Economic Notes I. On the Goods Famine

1925

0 tovarnom golode
Ekonomicheskie zametki I
Pravda, December 15, 1925.

Everyone recognizes that the goods famine is the result of an excess of effective demand over supply. Likewise, everyone realizes that this excess is an indication that production is not keeping pace with demand, at least not *for the moment*—that is, that the goods famine is a function of insufficient accumulation in industry. But apparently not everyone understands that the goods famine is not a seasonal phenomenon. Yet it has in fact lasted a year and a half in all: its most recent exacerbation set in before the harvest and is stubbornly holding on four months after the harvest, despite the limited deliveries of peasant grain to the market—deliveries that are incommensurate with the volume of the harvest. In essence, this view of the seasonal nature of the goods famine has but a short time left to live, because the crucial test is approaching inexorably: if the present episode of the goods famine lasts a year, the explanation will be worthless. However, practical refutation of the "seasonal theory" will certainly not wrap up the season for all the theories that are, in the final analysis, inclined to regard present levels of industrial production and the current rate of industrial expansion as normal. Therefore, we feel that even now it would not be unwarranted for us to share with the reader some figures from an investigation dealing with this whole problem.

According to the Gosplan control figures, gross agricultural production in 1924–25 was 9.15 billion rubles, or 71 percent of the prewar figure. Total industrial production was 5 billion rubles, or 71.4 percent of the prewar level. Apparently, there is a superficial arithmetical proportionality.

Let us look at the relative proportion of agricultural and industrial output that was sold on the market, that is, the relative percentages of marketability of agriculture and industry. Gosplan's control figures provide us with the following information on this point. In 1924–25, agriculture marketed products worth 2.857 billion prewar rubles, as opposed to 4.498 billion in 1913—in other words, 63.7 percent of the prewar figure. Goods marketed by industry amounted to 7.011 billion rubles in 1913 and 4.450 billion in 1924–25, that is, 63.5 percent of the 1913 sum. Here too, we see the full arithmetical proportionality of the two sectors' marketability, so to speak.

The question now arises, why, *in even one of the prewar years that corresponded to 1925 in level of production and marketability* (that is, in one of the years in the decade 1900 to 1910), *did we not see a goods famine in Tsarist Russia*?

Merely posing the question in this way is enough to lead us to seek an explanation above all (although not exclusively) in the different structure of the expense budget of the countryside and the workers, as well as, perhaps, in the different distribution between producer and consumer demand in the country. In the present report I will take up only the first basic, decisive problem.

From the standpoint of the conditions of realization and the condition of distribution, the portion of prewar rural output that was sold on the market was divided into two main parts: (1) goods subject to *compulsory sale*, for which the peasantry did not receive an equivalent return; and (2) goods on which the peasantry earned money, which (not counting the part that went into money accumulation) it then used for acquiring industrial goods or goods within peasant exchange.

Let us take a closer look at the first part of marketed peasant output—that is, the share that the peasant was forced to sell. It had to cover three main items of expenditure:

(1) central and local taxes

(2) rent that the peasant paid on land hired in addition to his allotted lands

(3) usurious interests to kulaks, buyers-up, and landowners, as well as maintenance of the clergy and other lesser payments. This latter class of expenditures exists even today in some measure, although presumably less than before the war. We shall not examine this item here, but will rather go back to the first two. If we divide the total income in the 1913 Tsarist budget obtained from direct

taxes, indirect taxes, customs duties, and royal monopolies by a population of 175 million, we get a state per capita income of 12 rubles 78 kopecks, or 11.2 percent of the gross national income. The 1924–25 budget from the same sources as the prewar budget (hence, omitting income from transport and from the People's Commissariat of Postal and Telegraphic Services, in particular), divided by the total population, yields 7 rubles 66 kopecks per capita, or 7.7 percent of the gross national income. In particular, the peasantry in the fifty *guberniias* of European Russia paid 10 rubles 54 kopecks in direct and indirect taxes in 1912–13, whereas in 1924–25 they paid 3 rubles 56 kopecks (in prewar rubles).* Thus, in 1924–25 the peasantry paid, in absolute figures, 815 million prewar rubles, or 1.4 billion chervonets rubles,[1] less than they did before the war (assuming a rural population of 116.8 million in 1924–25). Despite the overall reduction of agricultural income, the peasantry now pays proportionally much less in state taxes than it did before the war. Hence, on this point a considerable portion of rural commodity output has been released from forced sales.

As regards rental payments, according to Karyshev's well-known study,** about 49.8 million *desiatinas* of all types of lands were being rented out to peasants in addition to their allotted lands in the late 1880s (these included lands belonging to the rural gentry, imperial estates, state lands, church and monasterial holdings, and urban land—cultivated as well as uncultivated pastureland and hayfields).[2] The average rent in the 1880s was 6.3 rubles per *desiatina*. Later on, the number of titles to peasant lands grew considerably, but this tendency was countered by higher rents for smaller plots, especially in the Central Black Earth Zone and in the Ukraine. If we take into consideration first that the peasant did not pay for the land lying fallow under the three-field system of cultivation and second that he had to pay rent on pastureland and hayfields, then the total rent paid annually by the

*According to preliminary calculations by the TsSU (Central Statistical Administration) for 1925–26, the peasantry will pay per capita 4 rubles 64 kopecks in prewar rubles, or about 44 percent of the 1912–13 level of tax.

**Karyshev, *Krest'ianskie vnenadel'nye arendy* [Peasant nonallotment leases] (Dorpat, 1893). A. I. Chuprov places the area of nonallotment leases at 40 million *desiatinas*. See *Melkoe zemledelie v Rossii i ego osnovnye nuzhdy* [Small-scale agriculture in Russia and its basic needs] (Moscow, 1906), p. 17.

peasantry before the war was *at an absolute minimum* 200 million prewar rubles per year, or about 360 million of our chervonets rubles. If we recall that according to the 1925–26 budget estimate the entire single agricultural tax will bring in only 235 million rubles, it should be clear how important it was for the peasant budget that rental payments on landowners' lands be eliminated. But right now we are interested in another aspect of this question—the aspect of exchange of goods, the aspect of exchange of commodity output between town and country. Eliminating land rental payments of 200 million prewar rubles, or 360 million chervonets rubles, means eliminating a second major component of forced sales of the marketed portion of peasant output—with all the ensuing consequences of that fact.

Just what are the consequences of the data we have presented on tax cuts and elimination of land-leasing for the exchange of goods between town and country in 1924–25 (and hence in 1925–26 as well)?

The first conclusion is that, in view of the reduction in forced sales, the peasantry has considerably more freedom now than before the war in choosing the dates and the terms under which it disposes of its surpluses—indeed, greater economic freedom in general. This applies not only to the well-to-do sector of the peasantry, which has always enjoyed a certain degree of economic freedom, but in even greater measure to the broad rural masses. This fact is of enormous significance in explaining why the peasantry is in no hurry to sell grain.

The second conclusion is that, given the same agricultural income as before the war, the reduced number of forced sales must lead to increased rural consumption of foodstuffs.

Finally, the third and most important conclusion is that out of the total commodity output cited above—that is, out of 2.857 billion for the last economic year and 3.639 billion for 1925–26 (or out of other figures, if Gosplan's statistics on marketability are incorrect)—a much smaller sum than before the war went to forced sales without equivalent return. And this in turn means that, given the same conditions of realization, there must be a corresponding increase in the peasantry's effective demand for industrial commodities and products within peasant exchange.

The enormous importance of this last conclusion for our topic is quite obvious. *Maintaining the equilibrium between the marketed share of industrial and agricultural output at prewar proportions* *last year and this year means sharply upsetting the equilibrium between the effective demand of the countryside and the commodity output of the town.* And herein lies the key to understanding why we now have such a persistent goods famine. Our current goods famine is the result of the positive changes in the structure of the peasant budget that have been effected by our October Revolution. As long as the Civil War continued and requisitioning was in effect—and later on, as long as the general level of peasant output was much lower than before the war—these consequences of October did not make themselves felt, and it is quite obvious why not. But the more closely we approach the prewar proportions of production in industry and agriculture (90 percent this year), the more *Soviet conditions of agriculture* are making themselves felt and the more forcefully, as compared to the prewar situation, the formal arithmetical proportionality has to be, and is being, transformed before our eyes into an unhealthy, protracted, and by no means seasonal disproportionality in the distribution of productive forces between industry and agriculture.

But that is still not all. Disproportionality is lying in wait for us from the other end as well, although here it has not yet been able to manifest itself in due measure. I am referring to the progressive change in the very nature of wages under the Soviet system on the one hand and the change in the nature of expenditures of the former surplus value on the other. Since wages are less subject now than before the war to the law of value of labor power and will be even less so in the future, to the advantage of the working class (this applies especially to wages for unskilled workers), then this circumstance plus a reduction of tax deductions from wages is bound to mean a relatively greater consumer demand from the working class from year to year and, consequently, the necessity of a more rapid pace of expanded reproduction to that end. As regards the different nature of the expenditure of surplus value, one must remember both *the nonproductive consumption of the prewar bourgeoisie in the form of foreign imports of means of consumption* and the fact that a considerable portion, probably the major portion, of dividends obtained by foreign capital from foreign industrial enterprises in Russia ended up abroad. (According to the calculations of P. V. Ol', a total of 2.243 billion rubles was invested in Russia. If we assume an 8 percent dividend, then the profits on imported capital would have been about 180 million rubles annually.)

All this must lead to an expansion of our domestic market for industrial products. The significance of this rise in worker–peasant demand as a stimulus to the pace of expanded reproduction in industry quite different from the prewar rate is not, from the standpoint of our national economy, *currently* the result of a different degree of development of the entire economy; rather, it is the result of a different system of distribution of the national income and of the change in the balance of payments with foreign countries. The state takes less for nonproductive purposes; less goes to nonproductive classes, especially those who squander funds abroad or on imports of consumer goods; *nothing* goes to pay foreign debts and nothing as profit to foreign capital invested in our industry. If we add up all the sums we have listed, minus the growing consumption in natural form, then we get the total amount of extra effective domestic demand that has resulted from October.

The reader has probably already noticed that I do not say that effective demand within the country has increased by anywhere near the entire amount of the reduction of parasitic consumption for the state income budget. The point is that the national consumer budget, the budget of the exchange of commodities of the country, and the expenditure budget of individual classes from the standpoint of distribution of the national income, are two different things. If, let us say, the peasants do not pay rent to the landowners, if the whole country pays much less into the budget of the parasitic classes or for maintaining the state, then that does not mean that with the elimination of these nonproductive expenditures the domestic effective demand of the country is increased by the full amount of those expenditures. True, the nobility, the bourgeoisie, and the state bureaucracy also consumed, but only at the expense of the workers and peasants. When the same amount of domestic effective demand, satisfied by domestic production, is today divided among five classes, and tomorrow among only three, then the demand of those three is increased, but the demand of the country as a whole can remain the same. From the standpoint of exchange between town and countryside, from the standpoint of proportionality between the masses of commodities of industry and agriculture and the proportions of distribution of productive forces, the important thing is not simply the elimination of parasitic income, but the elimination of the part of that income that was spent outside the country, *or within the country but for the import of consumer goods.*

To make all the special features of precisely the present moment in the development of our economy especially clear in the area we are examining, I shall recapitulate the discussion thus far and illustrate it with a numerical example using figures that are arbitrary but are, in general, close to the actual situation.

Let us take a prewar year with a gross output close to what we have today—a year, let us say, with an output of 18 billion prewar rubles. Let us assume that of this 18 billion, 6 billion goes to restore constant capital, 1 billion goes to accumulation (and of this accumulated sum, that 250 million leaves the country), 1.5 billion goes to the state apparatus (in addition to the personal consumption of state employees) and to payments abroad, 7 billion to peasant consumption, 1.5 billion to the consumption of workers and craftsmen, and 1.5 billion to the consumption of nonproductive classes. Let us now take the same volume of production under Soviet conditions. How will the exchange of this mass of commodities differ? (1) Of the 2 billion consumed by parasitic classes, the part spent to purchase imported articles of consumption, plus the part spent by the bourgeoisie and the nobility abroad, will be released; (2) the amount previously used to pay foreign state debts and a number of other expenses of the old state apparatus that we do not have in the new system of the Soviet state will be released; (3) there will be a release of the surplus value of foreign capitals.[3] If we assume that the total amount thus released is 1.5 billion rubles, then this sum will go, first of all, to increase the peasantry's consumption in natural form—which will result in a corresponding drop in our exports of agricultural products. The workers, who will have more to spend, will increase their demand for products of the countryside and commodities from the city. Provided that conditions for the realization of their output are normal, the peasants will increase their demand for industrial commodities, provided that the same proportions prevail between industrial and agricultural production as before the war. And here precisely is the source of the chronic goods famine that has developed, even with a substantial drop in agricultural exports as compared to the prewar figure.

Consequently, even if all other economic conditions in the Soviet Union were the same as before the war, that is, if we had, above all, the prewar *import of capital* invested annually in industry and transportation, then even in that case, given a change in the nature of the distribution of the national income and a curtailment of the flow of values out of the country, we would have a goods famine caused by the inadequate development of industry. And just look at our present situation, when there is almost no import of foreign capital into the country, if we disregard the negligible influx of concessionary capital. Thus, if we add to the abovementioned reason for the goods famine this second reason—the elimination of the import of capital—then the disproportionality between industry and agriculture is thrown into even sharper relief.

True, the reduction in parasitic demand has been partly offset during these years by the accumulation of circulating capital by the trading apparatus, which relatively reduces the intensity of the extra worker and peasant demand. But this intensified accumulation of circulating capital in trade is bound to return to normal proportions in the future.

Very briefly, then, these are the considerations on which we base our assertion that the present rate of accumulation in industry—that is, the rate of expanded reproduction—is quite insufficient in relation to the additional domestic market that the October Revolution has created for us in a situation where capital imports have ceased. The closer the entire economy comes to the prewar level of production at the prewar proportions between industry and agriculture, the more noticeable will be the realization of that domestic market. *This additional demand now has, and will continue to have, the same effect as if, let us say, prewar Tsarist Russia had annexed a vast new agrarian territory that manifested an additional demand for the products of the industry of that time.*

The conclusions to be drawn here are obvious. If we pursue the line of least resistance, that is, a sharp increase in imports of articles of mass consumption (which admittedly can be done without upsetting the trade balance, but only to the detriment of imports of means of production), if we do not turn the line of greatest NEP support into the line of least socialist resistance, then we have to recognize three things: (1) the projected expansion of industry is insufficient; (2) the budget allocations for industry are insufficient—and, I would venture to say, downright disgracefully small for a socialist state; and (3) the financial plan for renewing fixed capital, and especially the financial plan for new plant construction, is insufficient and is retarding the development of the entire national economy.

On the basis of everything I have said, I can make the firm prediction that the insufficiency of the development of our industry, the insufficiency of accumulation of new capital in it, the lack of correspondence between its expansion and the development of agriculture will be universally recognized as an obvious fact. And I strongly fear that, when that fact is universally recognized, there will be those among us who will propose that we extricate ourselves from this situation by the *path of least resistance*: they will not propose that we intensify accumulation in our industry at the expense of the entire national economy; they will not suggest that we satisfy our domestic demand with the products of our own industry; rather, they will propose that we sharply increase our imports of consumer goods as a perpetual system of relations between our economy and world capitalism. Every worker understands that this will be a system destined to undermine socialist industry.

EDITOR'S NOTES

[1] Over the period of the Civil War and its immediate aftermath the ruble experienced a near-disastrous depreciation which threatened the reestablishment of commodity exchange premised by the New Economic Policy. In October 1922 the ruble was replaced by a new currency, the chervonets ruble, equal to the prewar 10-ruble gold coin. The chervonets and the ruble continued to exist side by side until well into 1923, the former being a stable currency, the ruble continuing to depreciate. The fact that Narkomfin tied the chervonets to gold (even though it was not convertible for foreign exchange) was a major bone of contention between Preobrazhensky and the finance commissariat for the better part of the 1920s, mainly because Preobrazhensky saw it as a reinforcement for Narkomfin's financial conservatism with regard to industrial credits. For a detailed empirical study of the financial history of the Russian ruble from the period of World War I through to the currency reform of 1922/23, see Preobrazhensky's *Theory of Depreciating Currency* [*Teoriia padaiushchei valiuty*].

[2] One *desiatina* equals 1.09 hectares (2.7 acres). Nonallotment leases refer to rented holdings outside the land allotted to the peasants, and held in common with periodic redistributions, after the 1861 reform. N. A. Karyshev was a Narodnik statistician who published a number of works on the Russian economy during the last part of the nineteenth century. He is frequently cited—and attacked—in Lenin's *The Development of Capitalism in Russia*, English edition (Moscow: Progress Publishers, 1967).

[3] That is, the surplus value on foreign capital, which in tsarist times would have been repatriated to its country of origin, now remains within the domestic Soviet economy.