflection in trade and commerce, and are being enhanced by the tendency to inflate distributive costs as a means of individual enrichment.

According to the "Economics of Soviet Trade," distributive costs in 1932 amounted to some 35 per cent of the retail price (on the average) in Germany and to more than 50 per cent in the U.S.A. In the Soviet Union, on the other hand, it is stated, distributive costs amount to only 15 per cent, and it is hastily being added that, of course, Soviet trade is still lagging behind the country's requirements and continues to be afflicted with the extravagances of bureaucratism with the result that the full advantages and economies of planning cannot yet be fully realised. In the official estimate there is no doubt whatsoever that distributive costs will in time be reduced.

What is the main reason for this marked difference in distributive costs? asks the Soviet economist. It

/The figure for the U.S.A. is, so far as we could ascertain, an over-statement. According to Schaefer, writing in the Manchester Guardian Commercial, April 5, 1935 (quoted in Britain without Capitalists, London 1936, pp. 89-90), the figure was 38 per cent. This does not include the distributive costs incurred by the producer. It is possible that the total amount of distributive costs is as high as the figure quoted in the Economics of Soviet Trade (op.cit., p.11); but then it is unfair to contrast it with the figure of Soviet distributive costs which apparently does not include producers' costs.
is certainly not the technical efficiency of Soviet trade, for, in this respect, the superiority of, e.g., the U.S.A.
is unhesitatingly admitted. The explanation lies, it seems, in the difference of the motive forces underlying Soviet and capitalist trade.

The driving power of capitalist trading is the desire to make profit. According to Marx the constant transformation of commodities into money is an end in itself. In the case of Soviet trade, on the other hand, the paramount task is, or should be, the distribution of consumers' goods for use, under strict compliance with the rules of financial discipline. "Material interestedness" is admittedly an important condition, in the period of transition, for an efficient working of Soviet trade, but it would be ludicrous, so the Soviet planners maintain, to regard as this/the vital driving force. The transformation of goods into money in Soviet trade is certainly not an end in itself, but constitutes merely a pre-requisite of sound business accounting. It is this essential difference between the capitalist profit-motive and socialist "profitability" that makes it possible to keep distributive costs in Soviet trade at a relatively low level. For, having replaced capitalist methods of cut-throat competition by socialist emulation, Soviet trade has no necessity to resort to the ways in which selling and advertising is handled by capitalist tradesman and merchants, especially the big distributive organisations.

It is interesting to find out how far the Soviet planners will go in imitating the trading methods of
the foremost capitalist countries. Presumably they will imitate only those features which rationalise distribution and are really appreciated by the consumer. As regards Soviet advertising, its importance is not denied, but it is being maintained that it is used mainly for purposes of trustworthy information about the assortment and quality of consumers' goods already in existence or about to be brought on the market, but not with the object of maximising profits.

Experiments have been made in Moscow with the "Woolworth" type of stores. But as pointed out in a detailed survey of this experiment (L. Zhalkovsky, Standard Price Shop, Questions of Soviet Trade, 1938, Vols. 4-5, pp. 64-83) that in its organisation the principal differences between Soviet and capitalist trade have been taken into careful consideration. (p. 64). Unfortunately it is not stated how this has been accomplished.

The science of this new type of informative advertising has, naturally, not yet passed the stage of infancy. Mikoyan, in a speech delivered at the second session of the Central Executive Committee of the U.S.S.R. on January 16, 1936, said that "Soviet advertising is entirely different from capitalist advertising, not blaring and deceptive advertising, not advertising for the sake of palmimg off an adulterated and trashy product on the consumer... We shall introduce good Soviet advertising, advertising which will tell a good product, develop a taste for it and help its distribution." Soviet advertising is necessary, "so that people's tastes should develop, so that new foods and new goods should become a part of everyday life..." In this connection we must advertise not only in the streets and in the shops but also in the newspapers. Our newspapers must permit advertisements...and help our trade. We want the tastes of our working collective farmers and toilers to develop, so that they should pass from simple foods to superior and more nourishing foods. For this purpose we must adopt all forms of propaganda, including the best kinds of advertising." (Soviet Union, 1936, London, pp. 317 et seq.) In The Soviet Comes of Age it is stated that one of the objects of Soviet advertising is "the promotion of speed in the path taken by goods from production to the consumer" and it is added that the "technical and artistic quality of advertising is steadily improving, and advertising exhibitions are arranged from time to time." (op.cit., p. 91). - These statements are generalities and no more. The greater the variety of products and the freedom of consumers become, the greater will be the need for really efficient advertising and the expenses connected with this cost-item are bound to rise. But it is probable that
A further important difference between Soviet and capitalist trade is that whereas the movement of goods from the sphere of production to the sphere of consumption is supposed to be rational in Soviet Russia and merchandise passes through the minimum number of links, so as to reach the consumer as quickly as possible, capitalist commerce, because of its anarchic, competitive elements, the existence of privately owned railways etc. allows, as a rule, cross hauling and wastes in transportation."

(continued from previous page): (1) the relative amount spent on advertising in Soviet Russia will always remain incomparably lower than that used up in capitalist trade and that (2) it should be possible to keep Soviet advertising free from the elements of exaggeration, if not deception, so prominent in the publicity art of capitalism. For further details on this question cf. V. Kirichenko, Problems of Soviet Commercial Advertising, Soviet Trade, 1936, № 11-12.

Interesting details concerning capitalist practices in this respect can be found in Britain without Capitalists, op. cit., chapter on Distribution, pp. 82 et seq.

In this connection it is interesting to trace the changes in the system of transporting goods in the U.S.S.R. In the first years of the NEP goods passed often through as many as 5-6 different organisations until they reached the retailer. This made distributive costs rise to a very high level. After the "crisis of supply" of 1923 conditions improved. The system of "transit" or through-trade (which we have described) was developed, (chiefly for goods in daily demand), but ultimately this led to very undesirable consequences. Goods which reached the retailer directly from the supplier, had to be sent in small lots, therefore involving costly transport. Moreover they were often held up, so that the retailers were not able to maintain their usual assortment of goods. In 1932 wholesale trade was re-organised and the system of intermediate wholesale bases extended. Some bulky goods continued to reach the retailer directly, but in most cases commodities passed through 3 intermediate links. In September 1932 the Communist Party, through the Plenum of its Central Committee, condemned the frequent occurrences of cross hauling and laid down that goods destined for the village should not pass more than 2 intermediate organisations, while goods sent to the towns should not pass more than three. Abuses in this connection continued however. (Cf., e.g., Questions of Soviet Trade, 1938, vols. 4-5, pp. 37 et seq.) - As regards conditions under capitalism cf. the description of the complicated structure of the movement of consumers' goods in Czarist Russia,
To this short and by no means exhaustive enumeration of the differences between Soviet and capitalist trade, adduced by Soviet economists, we may be permitted to append a few comments.

Is it fair, it may be asked, to compare a patently idealised conception of Soviet trade with the grossest abuses of commercial practices under capitalism? Surely, such a comparison will give an unduly favourable picture of Soviet trade and will hide its existing inefficiency. In our comparisons, therefore, we should keep in mind not only what Soviet trade is in practice, but also that there are certain features of capitalist commerce in addition to those concerning technical perfection, which, though commendable, are not mentioned by the Soviet economists. We are alluding chiefly to the human aspects of capitalist commerce, its inventiveness, elasticity and initiative. It is true that capitalist advertising, as often as not, tries to pretend things which do not exist. Furthermore, the Soviet economists seem to assume that the average consumer in capitalist countries is completely devoid of independent and intelligent judgement and can be duped by any petty trader. ~It is just the impoverished consumer who is likely to be the most critical, searching and conscientious purchaser

(continued from previous page): Economics of Soviet Trade, op.cit., pp. 215-16; and Stuart Chase, The Tragedy of Waste, New York 1930, pp. 225 et seq. It is pointed out by Russian economists that while the abuses of Soviet trade in this respect are but temporary (infantile) organisational defect, they are inherent features of capitalist commerce which has to function within an unplanned economic system with conflicting vested interests.

/Cf. also Model, op.cit., pp. 34 et seq., Economics of Soviet Trade, op.cit., pp. 11 et seq.; W. Dikansky, Retail Trade in Capitalist Countries, Questions of Soviet Trade, 1938, nos. 4-5, pp. 90 et seq.
simply because the scantiness of his worldly possessions compels him to seek "full value" for his money, especially as regards foodstuffs. Thus, the desire on the part of the capitalist merchant to please the consumer is not, or not always, animated by his wish to dispose of trashy products, but to make his client really satisfied, so as to assure the continued patronage of his firm. The Soviet traders could learn a good deal more from their capitalist "colleagues" not only as regards such things as storing and packing arrangements and the like, but also from the capitalist standards of politeness and sound salesmanship. Although, admittedly, the number of small and relatively independent retail establishments is on the decrease, there are still a good few enlightened dealers in capitalist countries, who succeed admirably in combining their profit-motive with a sincere concern for, and good service, to the consumer.

The fact remains, however, that capitalist commerce is unlikely to achieve the main advantage of socialist economic planning, namely the balance between the things produced and the purchasing power to absorb the goods. And although a type of socialism that allows even a limited freedom of consumers' choice knows of isolated crises in the sale of goods, it should, if functioned properly, not experience those cataclysms which overwhelm the capitalist system from time to time. There is evidence to show that because

(Cf. Britain without Capitalists, op. cit., pp. 91-92.)
the reduction of turnover cannot always be met by a reduction in the numbers of shop assistants etc., a fact which keeps up the high distributive costs in times of a depression. In the Soviet Union there are, of course, daily fluctuations in commercial turnover of different shops, but, because of the absence of major and protracted economic depressions, they are of no great import. Similarly, the planned organisation of consumption is not troubled by the phenomenon of surplus stocks, due to reduced demand or to feverish changes, on the part of the capitalist producers, made with a view to utilising every existing reserve of purchasing power.

All these structural disabilities do not apply to Soviet trade which is part of the general machinery of planning. However bureaucratic and inefficient the existing machinery of Soviet trade still is, it can be expected (on the strength of the actual course of the country's economic history) that, in time, human deficiencies will be overcome. Moreover, there does not seem to be any reason why a planned economy should be inherently incapable of utilising the good sides of the capitalist market-mechanism.

**Soviet Trade and Socialist Re-production**

Is the character of Soviet trade regarded as productive? This question is being answered by the Soviet economists with a reference to the teachings of Marx, who, as we know, introduced a very narrow interpretation of the term "productive". Accordingly, only that part of the labour force in the country which
is occupied with the material generation of values can be referred to as being productive in the strict sense of the word. Other types of labour, e.g., those performed by the police etc. are, though socially necessary, not productive. As regards trade or the sphere of exchange Marx emphasised that the relations between a salesman and his capitalist employer are entirely different from those which existed between the industrial worker and the capitalist, since exchange does not generate surplus value.

This does not mean that exchange is unimportant. On the contrary, from the point of view of capitalist production, the functions of exchange are indispensable, for without them surplus value could not be turned into monetary profit and, thus, the crowning act of capitalist production would remain unaccomplished. None the less, in so far as only a change in the form of, and not an actual material accretion in, value takes place in the sphere of exchange, it is essentially non-productive and, consequently, labour employed in exchange must be classed, broadly speaking, in the same category.

Marx, however, continued by introducing refinements into this rather crude classification. He realised and admitted that commercial capital performs certain functions which are so closely intertwined with the actual process of material production, as to be virtually inseparable from it. Such functions are, e.g., storage and transport of commodities, i.e., the sub-
jection of products to certain material conditions which enable them to be preserved or even improved and which thus exert a certain transforming material influence on their value in use.

On the basis of these refinements Marx divides distributive costs into two forms: "pure" and "heterogeneous". "Pure" costs refer to the non-productive tasks of exchange and include such items as the time occupied in the operations of purchase and sale, the clerical outlays etc. "Heterogeneous" costs, i.e., those which belong to the process of exchange in a formal sense, refer to the productive functions of commercial capital.

Thus far Marx. The Soviet economists, who proceed to argue on the basis of this classification point out that, naturally, the functions of storage and transport are essential in a planned socialist economy and, furthermore, that only in such an economy can they be considered as being exclusively productive, since here they are directly indispensable for the re-productive process of society. Under capitalism, on the other hand, thorough rationalisation of storage and transport is impossible because of constant market-fluctuations.

Regarding the "pure" distributive costs the Soviet economists also underline their changed significance in the U.S.S.R. First of all, their level can be appreciably reduced by the centralisation of economic accounting and of financial settlements.

Now we can understand the "theoretical motive" for the great care and attention paid by the Soviet planners to the "material-technical base" of Soviet trade.
and secondly they are an important constituent of
the administration of the planned economy and its
various services.

Because of these differences in the nature of
the capitalist and Soviet economies, the planners
have thought it essential to introduce a new
classification of distributive costs applicable
(they say) only to Soviet trade, while retaining
the Marxian terminology exclusively for analyses of
capitalist production and exchange.

Accordingly "heterogeneous" distributive costs
are relegated entirely to the sphere of production.
As regards "pure" distributive costs the Soviet
economists maintain that one part of them, viz.,
those arising out of the monetary form of Soviet
trade at the present stage of development, will
disappear ultimately under full-blooded communist
distribution. The other part of "pure" costs of
distribution, viz., those relating to the various
services rendered to the consumer are declared to be
socially indispensable and will be retained under a
communist society as well as under socialism. It is
held, however, that their "specific weight" will
gradually decrease and that ultimately they will be
"organically absorbed by the costs of production
within a unified process of production and
distribution" (whatever that may mean).

Thus the Soviet economists arrive at the
\textit{Economics of Soviet Trade, op. cit., p. 368.}
following classification of costs relating to the circulation of goods in the economy of the U.S.S.R.: (1) costs of production in the sphere of exchange and (2) distributive costs in the narrow sense of the word.

In connection with the level of distributive costs the Soviet economists introduce certain qualifications which are worth mentioning. They insist that the cost-level should under no circumstances be judged from the point of view of the interests of the single trading unit, but from that of the national economy as a whole. The interests of the national economy (e.g., regional protectionism) may cause considerable funds being temporarily allotted to the construction of adequate and up-to-date storage accommodation in certain parts of the country. This would, from a short-sighted point of view, mean an increase in distributive costs, but would tend to reduce them in the long run by cutting down losses.

We may now proceed to state the attitude of the Soviet planners towards the question as to how much of the labour-force available in the community should be devoted to trade, an essentially non-productive occupation.

The ultimate aim of Soviet economic policy is to distribute labour in such a manner as to maximise the production of economic surplus. Thus the increase in "productivity" of labour in the domain of

\[\text{Economics of Soviet Trade, op.cit., p. 368.}\]
\[\text{Ibid., p. 369.}\]
trade has a direct effect on re-production by releasing additional labour resources for the employment in the country's industry and agriculture on the one hand, and improving the standards of well-being of the working consumers on the other.

From the point of view of the structure of the shop-personnel this means that the number of the administrative and clerical workers should be reduced as much as possible. We know how appalingly "unproductive" the structure was in the days of rationing. Now that this has been abolished it should be possible to effect drastic cuts in the numbers of the Soviet Union's "commercial bureaucracy".

An optimum structure of the shop-personnel would be such as would insure the effective organisation of the trading unit together with the highest possible turnover consonant with the plan's directives. It is, however, realised that the development of "civilised" trade will make it impossible to increase the "loading" of the individual shop-assistant beyond a certain limit. On the contrary, it is conceded that the improvement in the standards of service accorded to the consumer will necessitate a reduction in the norms of "loading".

As regards the absolute numbers employed in Soviet trade there can be no hard-and-fast rules.

\[\text{In } 1934, \text{ according to a survey undertaken by Centrosoyuz, about half (and sometimes more) of the employees of the 683 shops included in the survey, belonged to the administrative staff. (Cf. Neiman, op.cit., pp. 305-6.)}\]
The "Economics of Soviet Trade" merely draws attention to the fact that while the U.S.A. employs 10.5 per cent. of the active adult population in trade and retail distribution, only 1.5 per cent. of the working population of the Soviet Union are so employed. It is emphasised, furthermore, that while the number of workers in distributive trades of capitalist countries tends - under pressure of competition and other contradictory forces of capitalism - to rise out of proportion to the volume of commercial turnover, the numbers of distributive workers in the Soviet Union are determined by the economic plan and are in strict accordance with the current plan of turnover and the existing norms of productivity.

From this discussion follows yet another function of Soviet trade. It is that of striving after the utmost acceleration in the speed at which commodities circulate, so as to release an ever growing proportion of resources for the purpose of extending material production without thereby prejudicing a high degree of "culture" in the conduct of trade itself.

\(^{1}\)Op. cit., p. 285. Figures for Britain are given in Britain without Capitalists, op. cit., pp. 84 et seq. The Soviet figure appears to be abnormally low and can be explained by the existence of areas with no shops.
CHAPTER IV

PRICING AND COSTING IN THE SOVIET SYSTEM
Let us consider now the framework which supports Soviet trade and the whole of the economic plan, viz., the working of the mechanisms of pricing and costing, and try to determine what functions they have been assigned in the Soviet system where production is "roundabout", and all goods and services have to be accounted for and paid for. It is an attempt to connect up the various statements and remarks which have been made on the problem of prices in the course of the narrative into a more or less coherent analytical formulation.

To some economists the problem of pricing and valuation is identical with the "economic problem" generally, but we tend to agree with Dobb's dictum that this type of attitude "is a good example of the modern limitation of the field of economic study to the realm of the market (pushing production and production-relations into the background)." Yet, if we differentiate, as we should, between market prices, which may conveniently be defined as exchange-ratios of different commodities in a competitive market, and prices in the generalised sense of a system whereby available productive resources (notably labour) are allocated, in a certain order of preference and over a period of time, to alternative uses with the object of efficiently satisfying current social needs,
it is clear that the price-phenomenon is likely to prevail under all institutional formations, which observe the economic principle. Hence, while "it can quite justly be said that the problem has been assigned an exaggerated importance, and made to assume a distorted complexity, by the highly abstract setting that economists have given it...", "some problem of economic calculation and of allocating productive resources between different uses clearly exists for a socialist economy, and its existence has been indicated by the leading theorists of socialism."

It is in this generalised sense that pricing exists in the Soviet Union of to-day, but it is important to emphasise that this does not mean a subservience of the planners' dispositions to the rules of market-equilibria, in the sense that the and size of the various investments should entirely be dependent on whether the prices they carry are "true" "equilibrium prices", i.e., prices which insure that current supply is exactly carried off by the current demand. Neither does this mean, however, that the autonomous operation of the forces of supply and demand is entirely non-existent.

The statement may be ventured that pricing and costing in Soviet Russia are only instruments and (continued from previous page): On the Economic Theory of Socialism, part I, The Review of Economic Studies, Vol.4, 1936-37, p. 54. Cf. also footnote Nr.4 ibid.). Similarly, Myron W. Watkins, in the Encyclopaedia of the Social Sciences, Vol. 12, p. 366): "The price system may be conceived as a device for limiting the use of resources and the consumption of goods, which have alternative applications which are deemed to deserve precedence and to the extent required by their inadequacy to fill completely the selected applications." /Dobb, Modern Quarterly, op. cit., p. 173.
conditions of planning whereby the efficiency of long-term dispositions is assured, short-period fluctuations are overcome and certain adjustments in the national income, deemed desirable, are effected.

The official pronouncements on this point, which generally speaking, are scant and not very illuminating, tend to support this view. All of them stress that price "represents one of the most important tools of regulating the fulfilment of the national economic plan, an instrument of distribution and re-distribution of the national income and accumulation"; or that "price under the conditions of Soviet economy is an instrument of planning accumulation and demand."

Broadly speaking, the price-mechanism is designed (1) to facilitate direct centralised dispositions, (2) to insure an equality, as far as possible, between prices and costs in the domain of the plan's constructional tasks and (3) to establish "dynamic equilibrium" between consumers' demand and supply.

Let us now examine in what direction the system works assuming ideal execution of the plan's directives, i.e., disregarding, for a moment, the actual weaknesses which it might not be impossible to overcome eventually.

What is, for instance, meant by the "re-distributive" function of the Soviet price-system as regards industry? There can be no doubt that, since all

Cf. E.M. Chossudowsky, The Soviet Conception of Economic Equilibrium, The Review of Economic Studies, Vo. 6, February 1939, p. 138 n. This paper's section on the price-problem has been the basis of the above exposition.

Ibid., p. 139, notes 1 and 2.

This function which figures so prominently in the discussions of Soviet economists is, it will be noted, not included in the traditional limited concept of the generalised price.
production does necessarily imply a check upon alternative performance elsewhere...the notion of of opportunity costs ... applies most fully...in Soviet economics." But within these general limits the re-distributive function of the Soviet price-system increases the ease with which the direct productive decisions and consequent allocations of resources can be adjusted, especially in the short period. If in the course of the plan's execution it is, for example, discovered that a particular line of production promises high returns provided that it receives additional encouragement, the Soviet price-system comes into play. Prices will be re-arranged so as to favour a potentially fertile industry to the detriment of some other branch of economic activity which is considered to be less important at the moment. But if the expectations of the technical and economic experts have been correct, the total net outcome over a period of time might well intensify the process of extended reproduction. In such a case, with an increased total volume of production, it would be possible to restore the temporarily "neglected" industry to its former position.\footnote{Cf. Soviet Conception of Economic Equilibrium, op. cit., p. 139, n.3.}

The same result would, of course, have been achieved by changing direct allocations of raw-materials and labour, but it seems plain that such a method would be clumsy and jerky if taken in the middle of bounties. Both methods are being applied.
a planning period, while re-distribution by way of price-manipulation would effect a relatively smooth transference of economic factors from the "neglected" to the "favoured" industry without having to use a vast statistical machinery.

This only goes to show that the existence of a price-mechanism in the inter-relations of Soviet industry is by no means of merely formal significance and is an illustration of how the Soviet planners use the atavisms of the past to their advantage.

Our statement as regards the second of the functions of the price-system (i.e., equality, or rather proportionality between prices and costs) was somewhat simplified, for, as we know there was a time in the economic history of the U.S.S.R., when the task of industrialisation was relentlessly pushed forward regardless of the economic costs and the human sacrifice involved. In those days, then, the function of the price-mechanism was to preserve in the first place the dynamic equilibrium between growing production and capital investment, and only in the second place that between consumers' demand and supply. This does not, or not necessarily, mean that the Soviet planners had no clear conception of the price-cost relationship. In point of fact, the guiding principle of Soviet price-fixing has always been to have output prices assessed at cost. Further, the underlying assumption of the plans was that the industrialisation of the country would be able to

7Cf. Neiman, op.cit., pp. 53 et seq. (chapter concerning the nature of price in the U.S.S.R.)
pay its own way. Thus, while the Soviet planners realised the initial need for fixing the planned output prices of the traditionally unprofitable heavy industries below cost, covering the resultant losses by budgetary grants (often tantamount to credit-inflation), differentiated turnover taxes in conjunction with high retail prices, sundry diversions of funds and, at critical moments, by monetary issues, they had the definite intention of adjusting output prices to costs as soon as the lagging branches of the economy had been placed on a sound technical footing. The underlying idea of the decree, issued by the Sovnarkom and published in March 1936, which revised the relations between the heavy and timber industries and the State budget, seem to have been to dispense with the necessity of budgetary subsidies ("dotations") by fixing a unified price for a given industry, based on the average production cost of that industry as a source of self-financing.

We cannot possibly undertake a detailed analysis

[Soviet economists point out that owing to the existence of an atomistic market mechanism under the N.E.P., together with "autonomous commercialism" of State industry, striving after "easy profits", prices for products of light and food industries tended to rise unduly. When integral planning was introduced, the possibility of establishing an average profit-margin for the whole of industry was discussed and it was hoped that such a device might lower prices of consumers' goods. Against this it was held that in view of the relatively higher cost-structure of the technically backward heavy industries, such a "levelling-out" would have meant a mechanical raising of costs all round, including those of the light and food industries. Ultimately the policy of artificially low prices for means of production was adopted." (The Conception of Soviet Equilibrium, op.cit., p. 140, n.1.)

These had been used, as often as not, not to cover (as intended) "planned losses", but to hide managerial inefficiency. Cf. "Plan", 1936, no.9.

of the term "cost of production". The theoretical clarification of this concept is, without a doubt, still in its infantile stages. We need only refer to the controversy which has centred round such concepts as "joint", "social" and "private" costs.

In the U.S.S.R. economists have, so far as we are aware, failed to produce a thorough definition of the concept. If we can take some of the pronouncements which Turetsky has made—occasionally, however, his writings are referred to as "deviationism"—it would appear that the Soviet planners regard cost of production not so much from the standpoint of its quintessence or its final denominator (e.g., labour or disutility), but from the more practical one of orientation. For it is obvious that, as a general rule, Gosplan cannot allow that the total effect of its dispositions will result in economic loss, i.e., the failure of material outlays to cover material returns which, in its tum, would ultimately cause the dissipation of economic substance. Since, therefore, Gosplan cannot, as it were, make its dispositions in vacuo, a formal concrete quantitative scale is required whereby the material outlays can be measured against the material returns and the condition of an efficient pursuit of extended reproduction can be carried out.

It seems that when Integral Planning was commenced the formal scale for registering these material processes, as historically formed before

"The economic policy of the Soviet Union has ... continually aimed at a correct representations of economic facts in terms of money." (The Soviet Comes of Age, op.cit., p. 80).
and after the Revolution was taken over and changes were administered to it so as to bring out the technical and other progress in a manner which will occupy us presently.

Thus the concept "cost of production" seems, in the opinion of the Soviet economists, to be nothing else than the measurement of "a certain portion of social expenses of labour which are connected with the re-production of factors of production and depend on the extent of consumption" (Turetsky). But this concept, it is added, is not identical with the totality of the expenses of production by which is probably meant something to which the Western economists would refer as "social" cost.

As regards the items of the "cost of production", R.L. Hall says that these can be reduced to two main heads: labour costs and tax for capital expansion and for Government purposes. It does not appear that either interest as such, or rent, is considered an important cost." This, after all, is not surprising, since the revolution has made "an end of one large class of income payments to production", viz., interest and has similarly abolished rent as a species of income. The necessity to include interest in the cost of production, with the exception of charges for local and circulating capital does not arise since the rate of accumulation in the sense of a proportion of output added to capital equipment not assigned to consumption is decided upon by a central plan. In

\[\text{In this definition we discern the attempt to reduce all cost-items to labour.}\]

\[\text{\textsuperscript{2}}\text{The Economic System in a Socialist State, p. 246.}\]

strict compliance with the "reproductive" concept of cost, provision for amortisation of capital and the expansion of the capital of the individual productive unit is included in the "cost of production." Similar considerations apply to rent which is only included in the "cost of production" if it has a direct bearing on productivity. Labour-costs, of course, are established by collective bargaining within the limits of the centrally fixed wage-funds.

After what has been said, R.L. Hall's dictum that costs in the Soviet Union follow from, rather than precede the decisions of the Central Planning Authority is misleading. This statement is not correct because Gosplan based (and still based) its calculations and forecasts on past experience which includes historically formed cost-data. The fact of the matter is that since the investments and other dispositions of Gosplan are not governed by the supreme test of profitability, i.e., maximum surplus of returns to outlays in each single case, the cost-level is not regarded as the criterion and moulding power of economic activity. Accordingly costs are measured and accounted for in formally accepted historically shaped quantitative units before and during the execution of a given section of the plan and are revised, in terms of the same units if actual changes in production (increase in productivity etc.) warrant such an action. Thus, in the words of G.D.H. Cole, "the planned economy will not be using (costs) as a means of deciding upon the
distribution of the available productive resources, but only as a means of checking the efficiency of Socialist enterprise." Or, as we would prefer to say, the decisions of the planned economy will be made irrespective of whether a particular line of investment is profitable or not, but once the decision is made the respective jobs will be carried out not only efficiently, but in the most efficient way possible. Under capitalism the cost criterion enjoys a kind of sovereignty in determining the individual decisions of entrepreneurs. Under the Soviet planned economy it seems that that sovereignty has not been completely destroyed, but the operation of its rule postponed to the time when the actual execution of the plan's directives sets in.

We shall now describe how in our view costing and pricing are used to establish such an arrangement of factors of production that would, within the limits of the plan's fiat, guarantee their maximum productivity.

It will be recalled that during the first years of intense planning the reconciliation of a progressing economy with the cost-price relationship has been very rough and ready, owing to lack of experience, to intervention of non-economic considerations (re-armament) and to an over-optimistic assessment of the rate of technical progress and of the productivity of labour. The tendency at present seems to be to observe the cost-price relationship for the whole of the economy.


"The most productive combination" being here defined as that combination of the factors of production, beyond which an increase of any one factor alone will result in a less than proportionate increase of output. The case where the transfer of, say, labour from A to B and conversely of capital from B
in a more accurate and more perfected way, viz., by establishing or re-establishing it within each of its component parts.

Assuming that this is so and that the Soviet cost indices, as we have defined them, actually measure the scale and outlays against that of returns, it would appear that after an initial costly push in the direction of industrialisation which had (or has) in part to be met by curtailing current consumption, costs are being met in the simple physical sense. As regards the more specific question whether the costs incurred by Soviet industry are or tend to be \textit{marginal} costs as defined by the traditional equilibrium concept, it is difficult to obtain a satisfactory answer from the Soviet economists. This is due partly to their unfamiliarity with the terminology of Marginalism and partly to their rejection of the "free" market-criteria in the determination of their productive arrangements.

Theorising on the strength of actual planning practice it would seem that the Soviet planners, taking the \textit{relative values} of goods as given, try to minimise costs for any given enterprise which is considered firm enough to stand on its own feet, i.e., covers its costs in a rough and ready way. They do this by a process of trial and error (originally starting off from costs historically formed), whereby the quarterly, annual and quinquennial norms of the

(continued from previous page): to \( A \) will result in an increase of output in both cases, will be one where there is diminishing returns to additional applications of capital in \( B \); or else, diminishing returns to additional applications of the same factor in both industries, but acting more strongly in one industry than in the other." (Dobb, The Review of Economic Studies, Vol. II, No. 2, February 1935, p. 146, n.)

(This is only a starting-point of orientation. ...)
decrease in production costs shift the factors towards that combination in which their net productivity is greatest, i.e., where marginal costs of the given industry equal the price of its products. If that point of "maximum utilisation" (as one would call it in the U.S.S.R.) is reached, any further decrease of cost will be treated as an economy in the short period. In the long run it will be used as the basis for the revision of the accounting prices which are linked with the cost-indices, a new drive for cost-reduction, and so, with continuous technical progress for a race, ad infinitum, after a technical maximum through time.

The "ideal" situation at any given moment would seemingly arise only if and when every industry covered its costs in the best possible way, i.e., where marginal costs equalled factory selling (delivery) prices, while the planned accumulations would be distributed and re-distributed in conformity with the preference-scales of the State.

If our generalisations conform to real trends we can now appreciate the great practical importance of Khozraschet, that mixture of financial discipline and ordinary costing methods based on planned norms.

(continued from previous page): it is wrong to assume that...the State proceeds from pre-War exchange-proportions." (Neiman, op.cit.,p.55).

Rosenberg, Calculation and Accounting of Production in Enterprises of the Heavy Industries, Moscow-Lenigrad, 1933, (R), p. 16.

"One should, we think, make a distinction between the "short-period cost-minimum" having regard to existing technical development and "long-period cost-minimum", i.e., the notion of what could be achieved some time hence assuming constant technical progress. Only the former is relevant for the cost-price relationship, for establishing equilibrium between marginal costs and marginal prices at a particular time. The latter is clearly a tendency-goal." (Conception of Soviet Equilibrium, op.cit.,p. 141, n.4.)
Obolensky-Ossinsky calls Khozraschet "socialist business basis" and for him it represents "the foundation of the plan and the lever for its accomplishment." "It is a great mistake to believe", he continues, "that adherence to the business basis, i.e., aspiring to attain the greatest possible economic results for the least expenditure, is characteristic only of private capitalist economy. Socialist business basis differs essentially from capitalist business basis, but it is a feature of socialist economy as it is of every rational economy. ... The essence of socialist business basis is that as a general economic result it must produce a considerable balance and that for each economic unit a certain rate of expenditure and result is assigned which must be balanced in the most efficacious way. The adoption of the business basis by each economic unit...is a lever for carrying out the plan, a real form of verifying its fulfilment." (E. Burns) observes:

Similarly an English commentator comments:

"...payments and separate accounting are necessary in order to check up on the efficient working of each unit, and this is the purpose of the money transactions between state-owned concerns in the Soviet Union. At the present stage, money accounting is a simpler check than accounting in things, in order to ensure that each state trust "pays" - not in the sense of providing a profit, but in the sense of returning a maximum possible output to the people as a whole for the least possible use of human labour. ... the financial result is merely a pointer to satisfactory

2 Apparently, there will be no Khozraschet under communism.
or unsatisfactory working, and can never have the result of depriving the people of what they need."

The above idealised description of the purpose and functions of pricing and costing from their initial stage onwards was necessary for a discussion of what interests us primarily, viz., the question of the formation of retail-prices which guide Soviet trade and distribution.

Since in our factual narrative we took the opportunity to bring out the difference between delivery and retail prices, we may content ourselves in this context with the general observation that the relations between these two sets of prices (which had been most obscure during the rationing period) are becoming increasingly simplified since the introduction of unified selling prices for all consumers' goods. But it is tacitly admitted that the two sets of indices still remain largely incommensurable magnitudes. This is partly due to the fact that the two systems have, at present, somewhat different functions to perform in the national economy. On the one hand the system of delivery is used for covering planned costs, i.e., equilibrating outlays and returns, and for the purpose of stimulating specific branches of production.

(Money, London 1937, p. 91. - Similarly Venediktov (and others): "Khozraschet represents one of the most active means of control for the fulfilment...of directives and decisions and does not only detect the non-fulfilment of a directive but also that link in an enterprise which is guilty of the failure." (The Organisation of Cost-Accounting in Industry, Leningrad 1933, (R), p. 41). For further references cf., e.g., Arthur Feiler, The Experiment of Bolshevism, 1930, pp. 105-6 quoted by Webbs, pp.782-3; chapter on "Khozraschet" in Dr.R.Schweitzer, Das Experiment der Industrieplanung in der Sovietunion, Berlin 1934, pp. 65 et seq.; Stalin, Leninism, Vol.2,pp. 440; article in the Great Soviet Encyclopaedia, Vol. 52, pp. 851-58; of Govern-
in addition to direct allocations. Retail prices, on
the other hand, are constructed in such a way as to
reconcile the requirements of general accumulation and
of "social dividend" benefits with the forces of
supply and demand for consumers' goods.

We have touched already on the constituents of
the price-categories, but may be permitted to revert
to this question in this context.

It will be recalled that

The delivery price consists of three main com-
(continued from previous page):ment decrees dealing
with the subject of Khozraschet the following may be
mentioned: decree of the Central Committee of the
C.P.S.U.(B) dated December 12, 1929 ("Khozraschet shows
the "personality" of an enterprise, favours the
rationalisation of production and an efficient
organisation of supply. At the same time it counter¬
acts forces making for bureaucracy and red tape");
decree of the Sovnarkom of the U.S.S.R. dated
March 3, 1931 (i.e., one of the decrees amending the
Credit Reform); resolution of the Central Control
Commission of the C.P.S.U.(B) and the People's
Commissar of the Workers' and Peasants' Inspection,
dated May 13, 1932. - Khozraschet (which literally
translated means "economic accounting") should be
distinguished from "Kommerchesky Raschet" ("commercial
accounting") which the Trusts of the NEP-period were
supposed to observe since August 12, 1921 and which
was based not (or not so much) on remunerativeness
within the limits of a general economic plan, but on
the autonomous pursuit of profits. This "commercial
accounting" was abandoned with the inauguration of
integral planning. (Legislative and other details
of this development can be found in Alex. de Sigalas,
Le Statut des Entreprises Gouvernementales en U.R.S.S.,
Institut de Droit Comparé de l'Université de Paris,
Paris 1936, pp. 13 et seq.; and Great Soviet En-
cyclopaedia, Vol. 59, pp. 851-58.)

For relations between delivery and retail prices
Cf. Soviet Conception of Economic Equilibrium, op.cit.,
p. 142, n.2. The peculiar character of agricultural
prices has already been touched upon elsewhere (p. 33%2),
cf. also: Soviet Conception etc., op.cit., p. 142,
n.3.
ponents: (1) "commercial cost of production", (2) "profits" (accumulations), and (3) the turnover tax. The retail price is composed of: (1) the wholesale price; and (2) the retail price-additions. These consist of (a) costs of distribution, and (b) budgetary additions. Some space should, we think, be devoted to a brief consideration of the function performed by the turnover tax (which still provides the bulk of the revenue.) Ware has justly remarked that "the determining factor in price planning is neither expense of distribution nor cost of production - it is the state tax".

As regards the delivery price-sphere the where-withal for specific subsidies is provided mainly by a differentiated scale of profit-margins within a planned balance and, as a rule, on the basis of the "no loss principle" for the industry as a whole. Over and above this, however, the indirect method of the turnover tax is also used to effect the necessary

"Commercial cost of production" is made up of three parts: (1) average factory cost of production (taking into account the planned norms of cost-reduction); (2) expenses for training of "cadres" (a "social cost" item); and (3) selling and administrative costs of the economic organisations.

Industrial profits are planned and unplanned. Planned profits consist of the amount by which the fixed selling price of the product, excluding the tax coefficient, exceeds the planned production costs, including proper provision for depreciation, renewals, etc., and addition to the enterprise's working capital, which are collectively described as "amortisation", and amortisation plus planned profits form the planned "accumulation". Unplanned profit is the amount by which an enterprise's net profit exceeds its planned profit. When...realised, they are permitted to be used to the advantage of the successful individual factory." (Banking and Credit in the Soviet Union, op. cit., p. 24).

Henry Ware, Planned Soviet Prices, op. cit., p. 36.
redistribution between profits and accumulations. But the chief function of the tax relates to the sphere of Soviet trade: it is that of gathering in revenue from the public and this obscures the alleged low level of distributive costs. There are scarcely any hard and fast rules as to fixing the degree of its incidence. The tax is certainly used to bring about the equilibrium between supply and demand in the consumers' goods market, where the deficit of commodities has not yet been banished. But the balance is never struck mechanically. The fiscal principle which would call for high rates on commodities with non-elastic demand is tempered by political and welfare considerations, so that the decision as to the fixing of each rate is taken in the light of manifold considerations. In each concrete case it is arrived at by taking into account such facts as the degree to which the market is saturated with the commodity in question. And, although rationing as a means of "mobilising funds" and pursuing a policy of direct class differentiation in consumption has been largely abolished, it does not follow that under conditions of unified retail prices there is no social discrimination whatsoever. This discrimination manifests itself in differentiated turnover tax rates, luxury goods bearing, as a rule,

"The internal relationships between the two most important parts of the unified fund of socialist accumulation (profits and turnover tax) on the one hand and the different branches of industry on the other are not determined in a uniform manner. In practice the transference of a part of profits to the tax or of a part of the tax to profits is carried out by way of raising or lowering the tax-rates." (A. Gordin: "Rates of the Turnover Tax", Planovoie Khoziastvo, March 1938, p. 84) But it would be a dangerous economic illusion, contrary to the principles of "Khograschet to insure profit tax rates." (Ibid., pp. 91-2) (Soviet Conception etc., op. cit., p. 143, n. 3)
a greater proportion of the tax.

Such, then, are the contours of the Soviet price and costing systems and their connection with the distributive machinery.

The introduction of unified prices has, in our estimate, laid the foundation for the perfection of the planning mechanism. As employed in the market-sphere the price-system does not only register individual tastes of the consumer and thus insure his (however limited) freedom to choose, it also guarantees a relatively smooth goods-exchange by keeping demand and supply in balance; it is elastic when required, and is sensitive enough to spot weaknesses in the execution of the trade-plan.

The Soviet planners, who still tend to associate the price-phenomenon with capitalist speculation and graft, should reflect on this balancing aptitude which the price-mechanism possesses. Even the most "ideal" scheme of economic planning will from time to time experience unforeseen maladjustments and gaps in the sequence of planning. For one thing, no plan, however perfect and comprehensive, can account for all the extraneous forces that might intervene. This is realised in the Soviet Union and it is stressed that in order to preserve "dynamic equilibrium" the plan must be capable of elasticity and adaptation. But, in the presence of a modified market and a relative

For details on the tax cf. Gordin's article (op.cit.), "The Soviet Price System", Contemporary Russia, Oct. 1936, pp. 76 et seq.; Dr. W. Leontief, Währung, Lebenshaltung und Finanzen im zweiten Fünfjahresplan der Sowjetunion, Ost-Europa Markt, April-May, 1934; Florinsky, Toward an Understanding of the U.S.S.R., pp. 165 et seq. Rates on necessaries, particularly on foodstuffs, are very high (cf. Florinsky, op.cit., p. 167), but "it is probable that the receipts from the tax on spirits head the list." (Leontief, op.cit., p. 148).
freedom of consumption there is a limit to what direct adaptation can do. If the Soviet planners do not want (as seems likely) ever to re-introduce the system of rationing in a form in which it existed during the First Piatiletka, then the only way, at present as well as in the future, of removing mal-adjustments between demand and supply due to quantitative over- or under-fulfilment of plans by the supply organisations, failure of demand to carry off particular lines of supply owing to their inferior quality or, conversely, unexpectedly strong response and pressure of demand on the supply of certain "fashionable" and "attractive" commodities, is to bring the price-mechanism into play, raising the price of one article by means of a tax and reducing the price of another by means of a bounty.

Here is Henry Ware's comment on this question:
"...occasionally the state and cooperative stores in a particular locality fall short in their efforts to supply produce to their customers. ... In such situations, the rural bazaars are able to ask higher prices. Usually, however, the stores are able to maintain a position in the market sufficiently strong to dominate and to force the bazaars in line with planned prices. ... Nonetheless, planned prices cannot be pegged to "hold their own" for more than a short time. What then do planned prices really amount to, if they can so easily be pushed out of their dominating position and forced to readjust themselves? Are they worth all the trouble of calculating the relative weight of all the actual costs and various national aims? - Planned prices cannot be determined arbitrarily: nor should they be expected always to "dominate". They should be considered...a focal point in a dynamic planned economy. ... even the temporary or localized presence of (this) familiar law (of supply and demand) indicates an inadequacy or maladjustment somewhere in the plan. ... Because of this ever-present threat, prices must be planned correctly. They must be the logical result of the existing situation. It is impossible even under socialism to sell something for five rubles, when no one would be willing to pay more than one rouble for it. And it is just as difficult to maintain a price of one rouble on an article which easily can be sold for five rubles. Soviet prices find themselves in
But changes in retail prices will not be affected for the exclusive purpose of establishing short-term equilibrium between demand and supply. There will also be periodic revision of prices for reasons of social policy.

(continued from previous page): such a predicament. ... When Muscovites consistently refused to pay the price asked for oranges and lemons, the prices were forced to be pegged at lower levels, to avoid a total loss through spoilage. ... Other less perishable goods may be re-allocated within the trade network to meet demand where it is located. Or an educational campaign may be influential in introducing a useful article with which the consumer may not be familiar, as was done in the case of cornflakes, canned milk and oatmeal. ... The campaign to sell more soap, in 1936, without lowering prices, resulted in failure, as far as increasing the sales was concerned. Extensive advertising and sales promotion activities, even with the cooperation of the department of health did not provide the desired effect. ... During the past year (1937), however, the quality of Soviet soap has greatly improved, and its planned prices have been considerably lowered. Now the population has greatly increased its per capita consumption of soap. - When planned prices are too low to effect a satisfactory adjustment; between planned supply and planned demand, they result in speculative and artificial scarcity. Nothing remains on the shelves of the stores, sales plans are automatically fulfilled with no concern whatsoever for the customer and the state loses thousands of rubles which might have been poured into its coffers instead of into the hands of the speculator. All this might have been avoided had prices been planned a little higher. ... But the general policy of the Soviet government is to lower prices slowly but steadily, to make way for increases in production and consumption. Wherever it can be avoided, therefore, prices that are "too low" for a huge demand are not raised. The only other way that the needed adjustment can be obtained is to increase the supply to a point where it will absorb the demand at the planned price." (Op.cit., pp. 38 et seq.)

The task of price-fixing is, is indicated by Atlas (Concerning Soviet Prices, Problemy Ekonomiki, No.4, 1939) thus: "In what proportions does the exchange of the products of labour actually take place, what criteria guide the State in fixing the prices for concrete commodities and commodity groups? Such criteria are: (1) cost of production and changes in the productivity of labour; (2) the size of commodity funds and the balance of supply and demand in respect of these goods; (3) the extent of total accumulation required under given conditions, and the wage-level; (4) the necessity of any differential stimulation of the production of different goods and the consequent fixation of a smaller or greater degree of "profitability" of such commodities; ... (5) the need for economy in
Unfortunately, all reflections as to the exact set of principles that prompts the Soviet planners to fix retail prices at a certain level in each particular case, must remain guesswork, so long as Gosplan deems it desirable to withhold specific information on this important and highly intriguing point. There is little doubt that the theoretical premises of this province in Soviet planning are still very rudimentary, but the tendency to synthetise price planning with the other dispositions seems to indicate that in deciding, from time to time, on the various price-changes, the Soviet planners attempt to balance up considerations of a special case with the totality of the economic processes and such general directives as that of price-reduction all round.

(continued from previous page): the use of various raw materials and the substitution of one kind of raw material by another; (6) the need for economy of transport costs; (7) cultural and political tasks dictating the extension in the consumption of some goods and the limitation in the consumption of others etc.” (op. cit., p. 91).

Mr. Durbin has pointed out that a planned economy must decide whether its permanent policy is to be one of stable prices or of stable money incomes. In the Soviet Union the Authorities seem to follow both alternatives at the same time: they try (apparently) to keep prices stable over a period of time and then lower their level systematically. (Cf. The Soviet Comes of Age, op. cit., p. 81). At the same time the money incomes of the population are rising in sympathy with rising national income and keep ahead of the supply of consumers' goods. This is an open admission of "disequilibrium" which may be a sign of a rapidly growing planned economy, but which has to be removed eventually. (The policy of loans to "mop up" the surplus money incomes is extensively used, but offers only a temporary solution). We believe that under perfected Soviet planning the policy will be to keep money incomes stable and translate economies immediately into price-reductions.
That will happen to the retail price-level if and when Soviet industry reaches such a degree of productivity as would make it no longer necessary for the Soviet State to rely on the revenue-collecting functions of its trade apparatus? This is how the situation appears to Soviet economists: "With the increase of commodity resources...there will take place a further lowering of prices, the drawing together of ...(retail) prices and the fixed prices calculated on the basis of cost of production and the necessary tempos of socialist accumulation for the purpose of extended reproduction and the satisfaction of social needs... The (national income) will be determined exclusively by wage-payments in accordance with the quantity and quality of the work performed. Changes of retail price-additions on different types of commodities will be governed not by the principle of the redistribution of the national income, but by the requirements of consumption: the stimulation of consumption of one good and the reduction of consumption of another. The policy with regard to retail price-additions should be to bring them ever closer to the costs of distribution, i.e., the costs of transport, storage and sale plus a differentiated accumulation-norm in each particular commodity-group."

According to Soviet economists the price category will disappear only under conditions of full-fledged Communism. But so long as the workers are being remunerated according to the quantity and quality of

*S.M. Gorelik and A.I. Malkis, Soviet Trade, op.cit., pp. 175 and 159. (italics ours). The "differentiated accumulation-norm" refers, apparently, to provisions for the extension of the trade network.
the work performed, so long as difference between physical and mental exertion exists, and the degrees of skill continue to be varied, the need for a unique expression of work in monetary terms remains and the direct accounting in terms of labour-units is impracticable.

EPILOGUE
EPILLOGUE

The State and the Consumer.

A survey of the economics and mechanics of Soviet trade would be incomplete without some consideration, at least, of the basic relations between production and consumption and their functioning through the apparatus of Soviet trade.

How does the individual consumer enter into the process of planned consumption? Under conditions of shortage of many important consumers' goods, Gosplan's objective to increase their supply is presumably identical with the wishes of the consumers.

Nevertheless, there remains the difference that the consumers are more interested in the volume and the assortment of goods which are available in the present than in whether a particularly grand development scheme will make the life of their grandchildren an absolute paradise. This is the fundamental difference between planning through time and individual consumption at a given time; it may safely be assumed that, as the possibilities of consumers' choice will grow in future (as they most probably will), this "conflict" between the Planning Authorities and the body of Soviet consumers will stand out more clearly and will be less easy of solution. It can only be solved or, at least, sufficiently mitigated by granting the consumer a fair amount of freedom. No matter, how decentralised the administration of the plan itself is and how closely local planning bodies study local
conditions etc., - so long as the interests and a modicum of independence of the consumers are not really safeguarded in fact, there will be constant discontent among the citizens, while the planners will tend to be "too farsighted".

Soviet trade in its present form provides certain guarantees for the freedom of the individual consumer, although we know that this freedom has been, so far, extremely limited. But while we may expect an extension of the range of individual choice in future, individual demand will remain circumscribed by the overruling fiat of the plan.

But can there be absolute freedom of the consumer under any circumstances? "Consumer's choice everywhere is relative, not absolute. The consumer cannot, under capitalism or under socialism, choose except between goods which are on the market and he cannot choose goods which are beyond his means." In addition, "the limitation of income is...a very important influence restricting the range of choice." Furthermore, under capitalism, the main body of consumers responds to "a very large and to a rapidly increasing extent to stimuli offered to it either directly by the producers or by the traders acting as intermediaries." These are observations about which there is little disagreement among realist economists.

The Soviet economists carry the critical analysis of demand under capitalism further and observe that

3. Ibid., p. 72.
"under the capitalist system of production the relations between production and consumption inevitably assume an antagonistic character, since capitalist production does not recognise every social need that emerges within the community, however rational it is, but only those needs which are voiced by effective demand and thus enable the realisation of surplus value." In the U.S.S.R., on the other hand, "where the means of production belong to society, there are", it is claimed, "no antagonistic contradictions between production and consumption." The Soviet economists go on to explain the differences in the interdependence between production and consumption under capitalism and socialism respectively. Under capitalism, they say, new wishes of the consumers influence production after the event, as it were, while in the Soviet Union, owing to the novel methods of planning, registering and transmitting new demands, the interaction between production and consumption is organic and the "retroactive influence" makes itself felt before the inculcation into production of new types of goods.

After what has been said, it is hardly necessary to emphasise that "freedom" of the consumer, thus understood, will scarcely ever rise to the status of "sovereignty" in the U.S.S.R. On the other hand, it is clear that, for a long time to come, there will

1 Consumption and Demand, op. cit., p. 6.
2 Ibid., p. 21.
3 Ibid., p. 55.
continue to exist, in the Soviet economy, a controlled zone where consumers' valuations will operate. These valuations, it would seem, will exercise a check on Gosplan's long-term dispositions, but will never possess a dominating influence. Even in the short-run the Planning Authorities will not react blindly to the wishes and whims of the consumers in deciding upon the assortment of commodities and the terms at which they are going to be offered. Although, as a rule, demands are manifestations of actual needs, this is not always and not necessarily the case. The caprice of individuals is often opposed to considerations of social welfare and social utility. The demand for drugs and intoxicating liquor is a clear case in point. The Soviet Government is unlikely ever to grant the individual the unrestricted right to decide what is good for him. The opinions of nutrition experts and medical practitioners are often more valuable in determining what the consumer ought to receive than the demand which he actually voices. As regards luxuries and semi-luxuries, it is, in the light of the past record of the Soviet Government in the economic sphere, at least highly improbable that the Bolshevik

The following statistics speak for themselves:

<table>
<thead>
<tr>
<th>Year</th>
<th>Specific weight of vodka in trade turnover</th>
<th>Specific weight of &quot;cultural&quot; goods in trade turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>17.6</td>
<td>4.2</td>
</tr>
<tr>
<td>33</td>
<td>116.7</td>
<td>2.2</td>
</tr>
<tr>
<td>34</td>
<td>13.4</td>
<td>4.7</td>
</tr>
<tr>
<td>35</td>
<td>9.9</td>
<td>6.7</td>
</tr>
<tr>
<td>36</td>
<td>7.1</td>
<td>8.8</td>
</tr>
<tr>
<td>37 (Plan)</td>
<td>5.7</td>
<td>10.2</td>
</tr>
</tbody>
</table>

(Cf. V. Végorov, Soviet Trade in the last year of the Second Piatiletka, Planovoe Khoziastvo, No. 2, 1937, p. 95.)
planners will so adjust the assortment of consumable goods as to favour the better paid groups of Soviet society to the detriment of the broad mass of consumers.

Generally speaking, excessive variety in consumption may be curtailed by appropriate Government measures of intervention, although the present trend seems to move away from "colourless" consumption. But when output of consumers' goods reaches a sufficiently high level, an excessive intricacy of the demand-structure might be condemned as superfluous flimsiness. In this connection we agree with Sir William Beveridge that what is important is "that there should be sufficient alternatives to allow the pleasures of judgement in spending."

The régime of consumption, described above, implies, no doubt, a good deal of compulsion. But when has the consumer been free from it? What is important is that coercion is used wisely and with discretion is checked. Provided, therefore, that Soviet economic planning retains the market-zone in respect of consumers' goods, and democratic safeguards in the form of public control bodies, on which the interests of organised consumers must be represented, continue not only to exist, but to grow in strength and importance, the Central Economic Administration will not so easily abuse its overriding rights.

Shnirlin, More Attention to the study of consumers' demand, Plan, No. 4, 1934.
Beveridge, op. cit., p. 13.
The Future of Soviet Trade.

The Bolsheviks, however, profess to believe that the element of compulsion in Soviet society will gradually disappear, for the avowed aim of Soviet economic planning is the construction of communism. Communism, according to accepted definitions, is a state of society which has reached such a high level of development, economic, social and cultural, that the State as instrument and manifestation of power, will wither away and society will be built on voluntarily functioning associations of producers sharing the fruits of their labour freely, directly and according to the needs of each of their members. Graft and dishonesty will vanish. Spontaneity and implicit observance of the accepted rules of work and social behaviour will replace detailed rules of administration and render superfluous any system of punitive or coercive measures. Work will become both natural and pleasurable human function, freely given and enjoyed, nature will be conquered, machinery the willing servant of the human race, the distinctions between mental and physical endeavour, between town and country, will disappear, and mankind, thus freed from economic and elemental bondage and united in the common desire for progress, will advance to ever more staggering and lofty heights of perfection. Such is the picture.

Need we expatiate that such an ambitious scheme cannot even be commenced in a country with technical standards below those of the leading capitalist
countries, and with a population socially and culturally unripe to fulfill its functions spontaneously? On the contrary, there is reason to believe that not only the state will remain all-powerful, but also that the slogan of discipline in planning will remain valid for a long time yet to come, although rigid centralism might be relaxed.

But, however vague the latest references of Soviet leaders to communism have been, there seems to be a certain desire to extricate from the legend those features which are feasible: instead of the complete abolition of the differences between town and country.

The framers of the Third Five-Year Plan have set themselves the task of surpassing the principal capitalist countries as regards per capita production. Molotov expressed the conviction that in some respects this aim can be realised at the close of 1942: it might, for example, be possible to surpass the per capita production of pig iron of Britain, but not that of Germany or the U.S.A., the per capita production of electricity of France, but not that of Germany or America. (These data are in striking contrast to the development before the World War when Russia's per capita industrial production actually receded as compared with her more advanced rivals). There can, however, be no question of a complete solution of the task during the Third Five-Year Plan. According to Professor Varga, addressing the Academy of Sciences in Moscow last June, production in the Soviet Union, above all industrial production, must be increased on the average two-, three-, and four-fold in order to overtake the U.S.A. in the economic sphere. (Cf. Communist International, August 1939). But even if the U.S.A.-level of the per capita output is reached, does it mean that production can be reorganised along truly communist lines? We doubt it. For communism to be really successful, a much more spectacular upsurge in productivity is required.

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2Cf. Stalin's report to the XVIII Congress of the Communist Party, Land of Socialism, op.cit., pp. 44 et seq. The "withering away of the state" which so many gentle-minded Communists have tried to hasten, only to wither away themselves, has now been officially scheduled to arrive only when Russia's "capitalist encirclement" has disappeared." (Joseph Barnes, The Great Bolshevik Cleansing, Foreign Affairs, April 1939, p. 568).

3E.g.: "The Third Five-Year Plan accords with the new period...of the...gradual transition from socialism to communism." (Molotov, Land of Socialism, op.cit., p.102).
there are tendencies towards a rapprochement which are likely to become more noticeable as time progresses. Instead of the disappearance of the distinctions between mental and physical exertion there is evidence of a growing attention being paid to the provision of training and educational facilities to workers, especially the unskilled. Instead of direct and gratis distribution of goods and services, as depicted by the apostles of communism, there is a tendency to extend the range of the socialised wage, so as to include the free distribution of certain essentials for which demand is extremely non-elastic. On the other hand, there are no signs whatsoever of doing away with the monetary system and substituting for it one of accounting in labour units. There were times when Soviet economists were seriously engaged on this Herculean task, but in recent years discussions on this point have subsided.

It seems to us that even a limited "Soviet Communism" of this nature, trade will retain an important place. We see no reason why it should be superseded by direct distribution. Direct distribution, to work really satisfactorily and to be consonant with a progressive society, requires tremendous administrative abilities and an unprecedented abundance of goods. Both these pre-requisites are absent in the U.S.S.R. and are not likely to be realised within the compass of a reasonable forecast.

/Recently, schemes of a free distribution of bread were under discussion./
Soviet trade may still be too "roundabout" for the tastes of the doctrinaire Communist. But we submit that what it looses in "transparence", it gains (and will gain) in initiative, adaptation and liveliness; qualities, that is, which are valid and valuable at all times.
STATISTICAL APPENDIX:
SOME TRADE AND PRICE STATISTICS OF
PRE-REVOLUTIONARY RUSSIA
RUSSIA'S PRE-WAR TRADE TURNOVER

Dynamics of Russia's trade turnover in connection with the growth of population, volume of money in circulation and fluctuations of harvests.

<table>
<thead>
<tr>
<th>Years</th>
<th>Calculated trade T.O.</th>
<th>R's population</th>
<th>Money in circulation</th>
<th>Harvests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In mill. R.</td>
<td>In % of</td>
<td>In mill.</td>
<td>In %</td>
</tr>
<tr>
<td></td>
<td>: 1885</td>
<td>:</td>
<td>: 1885</td>
<td>:</td>
</tr>
<tr>
<td>1885</td>
<td>4,862</td>
<td>100</td>
<td>108.8</td>
<td>100</td>
</tr>
<tr>
<td>1886</td>
<td>4,941</td>
<td>102</td>
<td>112.0</td>
<td>102</td>
</tr>
<tr>
<td>1887</td>
<td>5,667</td>
<td>117</td>
<td>113.2</td>
<td>104</td>
</tr>
<tr>
<td>1888</td>
<td>5,721</td>
<td>118</td>
<td>115.3</td>
<td>106</td>
</tr>
<tr>
<td>1889</td>
<td>5,787</td>
<td>119</td>
<td>116.6</td>
<td>107</td>
</tr>
<tr>
<td>1890</td>
<td>5,849</td>
<td>121</td>
<td>117.8</td>
<td>108</td>
</tr>
<tr>
<td>1891</td>
<td>5,853</td>
<td>121</td>
<td>118.0</td>
<td>109</td>
</tr>
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<td>1892</td>
<td>5,992</td>
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<td>1893</td>
<td>6,507</td>
<td>134</td>
<td>121.5</td>
<td>112</td>
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<tr>
<td>1894</td>
<td>7,150</td>
<td>147</td>
<td>122.7</td>
<td>113</td>
</tr>
<tr>
<td>1895</td>
<td>7,745</td>
<td>159</td>
<td>123.9</td>
<td>114</td>
</tr>
<tr>
<td>1896</td>
<td>8,116</td>
<td>167</td>
<td>125.1</td>
<td>115</td>
</tr>
<tr>
<td>1897</td>
<td>8,576</td>
<td>177</td>
<td>126.4</td>
<td>116</td>
</tr>
<tr>
<td>1898</td>
<td>9,132</td>
<td>188</td>
<td>128.4</td>
<td>118</td>
</tr>
<tr>
<td>1899</td>
<td>11,501</td>
<td>231</td>
<td>130.3</td>
<td>119</td>
</tr>
<tr>
<td>1900</td>
<td>11,271</td>
<td>231</td>
<td>133.0</td>
<td>122</td>
</tr>
<tr>
<td>1901</td>
<td>11,592</td>
<td>238</td>
<td>134.8</td>
<td>124</td>
</tr>
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<td>1902</td>
<td>11,329</td>
<td>233</td>
<td>136.6</td>
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</tr>
<tr>
<td>1903</td>
<td>11,580</td>
<td>238</td>
<td>138.1</td>
<td>128</td>
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<tr>
<td>1904</td>
<td>11,864</td>
<td>246</td>
<td>141.4</td>
<td>129</td>
</tr>
<tr>
<td>1905</td>
<td>12,188</td>
<td>251</td>
<td>144.4</td>
<td>133</td>
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<tr>
<td>1906</td>
<td>12,647</td>
<td>255</td>
<td>149.0</td>
<td>137</td>
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<td>1907</td>
<td>13,408</td>
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<tr>
<td>1908</td>
<td>13,110</td>
<td>270</td>
<td>146.4</td>
<td>134</td>
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<td>1909</td>
<td>13,445</td>
<td>275</td>
<td>157.1</td>
<td>144</td>
</tr>
<tr>
<td>1910</td>
<td>13,889</td>
<td>285</td>
<td>159.0</td>
<td>148</td>
</tr>
<tr>
<td>1911</td>
<td>15,448</td>
<td>318</td>
<td>163.9</td>
<td>150</td>
</tr>
<tr>
<td>1912</td>
<td>17,066</td>
<td>332</td>
<td>167.9</td>
<td>154</td>
</tr>
<tr>
<td>1913</td>
<td>18,527</td>
<td>381</td>
<td>170.9</td>
<td>157</td>
</tr>
</tbody>
</table>

(Taken from Prof. S.G. Strumilin, Our Pre-War Trade Turnover, Planovoie Khoziastvo, No.1., 1925, p. 102. Comp. text p. 6.)
## PRICE MOVEMENTS IN GROUPS OF DIFFERENT PRODUCTS 1900-1913 (in %)

<table>
<thead>
<tr>
<th>Date</th>
<th>Cereal Products</th>
<th>Animal Products</th>
<th>Oil Products</th>
<th>Textile Products</th>
<th>Mineral Products</th>
<th>Chemical Products</th>
<th>Groceries Products</th>
<th>Average All Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890-99</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1900-01</td>
<td>119.9</td>
<td>131.4</td>
<td>111.1</td>
<td>122.0</td>
<td>118.7</td>
<td>107.2</td>
<td>105.4</td>
<td>118.1</td>
</tr>
<tr>
<td>1901-02</td>
<td>106.8</td>
<td>115.3</td>
<td>122.1</td>
<td>131.0</td>
<td>109.1</td>
<td>101.5</td>
<td>108.0</td>
<td>114.8</td>
</tr>
<tr>
<td>1902-03</td>
<td>112.8</td>
<td>121.8</td>
<td>113.3</td>
<td>124.8</td>
<td>96.5</td>
<td>99.4</td>
<td>102.6</td>
<td>110.2</td>
</tr>
<tr>
<td>1903-04</td>
<td>102.0</td>
<td>121.9</td>
<td>94.3</td>
<td>130.0</td>
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<td>98.1</td>
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(Taken from: P.B. Struve (ed.), Food Supply in Russia During the World War, New Haven, 1930, p. 241.)

## PRICE MOVEMENTS IN GROUPS OF DIFFERENT COMMODITIES AS COMPARED WITH PRICES RULING IN THE YEARS 1890-99 (in % %)

<table>
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<tr>
<th>Years</th>
<th>Average of all Products</th>
<th>Cereal Products</th>
<th>Mineral Products</th>
<th>Unspun Groceries Products</th>
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<td>1901</td>
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<td>168.8</td>
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(Taken from V.M. Ustinov, Evolution of Internal Trade in Russia 1913-1924, Moscow, 1925, (R), p. 6.)

The above tables refer to text, pp. 13 et seq.
PRICE MOVEMENTS AS A PERCENTAGE OF AVERAGE PRICES OF 1913 - 14.

<table>
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<tr>
<th>Years</th>
<th>Average of 16 principal commodities</th>
<th>Average of 6 cereal commodities</th>
<th>Average of 13 remaining commodities</th>
<th>Meat</th>
<th>Salt</th>
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<td>144</td>
<td>161</td>
<td>136</td>
<td>122</td>
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<td>June 1915</td>
<td>146</td>
<td>137</td>
<td>159</td>
<td>121</td>
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<tr>
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<td>178</td>
<td>174</td>
<td>180</td>
<td>168</td>
<td>401</td>
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<tr>
<td>February 1916</td>
<td>194</td>
<td>179</td>
<td>201</td>
<td>183</td>
<td>455</td>
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<td>May 1916</td>
<td>207</td>
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<td>June 1916</td>
<td>214</td>
<td>189</td>
<td>225</td>
<td>332</td>
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<th>Years</th>
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<td>100</td>
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<td>160</td>
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<td>June 1916</td>
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(Taken from Ustinov, op.cit., p. 14).
SELECTED BIBLIOGRAPHY
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Introduction.

This bibliography consists of an (almost complete) list of sources quoted in the text and, in addition, of a selected number of references which, though consulted, are not specifically mentioned! Though the bibliography does not claim to be exhaustive, it is hoped that it will make a contribution, however insignificant, to the bibliographical knowledge of literature, both Russian and non-Russian, on Soviet trade and distribution and on Soviet economic conditions (and, to a much smaller extent, on the general literature of economic planning.) It might usefully be mentioned that the sources listed have, in the main, been consulted in:

(1) The British Museum.
(2) Library of the London School of Economics.
(3) Library of the School of Slavonic and East European Studies, London University.
(4) Edinburgh University Library.
(7) Prussian State Library, Berlin.
(9) Bibliothèque de Documentation Internationale Contemporaine, Paris.

Specialised studies of particular aspects of Soviet trade, marked with an asterisk, have only been noted in book reviews etc., but were unobtainable; they have been included for the sake of completeness.

Apart from specialised Library Catalogues (e.g., I.L.O. Library, Bibl. de Docum. Intern. Contemporaine, section on Russia in "A London Bibliography of the Social Sciences" etc.), non-Russian bibliographies on Soviet economic conditions are rare. The fullest perhaps is: Mehnert, K. (ed.), Die Sowjet-Union, 1917-1932, Königsberg 1933, but it is restricted to German publications on the Soviet Union. Many non-Russian books and almost
A certain number of books and periodicals had to be ordered directly from Moscow; others again, unobtainable in libraries, had to be borrowed privately. The presence in the thesis of a large number of secondary references is explained by the difficulty of obtaining first-hand collections of Governmental enactments and by the desire to make full use of the work of others. As a rule, secondary references were quoted only in those cases where they appeared to be absolutely reliable. Moreover they were, wherever possible, checked from Russian sources.

Arrangement of the Bibliography.

A. Russian Sources.
   I. Official publications, books, pamphlets, etc.
   II. Articles.

B. Non-Russian Sources.
   I. Books, pamphlets etc.
   II. Articles.

C. List of consulted periodicals and general publications.
   I. Russian.
   II. Non-Russian.

(The term "Russian" refers to place of publication, not to the language.)

Abbreviations:
B - Bolshevik (organ of the Central Committee of the C.P.S.U.)
Pl.Kh. - Planovoe Khoziastvo (Planned Economy, organ of the Gosplan).
Pr.Ek. - Problemy Ekonomiki (Problems of Economics, organ of the Institute of Economics of the Academy of Sciences).

(Continued from previous page): All scholarly publications on the Soviet Union, however, contain bibliographies. Particularly useful have proved bibliographies from works by Arnold, Dobb, Florinsky, Leontiev and Khmelnitskaia, Miller and Pollock. The Webbs' book, likewise, contains a great many bibliographical notes.
S.T. - Sovetskaia Torgovlia (Soviet Trade, organ of the Narkomnuntorg and the Centrosoyuz until 1937).

V.S.T. - Voprosy Sovetskoi Torgovli (Questions of Soviet Trade, organ of the Narkomtorg and the Centrosoyuz).

I.L.R. - International Labour Review (I.L.O.)

E. J. - Economic Journal (Royal Ec. Society)


S.I.R. - Slavonic Review.

L - London; Len. - Leningrad; M - Moscow.

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