
UNIT 10 SOCIALIST INDUSTRIALIZATION

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10.1 INTRODUCTION

In the previous Unit, you have read about industrial capitalism. In the early years of 19th century a parallel critique of this market driven capitalist economy had begun. There was attempt to think of alternate economic models. Foremost among such thinkers were Marx and Engels apart from others. But the real testing time for this socialist model came with the October Revolution in Russia in 1917. It is in the backdrop of these developments that you would read about the background and later developments in the formulation and application of this model, mainly in Europe.

The Nineteenth Century Background

Inevitably, since the socialist critique of capitalism was so varied in Europe, socialism meant different forms of practice before the October Revolution in Russia (1917).

It implied activity to strengthen Trades Unions, Friendly Societies and labour 'syndicates' with or without the assistance of political parties. It also implied the encouragement of utopian communities (such as Robert Owen's New Lanark) which would be a beacon of what was most fit and most wholesome. Socialism could also mean an interest in cooperative enterprise and various forms of community enterprise that would benefit the public as a whole rather than any one individual. The latter led to initiatives associated with 'municipal socialism' or 'municipal trading', i.e. the running of urban facilities for fuel, water and lighting. There was little here that envisaged how the economy as a whole could be reoriented in practice, even if there was some focus on wide-ranging measures to protect labour through schemes or insurance against unemployment and sickness, or the redistribution of land among peasant proprietors. Suggestions for government controls over the 'commanding heights' of the economy (that is the coal industry or the steel industry) were voiced. But it was not certain how this would be done. Most socialists had an abiding fear of the state and state control as a possible source of intensification of exploitation rather than a solution to it. Before the onset of the First World War, in fact, nationalization (i.e. the state take-over of industry) was looked upon as merely one way of constituting an area of activity where the proletariat had no say, rather than as a means of controlling capitalism.

10.2 DEVELOPMENT OF THE 'SOCIALIST' MODEL OF ECONOMIC ORGANIZATION

With the coming of the October Revolution, entirely new sets of economic principles and policies were sought to be employed with the purpose of achieving a socialist state. In this section, different phases of these programmes have been discussed and also the kind of impact it brought on the Soviet economy and society.

10.2.1 Significance

In such circumstances, where there was no model of a 'socialist' economy before 1914, practices in Soviet Russia after the October Revolution were the first major large-scale experiment with socialism in Europe and became a model of socialism. By 1939, the main features of this 'model' were fundamental restrictions on private property, major state regulation of production, finance and trade, and a system of Planning which schematized the economy and provided flexible targets and goals. Governments, as they evolved state control of the economy, used public welfare as their reference point. The economy was regularly mapped, in order to indicate where state investment was necessary: initially through 'control figures' and later through adjustable Plan figures. Hence, the economy, as it matured, was called a 'Planned Economy'. The system of 'Planning' was highly innovative. It was only feasible because relatively high control over different economic sectors made the mobilization of resources possible on an unparalleled scale, ignoring market pressures of demand and supply. Such control over the economy was unknown in any economy before 1917, even in conditions of War.

The Bolshevik Party, which took power in October, was the Bolshevik faction of the Russian Social Democratic Workers' Party, which was duly renamed the Russian Communist Party (Bolshevik). Its members were committed socialists and encouraged the notion that the Soviet economy was a socialist economy, and was an exemplar for socialism. Each step of economic reform was justified as a contribution to socialism. The Komintern, and Communist Parties in Europe took up the refrain. Socialist

parties in France, Britain, Germany and Italy did not adopt Soviet technique when in power. But since a long stint of socialist government was rare anywhere else, the Soviet economy became the reference for what socialism was. After 1945, the prototype was exported to Eastern Europe, whose experience added a new dimension to the model. Economists such as Maurice Dobb, encouraged such notions, as did CMEA economists such as Oskar Lange, W. Bruz, etc.

The Soviet Planned Economy was considered the archetype of socialist experiment. The Bolsheviks set out to provide the benefits of industrial development to as many people, in as just a manner, in as short a time as possible.

Here, we shall deal with how the Soviet system came to take shape during 1917-1989, and how it evolved in the CMEA countries. The stages of development are important, since all of them, at various times, have been defined as 'socialist'. Also, two points must be noted in addition to the features mentioned above. First, the socialist initiative cannot speak for all initiative in the Soviet Union and Eastern Europe at this time. Both in Russia and in Eastern Europe, sectors operated (however weak) which did not follow the priorities and logic of socialist experiment. Again, ideas from the Soviet model were taken up and used by 'socialist' governments in France, Britain and Italy after 1945. Their initiatives must also be added to the economic record of European socialism.

10.2.2 Debates

Some debates about Soviet industrialization deserve attention.

- i) Was socialist industrialization on the Soviet pattern more concerned with socialism and justice than with economic growth?

Socialist historians such as Maurice Dobb have argued that Soviet industrialization came about through policies that had an eye to economic and industrial growth as well as social justice. Ideas of socialism, defined by the Communist Party of the Soviet Union, were important in everything that occurred; and steps taken for growth were a success. Some non-socialist historians such as Jasny have agreed that growth was achieved, while others, such as Alec Nove, have argued that, even if there was growth, the industrialization was inefficient and the weaknesses were the result of obsessions with socialist doctrines. E.H. Carr and R.W. Davies pioneered work that goes against this kind of perspective. They showed how the Soviet leadership was divided on the meaning of socialism and evolved policy while adapting to problems of growth. Davies, though, disagrees with Carr that this was *generally* true. He feels that concerns with doctrine and politics became crucial in the 1930s in Soviet policy. In recent writings in the Russian Federation, there is a division of opinion about how important doctrine was in socialist industrialization. The debate is important because it raises questions about whether Soviet socialism deserves attention as an experiment that took stock of what was convenient and useful for the country's population. Clearly one perspective runs that it was an experiment where policy makers lost a sense of what could lead to prosperity because they became wrapped up in Soviet politics and in ideas about what was socialism.

- ii) Was socialist industrialization on the Soviet pattern a product of Russian circumstances and inapplicable for other countries or regions?

A line of argument also runs that Soviet industrialization was not socialist since socialism could not be constructed in an underdeveloped country like Russia where

industrial capitalism had been weak. V.I. Lenin, the leader of the October Revolution, himself did not consider it possible for Russia to build socialism without a revolution in the West. He was disturbed about the prospects of constructing socialism in a country which was mainly agricultural, where industrial and finance capitalism were features of the late 19th century. Following this position, socialism in Russia is regarded as a travesty: economic experiment on a bad foundation with socialist jargon thrown in.

There are some problems with this argument. It implies that socialist experiments cannot occur where there is no advanced capitalism: that socialist industrialization must post-date capitalist industrialization. Marx was not certain about this. In correspondence with Vera Zasulich, the Populist activist, in the 1870s, Marx conceded that Russia might be able to proceed to socialism, bypassing capitalism, since Russia possessed institutions which lacked capitalist orientation and which were deeply influential. They were discussing the prevalence in Russian agriculture of the repartitional commune, which prevented accumulation of land in peasant land tenure. Other questions can also be raised. What is adequate capitalism? Lenin wrote in 1891 that Russian agriculture was capitalist, and that the commune was in retreat. Did not this provide some ground for socialist construction, even it was not the foundation that Lenin wanted? Again, in countries which are backward even when capitalism has developed elsewhere, is full-blown capitalist development always possible? Or will socialism have to finish off the job that capitalism was meant to achieve? Leon Trotsky suggested that this might be necessary. In the Soviet Union and later in Eastern Europe, were we dealing with such situations? These remain important questions in economic history, and debates on ‘development’.

- iii) Was Soviet socialism an instrument of a new ruling class in Russia and a Russian instrument to rule non-Russian territories of the Soviet Union and Eastern Europe?

This perspective has been raised by Leon Trotsky (*The Revolution Betrayed*), and the historian who has followed his ideas most closely, Isaac Deutscher (in his biographies of Trotsky and Stalin). Since it is somewhat a social question, it will be dealt with in the unit on social development under socialism. Certainly, as 10.3.8 and 10.3.9 of the next sub-section indicate, Soviet economic development registered a good deal of inequality. Also, in Eastern Europe, in the early phase and in the late 1970s, the Soviet Union was harsh in his treatment of ‘fraternal’ socialist countries. It remains a moot point though whether these ‘inequalities’ were substantial. Surely they came to be considered substantial when growth itself was in a poor state (in the 1980s)?

- iv) The Anders Aslund perspective

The anti-Soviet economist has recently advanced the notion that Soviet production was so incompetent that it does not deserve serious attention as growth. This has been his answer to contemporary criticism of the post Soviet economy of the Russian Federation, where growth rates have been negative (i.e. the economy has contracted). The argument runs that so much worthless production took place in the Soviet economy and that shortages were so great that we cannot seriously talk of growth.

Aslund’s perspective *may* hold good for a limited period (the 1970s and 80s) — although only with heavy qualifications. More significant, though, is an underlying assumption of most of his work i.e. that the Soviet economic system was, in the long term, incapable of wealth-generation.

10.3 THE SOVIET EXPERIENCE

The focus of these debates, that is the construction of a socialist economy in Soviet Russia (the Russian Soviet Federated Socialist Republic until 1924, the USSR thereafter), occurred in five major stages: the period of workers' control (1917-June 1918), War Communism (June 1918-March 1921), the New Economic Policy (1921-1927); the Planned Economy in its early phase (1929-1939); the reconstruction of the Soviet economy (1945-56); the development and crisis of a globally oriented socialist economy (1956-1989). The existence of stages of development indicates that there was no one sense of what a socialist economy should be. Ideas changed, as the USSR moved to the state-controlled economy that was the mark of socialism from 1939 to 1989.

10.3.1 Background and the Period of Workers' Control

The period before the construction of socialism in Russia after the 1917 October Revolution was marked by the following features: small-scale cultivation in agriculture, an artisanal sector weakened by wartime inflation and military conscription, large concentrations of commercial agriculture in the Ukraine and South Russia, and large, heavily cartellized privately-owned industrial complexes in the Donbass (Ukraine), the Urals and the Central Industrial Region (the belt from Moscow to Petrograd). Inflation was ubiquitous. Deterioration of infrastructure (railways, roads and canals) was clear. Government controls over pricing and production were constituted under the Tsarist war effort (before the 1917 February Revolution), operating through a series of committees made up of management and officials. In the metals industry, for instance, a committee set down production quotas and pricing restrictions. Such committees continued to exist at the time of the October Revolution. The Provisional Government (February 1917 – October 1917) instituted severe restrictions on grain pricing and distribution. The Government also set up land committees to look into the possibilities of redistribution of land in the localities. A lack of care over strict budgeting led to spiralling inflation. Currency was printed with little respect to how much specie or other securities the government possessed. The rouble depreciated rapidly, resulting in a deterioration of the market. The latter was already in a sad state since diversion of industry for manufacture for the war economy had led to a decrease of goods available to everyday consumers. This in turn had discouraged production for the market in the Russian countryside.

The Bolsheviks shaped policy to deal with all this in a territory which varied in size during 1918-21. After the October coup, and limited violence, the Bolshevik government (an alliance of Left Socialist Revolutionaries and Bolsheviks, legitimized by sanction from the All-Russian Congress of Soviets), had reasonable control over the territories of the Tsarist Empire that were free from German occupation. Following the elections to the Constituent Assembly in December 1917 and the dismissal of the Constituent Assembly in the following month, the situation changed. 'White' (pro-Tsarist) forces gathered in the area north of the Black Sea, to oppose Bolshevik authority. After the Treaty of Brest Litovsk (March 1918), Bolshevik Russia lost large territories to Germany in the east, and also lost the Ukraine (which became a German puppet state). The break with the Left Socialist Revolutionaries (March 1918) led to an enlargement of the opposition network in South Russia, where a Committee of the Constituent Assembly was formed to represent the parliament that had been disbanded. Thereafter a Civil War broke out which was supported

by Western interventionist forces: a war which continued until early 1920. During the period, Russia west of the Urals passed out of the hands of the Bolsheviks, as did almost all of the land of the Lower Volga and Central Asia. From 1920, the Bolsheviks established control in Siberia and Central Asia.

10.3.2 The Revolution, State Capitalism and Workers' Control

The main watchwords initially followed by Bolshevik policy makers to deal with the economy were 'state capitalism' and 'workers' control'. Here, state capitalism meant the operation of industry, trade and finance with the collaboration of the old entrepreneurial class, but with rigorous supervision by and participation from the state. This participation Lenin justified in his arguments in *State and Revolution* (discussed above). Workers control was an unspecific term: it did not indicate whether this meant the control of a factory by the factory workforce, or the control of a factory by a broader workforce which spanned an industry/many industries. The term did, however, clearly indicate some form of workers' control over management.

Following such watchwords, and wary of nationalization (which Bolsheviks did not think was necessarily socialist since it could be used as much by 'imperialists' as by socialists), the Bolsheviks first followed a policy of state take-over only in limited areas. Where nationalization took place, it was mainly the consequence of initiatives by factories or the soviets. The soviets which mattered in this case were the urban soviets, composed of 'workers' and 'soldiers': bodies constituted with little reference to electoral lists or proper procedure, but acknowledged to have greater popular authority than any other forms of local government. Nationalization and sequestration also took place in the countryside: but the scale was smaller, and restricted to handling large estates which had escaped redistribution.

The only case of outright state take-over was the banks. Following refusal to cooperate with the Bolshevik government by the banking establishment (the State Bank and 50 or so other major private and joint stock concerns), troops took over the State Bank premises (20th November 1917), and the main banks in Petrograd and Moscow (November 27th and 28th). This followed the declaration of the Central Executive Committee of the (VtsIK) of the All-Russian Congress of Soviets that banking was a state monopoly (27th November). Nationalized banks were merged into a National Bank later in 1918.

Elsewhere, in agriculture, land was redistributed according to principles of equality and labour (8th November 1917), except in the case of large estates which were devoted to 'industrial' crops, which would pass to state control under the Government's Land Committees. In industry, by a VTsIK decree of 27th November, manufacturing units were placed under workers' control, where workers' factory committees were to be responsible to an All Russian Council of Workers' Control and the local bodies on control that constituted it. Regulation of pricing of grain and other goods, however, was firmly continued through the Committees set up earlier.

Spontaneous nationalization of industry by workers, mismanagement under worker's control and the emigration of employers and management quickly took this situation to a new stage. Beyond the standard systems of control by special committees and the Komissariats (Narkomprod for supplies, Narkomfin for finance), a new regulating and supervisory agency was created on 18th December 1917 – the All Russian Council for the National Economy (Vesenka or VSNKh). Together with its local agents (the Sovnarkhozy) in law it assumed authority over manufacturing. Vesenka

took over committees which co-ordinated prices and industrial quotas, renaming them *glavki* (centres), which had greater administrative authority than their predecessors. Following the Treaty of Brest Litovsk (March 1918) and the onset of the Civil War, Vesenska ruled that the *glavki* control of individual enterprises be increased (3rd March), and each 'centre' was required to appoint a commissioner and two directors to firms under its control. From March, Larin, the leading light of Vesenska, called for 'planned nationalization' and suggested major public economic projects. The drift was reinforced by the essential rejection by senior Bolsheviks of Lenin's ideas of 'state capitalism' moreover – a rejection represented in the failure of negotiations with the steel magnate Meshcherskii and the entrepreneurs Stakheev and Gukovskii to set up powerful trusts which included capitalists and an official interest. The trend attained its fulfilment in the decree of 28th June 1918 (by VTsIK) where every branch of industry was nationalized. The overall running of industry was entrusted to Vesenska.

Throughout this workers' welfare was a major concern. After the October Revolution the VtsIK was quick to pass decrees on 11th November to establish the 8-hour day and the 48-hour week in industry, to specify limitations on the work of women and juveniles and forbid the employment of children under 14. Measures of unemployment and sickness insurance were anticipated in decrees of 24th December and 22nd December 1917. The All-Russian Congress of Trades Unions supported the measures and the Trades Unions (which embraced entire branches of industry rather than, as in Western and Central Europe, a particular trade), became agents for the enforcement of the measures. The conditions of war made it difficult to enforce the regulations, but they became a hallmark of the new order.

10.3.3 War Communism

The nationalization of industry (June 1918) marked the beginning of a regime of rigorous state control, which followed the period of 'workers' control'. The regime was termed 'War Communism' and developed as follows, covering industry in the core provinces of European Russia primarily, since other areas were in the hands of 'Whites' or 'Greens' until early 1920.

In agriculture, the period was characterized by attempts to encourage community cultivation over private cultivation. The Bolsheviks had broken with the Socialist Revolutionaries after the treaty of Brest Litovsk and the assassination of Mirbach (March 1918). The latter were the main supporters of private peasant cultivation in the government after October. After the break, the Bolsheviks tried to reshape agriculture by the formation of committees of poor peasants (*kombedy*) by a decree of June 1918. These committees were to assist the gathering of cereals by labour detachments from the towns: a crucial function since peasant grain marketing had plummeted following currency depreciation and decline in industrial production. The *kombedy* were also to spread propaganda in the countryside. The Bolsheviks also encouraged community cultivation through grants for agricultural associations, Soviet collective farms (*sovkhozy*), agricultural communes and other forms. By the end of 1918, when the poor response to the policy was evident, Party conferences ceased to talk about it.

Other aspects of economic policy were disastrous for agriculture. To provide food to the urban areas, brigades were sent to requisition grain at the prices established by the state. This took place often with no regard for the stock the peasant required during the subsequent season, and led to a steady worsening of the infrastructure for cultivation during 1919-20.

In industry, controls by Vesenka and Komissariats over enterprises increased during 1919-20. This was the result of attempts to remedy major problems of the Civil War and catastrophic inflation. Such problems were: the out-migration of population from urban areas owing to poor food supplies; the collapse of any system of credit and investment due to over issue of paper money; poor supplies of essential raw material to industry. Here, where the supplies crisis was met by forced requisitions, Narkomfin and Vesenka handled other problems by use of the glavki's powers to concentrate use of labour and ending payments between nationalized industries. By 1920 (when Soviet Russia's remaining bank, the National Bank, was abolished), Vesenka had all industrial payments referred to it or its agents. Where possible, such payments would be adjusted against each other; and the outstanding referred to the Komissariat of Finance which would note it for future adjustments. Rationing of food, clothes and fuel was standard.

Within such a system, trade was declared a state monopoly, except when it occurred through cooperatives or licensed traders operating a special area.

10.3.4 Variations in the Historian's Perspective on the Revolution and War Communism

Most European and US historians are agreed that the development of socialist industrialization to this point followed a meandering course, in which willingness to work with capitalists was clear and evident. They have also stressed the survival of Tsarist practices and institutions through the period. Russian historians, however, have disputed this, arguing that the Bolsheviks always meant to establish rigid state control over the economy. The new Russian scholars point to the doctrinaire obsessions of the period. Certainly, much of policy was justified by Lenin in terms of the proletarian and socialist character of the new regime: so there is good cause for thinking that Lenin was not working from expediency. Bolsheviks like N. Bukharin also justified aspects of what happened, such as the demonetization of the economy, as 'socialist'. It is unlikely, though, that in conditions of war, that inflexible doctrine was the lodestone of the new order, even if it was its reference point. Continuous adaptation was the order of the day, and the idea that ideology guided everything comes from its recurrence in what was said: the fact that some principle had to be followed as adaptation took place.

10.3.5 The New Economic Policy

Whatever such preoccupations, from 1921, perturbed by the low agricultural output in South Russia and the Ukraine, and the display of disenchantment among strong Bolsheviks during the Kronstadt uprising (March 1921), Bolshevik policy makers, it is agreed, introduced measures to make the economy more flexible and performance-oriented. The changes gave 'socialism' a new image: less centralized and less hostile to the practices of the capitalist economies.

The urgency of reforms was demonstrated by the famine that swept south and south-east Russia during the summer of 1921. The New Economic Policy, which was set in motion in February 1921, sought to revitalize the market, which had come to be associated with rationing, cooperative trading or black market operations. Dependence on requisitions for food supplies was abandoned. A tax in kind was levied on cultivators, enabling peasants to gauge state requirements precisely, and establish an impression of what could be kept in reserve and how much could be sold on the market. Later, this tax was transformed into a proper tax in cash, while government purchased grain on the market at specified rates.

Encouragement to peasants to market grain was provided by currency reform — whereby gold roubles and later chervonets (gold and securities-backed currency) was put into circulation (1921-22). Inflationary pressure on the new currency was reduced through a return to budgetary orientation (rather than an orientation to the needs of industry) and a proper system of revenue collection, based on customs dues, excise on a number of goods and taxation on certain professions. The creation of a new banking system (based on a State Bank which was established in October 1921) was intended to strengthen the new dispensation. Private trade was legalized to improve the distribution of agricultural produce and other goods.

A strong orientation towards everyday consumer demand was required of nationalized industry. Enterprises were to proceed to a system of *khozrchet*, i.e. to relate expenditure to income, rather than to rely on state subsidies. The authority of the *glavkis* was weakened, and enterprises were required to form trusts which would function independently. Measures were taken to encourage private enterprise, to make up for the weaknesses of state-run industry. A decree of 17th May 1921 revoked the decree nationalizing all small-scale industry; by a law of 7th July 1921, permission was given for the organization of enterprises provided he employed less than 20 workers; and by a decree of 5th July 1921, arrangements were made for the leasing of state enterprises.

The upshot of the new measures was initial uncertainty and long-term recovery. Socialism was given a new image: of a mixed economy, with limits on capitalism, and run by autonomous state corporations (trusts), under the supervision of the *Vesenka*. Teething trouble was evident and suggested greater problems. With the demand for industrial goods in 1922, a great increase in industrial prices took place, together with a fall in prices for agricultural goods. This threatened the precarious interest shown by peasants in the market and was known as ‘the scissors crisis’. Official intervention dealt with the problem on this occasion, but the very existence of the crisis indicated the poor level of consumer goods production at this time, as well as the dangerous consequences for relations between industry and agriculture should such poor production persist. Again, in 1921-23, many industries were unable to adjust to *khozrchet* and had to curtail activities drastically. In the case of some crucial sectors, the government intervened, but by and large trusts had to stand on their own feet, even though their access to the network of private trade was weak in the first years after the legalization of private trade.

10.3.6 Move towards Collectivization and the Planned Economy

A number of Bolsheviks were dissatisfied with the ‘retreat’ of the NEP. An exception was the economist Nikolai Bukharin (initially a great supporter of War Communism!). He argued for dependence on peasant consumption, imports where necessary and slow industrial growth based on it. Again, A. Chayanov was uncertain that bourgeois forces were taking over in the countryside, and pointed out that such impressions came from poor understanding of the ‘peasant economy’, where united family activity gave an impression of great prosperity, although the property that was accumulated around it was quickly divided in the long term, as the family itself divided. L.N. Trotsky and E.I. Preobrazhenskii warned that the new dispensation would derail socialism, leading to dependence on rich peasants and the ‘NEP bourgeoisie’, i.e. the main traders and entrepreneurs of the time. Their ‘left opposition’ persistently argued this position (and demanded the encouragement of revolution elsewhere as a solution to Soviet Russia’s problems). They were ignored by Bolsheviks who were satisfied with the terms of the NEP, and the industrial recovery it achieved. The ‘left’, hence, collapsed as a political force by 1927.

The sharp decline of grain supplies in 1928-29, at prices set by the state, however, changed the opinions of many Bolshevik leaders (except Bukharin and his supporters). The phenomenon disturbed them as, from 1927, they focused on the First Five Year Plan for economic growth, to go beyond industrial ‘recovery’. This ‘Plan’, which later became an essential connotation of a socialist economy, was a general assessment of the economy, indicating potentials, and isolating possible targets for different sectors. How hard and fast the targets were depended on who handled the plan — with politicians regarding them as necessary and possible, while economists considered them as possible, desirable but adjustable.

The poor availability of food at government rates boded an ominous future for the growth of the industrial economy on the scale Soviet politicians wanted. In certain areas of the Urals and Siberia, the shortfall in grain procurements by the government led to requisitions on the War Communism model. But a more severe alternative was pursued in the following year. Faced with a repetition of the 1928 situation, if not worse, as grain prices soared on the private market, the CPSU Politburo decided to embark on strict regulation of agriculture through the Collectivization of agriculture. Here, peasant farmers were grouped into collective farms (kolkhozy), which covered the territory of several peasant settlements. The kolkhoz administration took over the land cultivated, as well as the inventory (machines, livestock, ploughs etc.), leaving the peasant a small plot, adjacent to his house, which he was permitted to cultivate for his own personal use. The cultivator was required to continue with his work, the difference being that his produce would be marketed by the kolkhoz administration and he/she would receive a remuneration linked to the work put in. In most cases, the head of the kolkhoz administration was a Bolshevik loyalist – frequently a ‘worker’ from the urban areas.

Collectivization was resisted with force in the Ukraine and Kazakhstan (where independent peasant farming was strong, and where community farming was weak). By 1932, however, the kolkhoz was the standard institution of peasant land organization and cultivation. Using the collective farm, the government increased grain procurements. It was also able to set rock-bottom prices for agriculture, charge ‘turnover’ taxes when grain left the kolkhoz, and charge high taxes elsewhere, when agricultural products were sold. Thereby it provided reasonably priced food for workers in the factories set up under the First Five Year Plan, and ensured adequate revenue for itself, which could be invested in industrial construction. The peasant was thus forced to invest in capital industry – a process which socialist theoreticians equated to the process of industrial capital accumulation that had taken place during the Industrial Revolution in the West, albeit through the means of the market. Sales of grain abroad also gave the government funds to buy machinery for industrialization under the First Plan, while the only gain to agriculture was the slow establishment of Machine Tractor Stations (MTS) which were designed to improve agricultural productivity. Inevitably, figures for industrial output for the First Plan were impressive (even if they fell short of Plan targets).

	1927-28	1932 (plan)	1932 (actual)
Coal (million tonnes)	35.0	75.0	64.0
Oil (million tonnes)	11.7	21.7	21.4
Iron ore (million tonnes)	6.7	20.2	12.1
Pig iron (million tonnes)	3.2	10.0	6.2

Source: A. Nove, *An Economic History of the USSR*

10.3.7 Further Developments during the Period of Recovery (1945-64)

Collectivization, the Planned Economy, nationalized banking and the prevalence of large trusts in industry and trade (often called 'kombinaty') were to be the hallmarks of Soviet socialism for the next fifty years. The institutions came to represent economic socialism. The Soviet government undertook large projects within the framework of the system (such as General Secretary Nikita Khrushchev's 'Virgin Lands' scheme to increase land under cultivation). A major feature of the economy for the whole period was the use of revenue for arms industries and expansion of the armed forces with only a marginal eye to improvement of consumer goods. The mechanism of the Planned Economy made this possible.

Innovations did take place. Some were undertaken with a fixed eye to collective enterprise; some were undertaken with an eye to a decrease of the burden on agriculture, and some bearing in mind the private sector that survived in agriculture. In the case of the burden on agriculture, for instance, procurement prices were increased after 1952 to set right the anomalous nature of prices paid to the kolkhoz - which were often insufficient to meet the cost of delivery of collective farm products. Taxes on private plots in agriculture were substantially reduced. Various experiments of the post 1952 period, however, with no attention to local circumstances, indicated often how the Planning system could be misused. After 1956, for instance, Nikita Khrushchev, the Party General Secretary, disapproved of the cultivation of grasses (for fodder): and many fields were dug up just because of this disapproval. Attempts at decentralizing the Planning process through the creation of 'sovnarkhozy' - in principle admirable for the increase of popular involvement - merely led to 'localism' in industrial policy. This meant that the broad sense that planners had, as well as their knowledge, was wholly downplayed, and ridiculous instances of local favouritism crept into economic development.

10.3.8 On the 'Heroic' Phase of Socialist Industrialization

This last phase of socialist industrialization has attracted imaginative comment recently. Stephen Kotkin, for instance, in his *Magnetic Mountain*, (University of California Press, 1995), proceeds far beyond the position of Alec Nove and his sympathizers. Nove stresses the inefficiencies and bottlenecks of the planned economy, as well as the imaginative ideas that went into it, while Kotkin regards such unintegrated treatment, or a fixation with Bolshevik ideology, to be a limited perspective. Providing a picture which goes beyond these perspectives, Kotkin's focus is Magnitogorsk i.e. the steel production centre created during the First Five Year Plan in the high flatlands of the Urals, on the Ural River, by Magnetic Mountain. Kotkin treats the city as a microcosm of Soviet life. He shows how this putative showcase for Soviet socialist living came to be conceived; how the plans for its construction were pell mell executed and how 'the idiocy of urban life' was the consequence.

The 'heroic', 'breakneck' construction of the factory complex at Magnetic Mountain is reduced to a farce in Kotkin's history. He points out that the location itself was deemed questionable and, despite later legend, the complex got off the ground slowly. The reality was a shoddy plant where there were 550 stoppages of work in the first year alone and ultimate closure for complete reconstruction in November 1933.

Expansion at Magnitogorsk, in the years to come, followed a pattern common to the Planned Economy. Over invoicing, cooked books, exaggerated statistics of production and mismanagement for the sake of record and rhetoric: this litany, meticulously documented by Kotkin, lay behind the further construction of blast

furnaces, coke batteries, open-hearth ovens and blooming mills. Much of this held good for industrial expansion in established sites in the Ukraine and St. Petersburg. It also held good for new sites such as Kuznetsk.

There was often little choice of whether to go or not, and mobilization went along the lines described by one labourer: ‘Comrades, you’re going to Magnitka. Do you know what Magnitka is?’/’No, we haven’t a clue’/’Unfortunately neither do we, but you’re going to Magnitka all the same’.

Social and family life in the city’s cold and isolation degenerated into cards, drinking, abuse and delinquency, despite the efforts of the Komsomol and Party stalwarts. The various ‘clubs’ for locals were characterized by lack of heating and other elementary facilities; poor urban communications, appalling distribution arrangements for essentials (all planned with a lack of appreciation for local requirements) left little time for recreation and culture. The only hot spots in this mess were the Magnit cinema hall, the circus and a small local theatre. Little wonder that many who came initially arrived on short contracts, and fled at the earliest. When passports were introduced to restrict movements, a trade in false documents quickly ensued.

In such conditions, the lexicon of Soviet achievement was spread; the bruited of socialist attainments and the ‘heroic’ depiction of every venture compelled public wonder for what was often little better than a cloaca. Equally, the labour achievement awards for Stakhanovites, the ‘proper’ classification and description of workers, and the ‘proper’ recording of worker biographies, providing the necessary terms, gave the inhabitants of the socialist urban complex their social identity. As Kotkin points out, however, many failed to play their allotted role, just as solid proletariat refused to lay off rearing goats and cows, despite the exhortations of Party faithful.

10.3.9 The Private Sector

Imaginative though Kotkin’s perspective is, it fails to detail the strength of private enterprise in the midst of this ‘planned system’ or ‘command economy’. In agriculture, this was crucial, as indicated in the following statistics of kolkhoz market sales (i.e. returns from the sale of produce from private plots in the collective farm). At a time when kolkhoz incomes in total came to about 12.5 billion roubles, such sales provided (in billions of roubles):

1940	29.1
1950	49.2
1951	50.8
1952	53.7

Source: Alec Nove, *An Economic History of the USSR*

In industry also, however, there was a tendency for various deals to be made within the framework of the plan as many memoirs have recently pointed out. The dynamic role of management in the Soviet space is rarely discussed as yet, the assumption being that blind following of the plan was the order of the day. Soviet sources, who always congratulated themselves, give the impression that whatever the Party said was good enough. They rarely show (except in stray incidents) how planned production worked, despite many obstacles, and how it also created a space for aggrandizement which gave the enterprise under socialist industrialization a dynamic of its own.

10.4 SPREAD OF THE SOVIET MODEL IN EASTERN EUROPE

After the Second World War, Eastern European countries and the Baltic states adopted many aspects of the Soviet model, although they initially favoured very moderate versions of it since, unlike the case of Russia in 1917, the state had hitherto played a moderate role in the economy. In the Baltic states, the assimilation into Soviet practice was quick, since Latvia, Lithuania and Estonia became members of the USSR. Elsewhere in Eastern Europe, the move came after the statement of the Truman Doctrine, the initiation of the Marshall Plan and the formation of the Cominform (1947). After this the USSR encouraged countries under its political control to adopt its own perspectives on economic development. The Soviet model's crucial role in the region's economic development was the result of the USSR's post-war military presence in the region and its position as the main recipient of reparations from Hungary and Rumania, who had supported the Axis powers. In a departure from what occurred in the Soviet Union, though, almost in all cases, in the form of socialist industrialization that took place, small-scale cultivation played an important part in agriculture, although collectivization was encouraged in the years after 1949 for a brief period, and various measures were taken to hold such cultivation together in collective or cooperative enterprise. Hungary, (and to some extent Rumania) were slightly exceptional. Here large state farms also had a major role in agriculture. This was an outcome of the organization of agriculture in Hungary and Rumania before 1945, when large latifundia played a considerable part in agriculture. The share of such latifundia substantially passed on to the state.

A decade-long experience of extreme varieties of Soviet-style planning and state control in these countries came under the aegis of the Cominform and the Council for Mutual Economic Assistance, acting in tandem as sources of pressure, in the period after 1949. A good deal of industrial output was sold to the USSR at reduced rates (sometimes linked to reparations, as in the case of Hungary and East Germany, but sometimes not, as in the case of Poland). The 'Stalinist' experiment was subject to major attacks during the mid 1950s (during the disturbances in Hungary and Poland in 1956), but it was only modified in any meaningful manner after the approval to economic reform by the Soviet economist Liberman in the Soviet newspaper *Pravda* in September 1962. Here, the reform focused on: a reduction in planned targets; a greater stress on profitability; economic rewards for efficiency; greater variety in pricing; greater industrial concentration, accompanied by decentralization. Stiffer controls were reintroduced rapidly, though, after 1968 (and the move against economic reform in Czechoslovakia). The only country which was able to maintain its reforms was Hungary, where, despite the ups and downs of the reform system, imports of Western technology, relative freedom of movement abroad and encouragement of small-scale private industry became a permanent feature of the country by the late 1970s. In all countries, increase of Soviet oil prices in 1975 seriously destabilized the economies.

10.4.1 Hungary

With Soviet occupation, a Hungarian National Independence Front, comprising a number of radical and socialist parties formed a Provisional Government (December 1944) which quickly moved towards economic reform. At the time, large-scale private wealth dominated the economy. In agriculture, there existed a number of latifundia or great estates that were commercially oriented and that were owned by aristocratic

families (Esterhazys, Szechenyis, Karolyis and others). Smallholdings which belonged to peasant proprietors were divided: some were very small, others substantial and geared to the market. Industry was concentrated, with the Credit Bank and the Commercial Bank having major shares in over 60% of what there was, and a number of important players running the important manufactures (the Vida, Kornfeld, Weiss and Dreher-Haggenmacher families primarily).

The reforms came in the following stages:

- i) In January 1945, workers control was introduced in almost all industry through a decree which gave major powers to factory committees.
- ii) By a decree of 17th March, the great estates were taken over by the state, as were the holdings of the Catholic Church. Almost all peasant farms were exempt from the decree. About 60% of the land was distributed — a large portion going to agricultural labourers and small-scale proprietors.
- iii) Despite the success of the non-socialist parties in the elections of November 1945, pressures from Soviet forces, the Communist and Socialist parties and a section of the Smallholders' Party forced through the nationalization of four of the country's largest industrial enterprises.
- iv) A Three Year Plan was adopted in July 1947. In the wake of the political crisis of 1947 (after the elections of August) in November 1947, nationalization of the major banks followed, as did the adoption of a Three Year Plan. On 25th March 1948, the nationalization of factories employing more than 100 workers took place.

The implementation of the reforms fell to the Hungarian Working People's Party, which was created from a fusion of the Social Democrat and Communist Parties in June 1948. This party was reconstituted in 1956 as the Hungarian Socialist Workers' Party, following the Hungarian Revolution of 1956. Both before and after 1956, the party dominated the government and followed the model of the Soviet economy. In the period up to 1956, intensive industrialization was the order of the day, with a stress on capital goods industries. Hence, under the first Five Year Plan (1950-54), industrial production increased by 130%, and machine industry production by 350%. There was little development of consumer industry, and collectivization of agriculture was encouraged. After 1956, cooperativization among small-holders, rather than collectivization, became the goal of the socialist economy, and a greater diversification into consumer industry was noticeable.

Under the New Economic Mechanism (launched on 1st January 1968), steps to develop a programme of 'liberalization' were undertaken. These involved greater imports of Western technology and freer travel abroad and independence to major enterprises: measures devised by Rezso Nyers, the country's best known 'reformist'. Increases of oil prices by the USSR led to a restoration of controls on enterprises, and heavy subsidies to maintain low domestic prices (and Nyers' removal from the Politburo). A return to a reform programme began in 1977, with restrictions on private farmers relaxed in 1980 (they were permitted to acquire machinery), gradual division of large enterprises and license to small foreign firms to work in the country. Prices were permitted to rise in 1979 (to allow them to come to world levels) and in 1982, the country joined the International Monetary Fund (IMF) and the World Bank. Attempts to return to a system of controls and subsidies in 1985 led to the consolidation of a dissident radical group in the country under Imre Pozsgay. The group's influence was felt when long-serving President Janos Kadar was forced to

step down (22 May 1988), Pozsgay was admitted to the Politburo of the Hungarian Socialist Workers' Party in a prelude to Hungary's quiet revolution of 1989.

10.4.2 Rumania

Soviet troops were in occupation of Rumania from August 1945, although the Communists (the Rumanian Workers' Party) only formally established control over the government of the country after the abdication in 1947 of King Michael. Under occupation a number of steps were taken to adapt the economy to the Soviet model.

The main stages of the adaptation of the Rumanian economy to the Soviet model were:

- i) The dissolution of the main Rumanian banks in August 1948 and concentration of financial activities in the National Bank of Rumania (later the Bank of the Rumanian People's Republic).
- ii) The formation of a number of joint stock companies (Sovroms) based on Soviet and Rumanian government investments in various industries — iron and steel, where (the Resita organization was transformed into a Sovrom), petroleum, where the Sovrompetrol was formed, insurance and mining. Here the USSR took over the German and Hungarian shares in the industries concerned by a law of April 1946. During 1954-56, Soviet shares in industry were systematically transferred to the Rumanian state.
- iii) The creation of centres of control for the mining industry in 1948 at Bai Mare (northern Transylvania) and Brad (Bihar mountains, central Transylvania).
- iv) The promulgation of Land Reform Acts on March 22 1945 (mainly involving the expropriation of properties over 50 hectares) and March 2nd 1949 (which involved the confiscation of the land of property owners of more than 15,000 hectares). This intensified inter-war expropriation of large estates and redistribution of property. The main beneficiaries were peasants (who dominated the wool and subsistence agriculture oriented economy of the Carpathian uplands and Transylvania; but, as in Hungary, larger holdings were directly controlled by the state also the commercial grain economy of the Banat and the cash crop belt of the Carpathian lowlands (Moldavia and Wallachia), where vineyards and market gardens are common.

The considerable influence in Rumania of the National Peasants' Party during 1944-45, and thereafter of peasant proprietors in general ensured that peasant ownership continued to be a decisive feature of the Rumanian economy until recent times. Industry was dominated by state ownership, though, a small private sector (especially in trade) persisted even after large scale nationalization of the trading apparatus. Investments under the Rumanian Five Year Plans were directed to oil-based industry, commercial agriculture and timber felling and export.

10.4.3 Poland

The Polish Committee of National Liberation undertook the application of the Soviet model of socialist economic development to Poland. Formed in 1944, this was the core of the post 1945 government. The main features of the socialist transition (eventually supervised by the Polish United Workers' Party) were:

- i) The decree of 6 September 1944, which confiscated all landholdings above 50 hectares. This followed up legislation of the inter-war period which pushed

through redistribution of great estates. Together with the confiscation of Church land ((1950), the 1944 measure increased the domination of agriculture by peasant holdings, albeit to the advantage of richer peasants. Hence, while 65% of the land was held in allotments of under 10 hectares, over 33% was still held in allotments of between 10 and 50 hectares. Polish governments did not focus on collectivization after redistribution, except for a brief period during 1947-53, when they encouraged collective farms, which only covered 10% of arable land by 1954, and maintained state farms. Collectives were allowed to dwindle after 1956 (in 1959 they only covered 1% of arable land). Since state farms came to 15% of the arable land at their peak, the bulk of agriculture was based on peasant smallholdings until the most recent times. The government tried various measures to induce collective activity (for instance the formation of Agricultural Circles in 1956, where members could rent machinery at reduced costs). These had hardly any effect.

- ii) The formation of a Central Planning Office which organized a Three Year Plan (1947-49), and later a Six Year Plan for the economy. Most industrial production and mining were transferred to state hands after 1945. By 1949-50, 92% of industry was nationalized.

Call for reform by Polish economists such as Lange and Brus in 1956 included demands for flexibility in approach to economic policy, encouragement of foreign investment and decentralization of industrial organization. Demonstrations in favour of this intensification of the 'New Course' (initiated in 1953 by First Secretary Bierut after Stalin's death) merely led to a change in leadership in Poland (the selection of the 'moderate' Gomulka as head of the Party). Reforms after 1962 (concentrated around 1968-70), led to price increases and increased investment in 'modern industries' (machine building, electricals and chemicals). This in turn led to demonstrations against the effects of such measures (in December 1970) and to the ascendancy of Edward Gierak in the Polish Party.

10.4.4 Czechoslovakia

Soviet troops moved out of Czechoslovakia in November 1945. But a Works Council Movement began in 1945, which demanded nationalization of mines and industry, establishing workers' control. After initial reluctance by the Communist Party of Czechoslovakia to accept this nationalization plan, it gave way slowly, and measures in this vein were systematically undertaken, especially after 1947 and the statement of the Truman Doctrine and the formation of the Cominform.

The pattern of land redistribution and rapid state take over of industry was followed here as elsewhere:

- i) In March 1948, all estates of over 50 hectares were confiscated, redistribution and cooperativization were initiated. Thereafter, all cooperatives were merged into collective farms by a law of 23rd February 1949, which was enforced with special severity after 1953.
- ii) By 1949-50, 96% of industry was nationalized, after initial restraint in this area (in 1948, 20% of industry was still in private hands). Under planning, stress fell heavily on heavy industry and munitions production.

A programme of economic reform was attempted under the encouragement of Alexander Dubcek and the economists Sik and Selucky (all of the Slovak republic) in 1968. This would have involved a degree of freedom to workers to demand

wage increases, a freeing of prices and due allowance for the formation of private enterprises. The invasion by the Warsaw Pact of Czechoslovakia, however, forestalled the implementation of the programme.

10.4.5 Bulgaria

Collectivization was more marked here in the earlier stages of economic reform, although peasant production never ceased to be important. Small plots occupied 13% of the arable land in 1975, and produced 25% of produce (dominating potato and fruit output). A commitment to large scale industrialization developed in the late 1960s, when there was a move away from traditional stress on food processing.

- i) During 1945-48, landholdings were limited to 20 hectares, and holdings above this level were redistributed. Thereafter, smallholdings were merged into collective farms, and 50% of arable land was in these by 1953. All privately owned machinery and farm equipment was compulsorily acquired by the state, and a kulak defined as one owning over 5 hectares. Proprietors owning over 10 hectares had to sell 75% of their grain crop to the state (1950), while collectives had their delivery quotas reduced (1953).
- ii) By 1949/50, 95% of the limited industry that existed in the country was nationalized.

10.4.6 East Germany (German Democratic Republic)

Adaptation to the Soviet model began late here, since a myth was maintained that East Germany would be united with West Germany in the long term, and radical alteration in the production system was not a good idea considering this. Nationalization of industry and trade, however, began long before the formal decision to embark on socialist construction by the Socialist Unity Party in 1952 under the direction of Walter Ulbricht. Industry and trade in private hands (19% and 37% respectively) was taken over by the state thereafter, and collectivization of agriculture begun and intensified (especially after 1958).

The Liberman-sanctioned reforms took shape in the GDR in the form of the New Economic System that lasted from 1963 to 1970 (when controls through Planning were intensified). Industrial production grew by 5.8% between 1960 and 1964, and 6.4% between 1964 and 1970. Per capita growth rate and increase in standard of living was of the order of 4.9% between 1970 and 1975. Abandonment of the New Economic System was marked by the dismissal of Gunter Mittag from the Council of State in 1971, and adaptation to increased Soviet oil prices (after 1975) by increases in state subsidies of domestic prices.

10.4.7 Yugoslavia

An alternative variety of socialist industrialization, the case of the Yugoslav Federation was marked by a 'mixed economy', where, like the other East European cases, emulation of the Soviet model was clear, but where a large non-state sector grew up over time. The following stages are noticeable in the Yugoslav model:

- i) 1946 - a nationalization law which made permanent government takeover of most German and Italian property in the country.
- ii) Redistribution of land in German hands and of holdings over 45 hectares to peasant proprietors. Peasant holdings were restricted to 20-25 hectares.

- iii) Initiation of the First Five Year Plan. The USSR agreed to set up a number of joint ventures in shipping and air transport. But these were quickly closed down after the Yugoslavs considered these excessively favourable to the Soviet Union. Grants from UNRRA were very important in this early phase.
- iv) Slow move away from the Soviet model, after the political break with the Soviet Union in 1948. This took time. Initially, the state favoured collectivization through concentration of peasant households in Peasant-Worker Cooperatives, in order to control grain marketing. But poor performance here and in nationalized industry under central direction led to the development of self-managed state enterprises (1950) and a decrease in interest in collective agriculture (although maximum holdings were reduced to a size of 10 hectares). The standard practice of using centralized investment was modified by the creation of communal banks that had their own sphere of investment. After the First Five Year Plan, the planning system was amended to involve less of the 'command style' and permit greater cooperation between state industry, independent of the central (and state) planning commissions. The trend was assisted by investment from the USA, although government stress on the development of heavy industry and armaments industry persisted.
- v) Following Stalin's death, relations with the Soviet bloc varied. Initially, improvements led to a large increase in trade with the CMEA countries. But continuous inflow of soft loans from the United States and good relations with Western Europe led to the development of several ventures in close association with these countries: ventures which were not guided rigidly by the Planning system. The significance of the state remained significant. Despite the existence of self-management, communal banks etc., the Central Investment Fund controlled 70% of investment and industry bore marks of political control. Marks of central control included the focus of investment in heavy industry and the existence of 'political factories', i.e. factories which were set up with non-economic considerations in mind.
- vi) Associate membership of the General Agreement on Trade and Tariffs (GATT) in 1960 led to pressure on the 1961-65 Five Year Plan and intensification of the move away from central control in the Planned Economy. Investment came increasingly from communal banks, and devaluation took place to encourage foreign trade. Initially, to curb inflation and maintain aspects of the old system, a wage freeze was initiated. But this situation proved unworkable, led to a debate on the future of the economy, and intensification of the development of private enterprise and decentralization after 1965 (in the so-called 'market-oriented reforms').
- vii) The new course (which involved the development of a commercial banking sector), received great impetus in the 1970s with the greater inflow of foreign loans, and, after 1979, the country moved into a debt crisis in which the political crisis of the late 1980s took shape, leading to the disintegration of the Federation.

10.5 THE ACHIEVEMENTS OF SOCIALIST INDUSTRIALIZATION IN EASTERN EUROPE

The main achievement of the investments in agriculture and industry that occurred under socialist industrialization is indicated by the following statistics:

	Index of industrial production	Index of agricultural production
	1938=100	1938=100
	1964	1960-63 average
Bulgaria	625	111
Rumania	498	129
Poland	370	132
Hungary	314	98
Czechoslovakia	242	92
East Germany	208	80

Source: Walter Laquer, *Europe since Hitler*

As much of this system initially took shape, it was moulded by bilateral agreements with the USSR (for imports of primary products from the Soviet Union at exaggerated costs initially, and exports of primary and finished goods to the USSR at excessively reduced prices). Bilateral trade between the countries was worked out within the framework of the Council for Mutual Economic Assistance. But such trade was notoriously lacking in a real bilateral quality: i.e. little trade developed according to the initiative of any two CMEA states independent of the rest. Common investments in Soviet oil and natural gas industries paid trumps for most CMEA countries in the late 1960s and early 1970s, when all of them received output at rates below the world price at a time of increases in oil prices in the West. All the countries benefited from the USSR's special relations with Angola, Mozambique, Syria, Iraq, Vietnam and India. Moreover, from June 1971, under the terms of the 'Complex Programme for the Further Extension and Improvement of Cooperation and Development of Socialist Economic Integration' of the CMEA, coordination was given more importance, and its status raised in CMEA affairs. A number of international economic organizations were begun: the Interstate Commissions for the implementation of specific tasks; the International Bank for Economic Cooperation; the International Investment Bank; research and development coordinating centres and international laboratories. At various sessions of the Council during 1973-81, integration measures were introduced into the member countries' plans and harmonized into a coherent plan by the Committee for Cooperation and Planning.

Such measures did not come to much where it really mattered: in the development of technology which could compete with global standards after the information revolution. US blockade of sales of such technology to the 'east' was substantially responsible for this. Equally responsible, though, was inertia within state-run industry, which was willing to work with minor innovations, but unwilling to fundamentally change what existed. The resulting poor performance in trade relations with the West coincided with a major problem in the 1980s. The CMEA did not prevent member countries interacting with the West — either through trade or through application for loans. The decrease in oil prices globally in the 1980s, the refusal of the USSR to reduce its prices, and the high level of indebtedness of many CMEA countries (Poland and Yugoslavia especially) to the West led to a troubled situation. By 1989, the CMEA had ceased to be useful in almost any sense and had ceased to represent a common interest. Not only were some countries initiating experiments with 'market reforms', but the common cause that had marked the bloc in the 1950s, 60s and 70s was gone.

10.6 SOCIALIST INITIATIVES OUTSIDE THE SOVIET BLOC

Attempts to rein in capitalism were common in a number of countries where socialists were powerful during the inter-war and post-Second World War period. In France, for instance, under Leon Blum and the Popular Front (1936-38), attempts were made to control capital transfers out of the country, and important steps were taken to establish state control over the munitions' industry. Major reforms were introduced in the factories — where employers were compelled to give workers a minimum paid holiday each year, and where working hours were strictly limited. In Britain, after the Second World War, the Labour government nationalized the coal and steel industries and introduced the 'welfare state' (i.e. the National Health Scheme, which reduced health costs dramatically, as well as the introduction of unemployment benefit to the out-of-work). The Labour governments of Harold Wilson (1964-70), extended cheap housing for the population through the agency of local government, while socialist governments on the Continent introduced their own version of the 'welfare state' through systems of insurance.

Much of this initiative was in imitation of the state-led model prevalent in the USSR (and Eastern Europe). But in developing their own focus on 'insurance' (where the state, the employer and the employee contributed to a common fund), countries such as France, Germany and Italy developed their own variety of 'welfare' which involved a smaller role for the state. This dimension to socialism outside the Soviet bloc is what made it unique. Accepting capitalist enterprise and a limited place for state initiative, it was strictly non-Leninist.

10.7 SUMMARY

In this Unit, you have read about the way Soviet experiment in application of the socialist model underwent various phases in accordance with the demands of the time. You have also read how it was not a model which could completely shun the principles of market economy, but tried very often to overcome the restrictions put in its way. There were contradictions from within and outside which eventually led to its disintegration. At the same time, the same model was applied differently even in the countries under the Soviet influence, which gradually gave way to the dominant capitalist system. Yet, it would be immature to argue that this model was a complete failure as it was this model which forced the so called capitalist economies of the western Europe to integrate welfare economic principles and strengthen social distribution networks albeit with a limited role for the state. On the other hand, the criticisms of the capitalist economic system and visions of alternative models have continued to drive the thinkers and activists alike.

10.8 EXERCISES

- 1) Write a note on debates about Soviet industrialization.
- 2) Differentiate between capitalist industrialization and socialist industrialization.
- 3) Briefly discuss the pattern of the spread of the Soviet industrialization model in Eastern Europe.