THE NEW ECONOMICS

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Translated by BRIAN PEARCE

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Eugene Preobrazhensky, a foundation member of the Bolshevik Party, wrote *The New Economics* (1926) as a contribution to the problem of socialist industrialisation in a backward, largely peasant country. Suppressed by Stalin as "Trotskyist", and its author shot in the Great Purge of 1937, the book has long been recognised as the most important work to date by a Soviet economist, and relevant both to the economic problems of the Soviet Union (and China) today and to those of some of the newly-independent countries of Asia and Africa which are trying to industrialise themselves in the shortest possible time but without social injustice.

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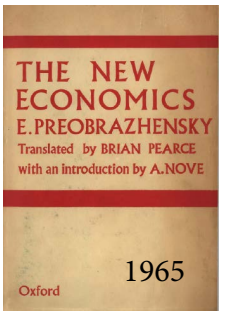

INTRODUCTION

by

A. NOVE

EVGENY PREOBRAZHENSKY was born in 1886 and was shot in Stalin's great purge in 1937. He was one of the innumerable victims of the Stalin terror and by no means among the most prominent politically. A number of his more eminent colleagues have written books and articles which have not been translated; and one might ask why the work of a failed politician should be thought worthy of publication in English for the first time in 1965, nearly forty years after the appearance of the Russian edition. This would be a legitimate question. The answer lies in the importance and relevance of certain elements in Preobrazhensky's thought, for it remains applicable to certain frequently neglected problems in under-developed countries. It is this fact, as well as the light which his work sheds on the economic and political circumstances of the Soviet twenties, that justifies the belated publication of his work in this country. Its author had a mind of unusual quality, and the intellectual (though not the political) superiority of his arguments must have been a source of considerable embarrassment to those of his opponents who retained intellectual standards. It is perhaps typical of Stalin that he should have used a quite unanswerable counter-argument—the bullet in the back of the head.

To put the present book into perspective it is necessary to give some of the biographical and historical background, so that the reader can have some idea who is arguing with whom and why. This is no place to be writing a history of the Russian Revolution, and therefore the pages that follow should be supplemented by more detailed reading, if a full picture of the complex circumstances of the time is to be obtained. Readers can be confidently referred to the many volumes of E. H. Carr's *History of Soviet Russia*, Leonard Schapiro's *Communist Party of the Soviet Union*, and particularly Alexander Erlich's *The Soviet Industrialisation Debate, 1924-1928*. The last of these authors has also analysed the ideas of Preobrazhensky himself in an article 'Preobrazhensky and the

Economics of Soviet Industrialisation' (*Quarterly Journal of Economics*, February 1950).

First, a few words about Preobrazhensky's activities before the publication of the present book. A Bolshevik intellectual in his youth, joining the Party in 1903, Preobrazhensky was a leader of the Bolsheviks in Siberia and the Urals in the immediate aftermath of the February (1917) Revolution, and was active in Moscow and on various war fronts after the Bolshevik seizure of power. In the spring of 1918, when the party was split over the problem of whether or not to sign the Brest-Litovsk Treaty, Preobrazhensky sided with his later enemy Bukharin and the so-called 'left communists', who believed in a revolutionary war. Lenin had the greatest difficulty in persuading the party to agree to the Treaty. In 1919 Preobrazhensky was co-author with Bukharin of a well-known booklet, 'The A.B.C. of Communism' (*Azbuka Kommunizma*), which was translated into many languages, including English, and was quite popular in the Communist world until both these authors ran foul of Stalin. While the booklet seems remarkable for its utopian-optimistic extremism, the authors' views were at that time shared by the bulk of the party.

In 1920 Preobrazhensky worked in the party's central organs and became one of its three secretaries, the other two being Krestinsky and Serebryakov. The party secretariat did not yet have the importance it acquired under Stalin, who became general secretary in 1922. Preobrazhensky and his fellow secretaries were indeed replaced in 1921, and the fact that the senior of the new secretaries was Molotov suggests that this was a significant step in Stalin's gradual assumption of power. Preobrazhensky was not again to hold a senior post in the party hierarchy.

As early as 1920 his name became linked with that of Trotsky. He supported him in November 1920 in a dispute over the militarization of trade unions for the purposes of reconstruction. In due course Preobrazhensky became the leading theoretician of the Trotskyite opposition, while his former partner Bukharin turned from the extreme left to extreme caution and became the principal ideologist of the 'right' during the twenties. The controversies of the twenties were dominated by the problem of NEP, the so-called New Economic Policy. In the civil-war period Soviet Russia came to be governed under a system which became known as 'war communism'. The State nationalized virtually all

industry, outlawed private trade, forcibly prevented the peasants from marketing their own products, and sought to requisition surpluses. Money lost virtually all value, industrial production declined catastrophically, the inefficient and inexperienced Bolshevik State proved incapable of organizing trade and distribution. The peasants resisted requisitions and reduced production. Towns starved. Part of the chaos and confusion was due to the Civil War, but the system of 'war communism' contributed greatly to bringing economic life to a standstill. At the height of the 'war communism' period, that is, in 1918–20, the left wing among Bolshevik intellectuals thought that a leap into Socialism was being accomplished, with the collapse of the economy and of the rouble as a necessary prelude to a state of affairs in which the proletariat would control all economic transactions without the use of money. At this time both Bukharin and Preobrazhensky held such beliefs, and even Lenin was affected by them. However, while 'war communism' had some kind of rationale while a destructive civil war was in progress, since it helped to concentrate the few available resources on the needs of the front, the demand for a new approach proved irresistible once the Civil War was over. Peasant riots, workers' strikes, and finally the mutiny of the sailors at Kronstadt, compelled Lenin to retreat and adopt the New Economic Policy, universally known as NEP. Private trade and small-scale private manufacture were legalized, and the peasants were free to sell to private merchants or to market their own produce, subject only to a tax in kind. It was in this setting that Preobrazhensky, representing the thinking of the Trotsky group, wrote the present book.

He was addressing himself to a problem which presented the greatest difficulty. While NEP led to a rapid recovery in both industry and agriculture, and while the State retained the so-called 'commanding heights' of the economy (large-scale industry, foreign trade), the fact remained that the Bolshevik party were ruling over a country which was 80 per cent. peasant. The peasants had divided up the land among themselves, and there were now some 25 million family holdings, many of them cultivated merely for subsistence. The peasants, once in possession of the land, were anything but a revolutionary force. During the Civil War enough of them supported the Bolsheviks, or failed to support their opponents, because they feared the return of the landlords.

But under NEP the peasants were interested in free trade and high prices, and they forged links with the private traders and petty manufacturers in the cities. The Bolsheviks, ruling in the name of the dictatorship of the proletariat, were isolated in a 'petty-bourgeois' environment and knew it. Lenin conceived NEP as a necessary retreat. By suppressing all other parties, and by retaining political power in the hands of a highly disciplined Bolshevik party, he hoped it would be possible to resume the advance towards Socialism at a more propitious moment. In his last year of active life Lenin spoke of a prolonged pause while the peasants were gradually weaned from their individualism by co-operation. Before he could elaborate his ideas he fell mortally ill, and was already unable to take effective part in political life for over a year before his death in January 1924. As he lay paralysed, the struggle for his succession began, and the social and economic arguments about how to move forward merged into the political manœuvring of ambitious men. In 1923 Trotsky, with Preobrazhensky in support, was faced with a powerful triumvirate of Zinoviev, Kamenev, and Stalin, with the latter in a key position as general secretary and master of the party machine. He was able to use this position to out-manœuvre not only Trotsky and his followers but later also Zinoviev and Kamenev. Meanwhile Bukharin, Preobrazhensky's erstwhile friend and collaborator, became the principal ideologist of NEP, stressing the vital importance of the alliance with the peasants. This led him logically to demand greater facilities for the better-off peasants, who were responsible for a large part of marketed output, the more so as marketings had declined sharply as compared with pre-war. This also led him to stress the importance of providing the kind of industrial goods which the peasants wanted, and therefore of expanding the consumer-goods industries.

The left group, of which Preobrazhensky was the principal spokesman, challenged this conception on both political and economic grounds. They saw grave political dangers arising from an increase in the power of the so-called kulaks, that is, the richer peasants. These were regarded as a deadly danger to the Soviet régime, as they might come gradually to control the villages and, through their grip on food supplies, to challenge the authority of the State. The group remembered Lenin's words that, in such circumstances, 'a capitalist is born every minute'.

As they saw it, a change in the balance of social and economic power was vital, and this would be achieved by pressing ahead with rapid industrialization. The period in which it was possible comparatively cheaply to reactivate damaged or unused factories was coming to a close. Heavy additional investment would be needed.

But how, in the conditions of NEP, could rapid industrialization be financed? It is to this question, and to the relationship between the private sector and socialized industry, that Preobrazhensky applies himself. The essential arguments of *The New Economics* first saw the light of day in lectures, then in articles published in *Vestnik Kommunisticheskoi Akademii* in 1924. The actual book appeared in 1926. The author and his arguments were soon at the centre of furious controversy. It was obvious, argued Preobrazhensky, that the relatively small and weak socialist sector could not possibly bear the whole burden of investment. Resources must be obtained from private enterprise, that is, in the main from the peasants, since these constituted about four fifths of the population. To achieve this, prices charged by the State for the products of its industry should be such as would compel peasant purchasers to contribute to investment in the socialized sector. This form of non-equivalent exchange would be a necessary substitute, in Soviet conditions, for what Marx had described as 'primitive capitalist accumulation'. Of course, argued Preobrazhensky, the Soviet state could not indulge in capitalist forms of exploitation, colonialism, robbery, and so on. None the less, there would have to be some form of 'primitive socialist accumulation' if industrialization was ever to be undertaken by it.

This doctrine evoked widespread dissent. In 1923 the Soviet economy faced the so-called 'scissors crisis': the terms of trade between town and country had become so unfavourable to the latter that the peasants were reluctant to sell their produce. To encourage them to sell more, industrial prices had to be reduced, and a vigorous drive was launched for a much needed increase in the efficiency of State industry. Those who, like Bukharin, took NEP seriously and wished to avoid a clash with the peasantry, strongly objected to the practical consequences of Preobrazhensky's case. They accused him of favouring the 'exploitation' of the peasants, of advocating a kind of internal colonialism, and

therefore of threatening the economic and political stability of the Soviet state. Stalin at this stage sided with Bukharin, though he carefully avoided committing himself too far to the latter's pro-peasant formulations. In the subsequent polemics Preobrazhensky denied that he had advocated the impoverishment of the peasants, and argued that his aims would be realized even if peasant incomes continued to rise, provided that industrial costs were reduced and agricultural productivity increased. In other words, a high rate of growth of current output would make possible a substantial increase in investment without any diminution in current consumption. He claimed to be merely stating the economically obvious when he asserted that large-scale industrialization in a peasant country would have to be largely paid for by the peasants. He charged Bukharin with playing politics.

Stalin and Bukharin were far from denying the need for industrialization. They declared themselves for 'socialism in one country', that is, they believed (or said they believed) that it would ultimately be possible to build a socialist industrial state in Soviet Russia, without the support of revolutions in developed western countries. However, they argued for caution, for slow tempos, because it was essential to avoid the break-up of the alliance between workers and peasants upon which Soviet rule was supposed to rest. Bukharin in particular would only go as fast as the peasants would let him, and spoke of 'riding into socialism on a peasant nag'. Paradoxically it was Trotsky and his supporters who denied the possibility of achieving socialism in one country, even while advocating rapid industrialization and accusing Stalin of dragging his feet. This laid the Trotskyist group open to a double charge: endangering the Soviet state by antagonizing the peasants, and showing a defeatist lack of faith in the ability of the Soviet people to build socialism. After 1923, when the prospect of a European revolution receded, this was a particularly potent argument. Trotsky and Preobrazhensky could indeed point to a whole number of quotations from Lenin, which showed him to be expecting revolution to break out in advanced countries, and to be sceptical about the chances of building socialism in Russia in isolation. However, the doctrinal impurity of the 'socialism-in-one-country' concept was not the material point. The communists were in power. They were

internationally isolated. Revolution in the west had failed. What was now to be done? It was an ideological necessity to rally the party in a struggle 'for socialism' (though under Stalin the outcome perhaps resembled Asiatic despotism more than socialism). In fact, of course, Trotsky and his friends did advocate the rapid build-up of socialist industry. However, to deny the possibility of socialism in one country seemed tantamount to admitting that Bolshevism was in a cul-de-sac, an admission unlikely to be popular with the ruling party or its supporters. Stalin and Bukharin were able to utilize this effectively in their struggle against 'Trotskyism'.

There was in fact a real contradiction in the Trotsky-Preobrazhensky attitude. They believed in rapid industrialization, feared the rich peasant, and urged the imposition on the peasants of a price structure which would permit the state to accumulate and which would be unpopular. Yet they did not face the measures of coercion that would be required if this policy were to be put into effect. Peasants who do not obtain the prices to which they believe themselves to be entitled have powerful means of redress, so long as they retain control of the land and produce. Yet the Trotskyist opposition did not advocate forcible collectivization or expropriation. It is perhaps because they felt that their policy led into a blind alley that they denied the possibility of socialism in one country, no doubt imagining that the flow of capital goods from the advanced countries of western Europe, following a socialist revolution, could alone save the situation.

The New Economics was intended as a blow at the Stalin-Bukharin view and played a major part in the Soviet industrialization debate, as may be seen by reference to Alexander Erlich's book. It was also intended to be the first part of a major work, which was never completed. The last published article that could be said to reflect Preobrazhensky's own thinking, and probably expressed some of the ideas which would have been developed in his unpublished *magnum opus*, was 'Economic equilibrium in the system of the USSR', in *Vestnik Kommunisticheskoi Akademii* No. 22, 1927. Preobrazhensky there took further and deeper his analysis of the 'contradictions' involved in trying to build socialism in the U.S.S.R. under conditions of isolation. But after this no more opportunities existed for its author's analytical talents. Even the most abstractly theoretical formulation of a

non-Stalinist view was barely conceivable in print after 1928.

The fate of Preobrazhensky was bound up with Trotsky's. Although the left opposition was joined in 1926 by Zinoviev and Kamenev, Stalin defeated them with ease. In 1927 Preobrazhensky, together with many other Trotskyites, was expelled from the party and was exiled for a time.

No sooner had he dealt with the left opposition than Stalin changed his policy and opened an attack on the peasants. In the early months of 1928 he used police methods to requisition grain. On this issue he split with Bukharin, who continued to advocate the retention of NEP and opposed measures that antagonized the peasants. In the winter of 1929–30, using brutal coercive measures, Stalin forced millions of peasants into collective farms, and the process was continued through fiscal and administrative pressure until by 1934 most of the land and the peasants were collectivized. By enforcing compulsory deliveries at low prices, while significantly increasing the prices on industrial consumer goods, Stalin levied a tribute on the peasants on a scale greater than Preobrazhensky had ever conceived. He launched industrialization at breakneck speed, with emphasis on heavy industry. In 1933 the ruthless imposition of deliveries to the State caused millions of peasants to starve. This was 'primitive socialist accumulation by the methods of Tamerlane', to borrow a felicitous phrase from N. Valentinov.

Yet it had been one of the Trotskyites' arguments that under Stalin the Communist Party had so degenerated that it was in the grip of petty bourgeois elements. ('Thermidor' was their parallel with the French revolution.) When the attack on the peasants came it spectacularly disproved this allegation. Therefore, although many of them were worried by the excesses of collectivization, many Trotskyites declared their support for the régime and sought re-admission to the party. Preobrazhensky was himself re-admitted in 1929, was expelled again in 1931, and then again re-admitted. His last public appearance was at the Seventeenth Party Congress in 1934. Like other former oppositionists he came to the Congress to apologize for past misdeeds and to denounce Trotsky. The party's great victories under Stalin, they declared, proved that they had been wrong. Preobrazhensky said all this too. The sincerity of such declarations may be taken with more than a grain of salt. However, it is worth reproducing at some length

Preobrazhensky's attack on his own doctrines and his own book since it has a rather special flavour.

I was considered one of the theoreticians of Trotskyism. You know that my theoretical works, including *The New Economics*, were used as weapons in the struggle against the party. You know that my important error consisted in mechanically comparing our economy with capitalism and erecting a law of 'primitive socialist accumulation'. I brought into this theoretical construction the lack of faith in the peasantry and contempt for the peasants which were characteristic of Trotskyism . . . I thought that by exploiting the peasants, by concentrating the resources of the peasant economy in the hands of the state, it would be possible to build industry and develop industrialisation. This is a crude analogy with primitive capitalist accumulation . . . I parted company with Leninism. Events wholly disproved what I had asserted, and Lenin's forecasts were later triumphantly made into reality under Stalin's leadership. Collectivisation, that is the essential point. Did I foresee collectivisation? I did not . . . As you know, neither Marx nor Engels, who wrote a great deal about the problems of socialism in the village, visualised just how village life would be revolutionised. You know that Engels tended to the view that it would be a rather long evolutionary process. What was needed was Stalin's remarkable far-sightedness, his great courage in facing the problems, the greatest hardness in applying policies.

In the atmosphere of 1934 Preobrazhensky could not openly defend his views. Yet, reading between the lines, what he seemed to be saying was that primitive socialist accumulation had been ruthlessly imposed by collectivization, not that his earlier doctrines had been proved false by events. All his listeners were perfectly well aware that industrialization was being made possible 'by exploiting the peasants, by concentrating the resources of the peasant economy in the hands of the state'. Of course nobody could say so, since the compulsory myth was one of happy peasants enjoying a good life in collective farms. In fact Preobrazhensky went close to challenging this myth when he said: 'Sometimes we ourselves do not appreciate the magnitude of these victories. They will be appreciated by the next generation.' Yet Preobrazhensky may have been partly sincere in his view that Stalin's collectivization represented a way out of the problem of the twenties, which the left opposition might have been insufficiently ruthless to take even if they had been in power. (Of course, he, as did Trotsky, favoured collective as against individual

agriculture; it was the imposition of the collective solution by violence which was Stalin's special 'contribution'.)

Shortly after the Seventeenth Congress we reach the period of the great purge. For reasons which cannot be discussed here Stalin decided to kill all oppositionists, past, present, and potential. Those who had earlier been prominent in public disagreements with Stalin were brought to public trial and pleaded guilty to treason, wrecking, and so on. It was known that Preobrazhensky should have been among them. A few of the old oppositionists stood firm and refused to confess, and these were not tried in public. Among those few was Preobrazhensky. In view of the pressures to which he must have been subject we must suppose him to have been a brave man. It is known that he was shot in 1937.

Preobrazhensky wrote in Marxian terminology for a public accustomed to argument in such terms. His opening chapter is heavily spiced with jargon, but readers are urged to have patience and not to give up at this point. For those unfamiliar with Marxian economics, a brief glossary is given at the end of this introduction. It also includes a few terms in common use in the twenties that may not now be understood.

Finally, what is Preobrazhensky's importance in economic thought? He identified a species of economic law or regularity. A left-wing revolution which overthrows the landlords and capitalists, and divides the land among the peasants, creates for itself a very awkward problem. In many developing countries the peasants are technically backward and are accustomed to a subsistence economy. Much of the production for the market tends to be concentrated in the hands of big estates or of the rich peasant class. By breaking up the estates the revolutionaries may achieve greater social fairness, but at the cost of reducing off-farm sales. Yet these same revolutionaries generally advocate rapid industrialization. This would require more, not less, off-farm sales, both to feed the growing towns and for export. The problem of agricultural surpluses is also linked with the financial problem of tapping the savings which make industrial investment possible. The landlord class are efficient in pumping resources out of their villages, though these are often used for unproductive purposes. The revolutionary state, faced with a multitude of small peasants, must somehow persuade them to

contribute by produce and by abstinence to industrialization. But this raises political problems of the first magnitude. No doubt in the long run the peasants can be persuaded to produce more for the market, but in the short run their needs are few and simple and, following on democratic land reform, they tend to eat better, whilst skilfully resisting efforts to tax them. The reader of Preobrazhensky is confronted by this problem, which is important in a number of developing countries today, but which is strangely neglected even by the more imaginative analysts of the economics of under-development.

GLOSSARY

Chervonets. Name given to the 'stabilized' currency unit in 1923, after the virtual collapse of the currency had discredited the name of 'rouble'. However, the rouble returned a few years later. The Ukrainian name for a rouble ('karbovanets') is now the sole remnant of the term 'chervonets'.

Expanded reproduction. This is Marx's 'erweiterte Reproduktion', which describes a situation in which society more than replaces the means of production currently used up, i.e. when there is net investment and growth.

'*Kulaks*'. Literally 'fists'. Nickname for rich peasants who exploit their fellow-peasants. Used in the twenties by the communists to describe the better-off peasants (as distinct from the 'middle peasants', who did not employ hired labour, and 'poor peasants', whose holdings were generally too small to support their families).

Value, law of value. In Marxian terms, the value of a commodity is determined by the amount of socially-necessary labour expended, directly and indirectly, in its production. Under capitalism, according to Marx, even equilibrium prices would depart from 'values' so defined, because of differences in the 'organic composition of capital' (or capital-labour ratio) in different industries. Prices would then fluctuate around the 'prices of production' (*Produktionspreis*), which would assure an equal rate of return on capital. The term 'law of value' is often used as a shorthand way of discussing market prices and exchange relationships, as against the planned and conscious allocation of resources.

Surplus product. In Marx it is that part of the value (or net product) created by human labour which is not distributed to the labourers. In capitalist society this is the 'surplus value' annexed by the capitalists, while in a socialist economy the surplus is devoted to the state's and society's purposes, including accumulation for 'expanded reproduction'.