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The Economics of Communism: The Soviet Economy in Its World Relation

SINCE the rise of the modern Communist or Socialist movement, dating from *The Communist Manifesto*, written by Karl Marx and Frederick Engels in 1848, which proposes that the national economy of each country should be taken over by its people, acting through its government, abolishing private ownership in the means of production and distribution, the issues thus raised have been the very center of all economic and political thought and controversy. Until the rise and consolidation of the Soviet Union it was not possible to refer the issue to the test of practice, and to compare the *performance* of the rival schools of economics in practical life. Now that the Soviet Union has entered its twenty-second year, such a comparison is not only possible, but becomes necessary and inescapable as the final test of all disputed issues.

The final argument of all defenders of capitalist economy, that is, of all forms of economy based upon private ownership of the basic economy of each country and its operation upon the principle of search for maximum private profit, is to the effect that this capitalist system has demonstrably in the past hundred years multiplied man's productive powers, and that it alone can and does result in maximum production of wealth; while, conversely, any form of common ownership and operation would result in economic decline and eventual collapse.

The basic argument for socialism or Communism is to the opposite effect, namely, that while capitalism did expand man's productive forces, it can no longer do so, that it is precisely capitalistic private ownership and operation that must result,

and is resulting, in the decline of economic life and in economic crisis and collapse. Now let us proceed to a check-up of these two arguments in the light of what has actually been going on in the world for the past twenty years.

I turn first of all to statistics of world production in manufacturing and mining, as given in the *Statistical Year Book of the League of Nations* for 1937-38. Taking 1929 as an index of 100, which represents the highest point reached up to that time, we find that by 1933, the low point of the world crisis, production had declined to 77.7. From that point on there is recovery until 1938, the index reaching 109.7 for 1936, above that for 1937, with the exact figure not yet published, while 1938 showed a distinct decline.

What do these figures show? That the world, predominantly capitalist, was not able to rise above 1929 more than 10 per cent, and last year even lost that gain and went back almost, if not entirely, to the 1929 level. Capitalism has not been able to lead the world back to recovery; it still leaves the world economy in stagnation.

Perhaps it may occur to some that the reason why world economy remains in such dire straits lies in the fact that the rise of the Soviet Union has taken one-sixth of the world out of the capitalist orbit. The figures which were cited include the Soviet Union; it may be argued, therefore, that it is the influence of Soviet economy, the inability of a workers' regime properly to administer a great land, that has pulled down the world index figure so lamentably. To examine this question, we turn to another League of Nations index, namely, that of world production *excluding* the Soviet Union, which they conveniently provide us. What does that show to us?

Again taking 1929 as 100, we find that the capitalist world had declined in 1933 to the low point of 71.3, or 6.6 per cent lower than the whole world including the Soviet Union. Further, the recovery after 1933 was not nearly so favorable as

the index showed for the combined capitalist and socialist worlds; taking the capitalist world alone, 1936 is no longer almost 10 per cent above 1929, but lags at 95.5; 1937 barely crawls above 1929, with a figure of 102.5, while 1938, with the exact figure unknown, is definitely below 100 again.

Facts give us the clear answer: It was not the Soviet Union which dragged down the world index, but on the contrary, it was the Soviet Union which made the world showing more favorable by far than the capitalist lands, taken separately, can show.

Partisans for the United States economy, as against the rest of the world, both capitalist and socialist, may call upon us for the comparative figures of our own country, the stronghold of capitalism, which represents more than half the total economy of the capitalist world. If the expectation is that the U.S.A. makes a better showing, then it is doomed to disappointment. Our own country lagged behind the rest of the capitalist world, and was the chief influence dragging down the whole index. Where the combined world index in 1933 was 77.7, and the capitalist world taken separately was 71.3, that of the U.S.A. had descended to the depths of 64.3; the highest point of recovery of the U.S. in 1937 was only 93.2, while 1938 dropped to about 90 or below, exact figure not yet known. In all these comparisons, I have used the statistical tables of the League of Nations.

Let us turn now to the argument of those who say that the fascist powers, Germany, Italy and Japan, furnish an exception to the general trend of the capitalist world, that the Berlin-Rome-Tokyo axis has found a path to recovery which the democracies have not yet discovered. Here we are forced to compare index figures of varying bases, not directly comparable, but which reveal the basic trend and underlying facts clearly enough.

For Germany, we take the semi-official figures of the *Institut*

für Konjunkturforschung, therefore the most favorable interpretation that can possibly be put upon the facts. With the year 1928 taken as the base of 100, German economy reached its low point in 1932 with a figure of 59; 1933 was 66, while 1937 had risen to 117. But the slightest examination of the constituent parts of German economy proves the fact, which we would know from general information, that the preponderant part of this increase is accounted for by armaments and fortifications, and therefore covers up the real condition of the general economy, which is undoubtedly not above, and is probably below, the general level of the capitalist world.

Italy's statistics demonstrate this fact even more decisively. Using the figures of the *Ministero delle Corporazioni*, 1928 taken as 100, Italian economy descended in 1932 to 73, and in 1937 had reached only 109, still below the general world level, and only ten points above all of Europe, notwithstanding all the influence of Italian armaments.

Japan's index is more favorable on the surface, the *Ministry of Commerce and Industry* claiming an index of 170 in 1937, based upon the 1931-33 average as 100; but in the case of Japan there is no dispute from any source that these figures reflect entirely the combined influences of inflation and the enormous expenditures of the Japanese aggression in China.

These official figures completely destroy all pretense that the fascist powers have discovered any secret formula for economic recovery.

Now that we have the main outlines of world economy and its direction of development, together with that of the capitalist world, of the U.S.A., and of the Berlin-Rome-Tokyo axis, taken separately, we can use these figures as the background from which to approach more concretely our examination of the economy of the land of socialism, the Soviet Union, which is our main subject today.

First of all, let us remind ourselves of a few basic facts,

economic and historical, which condition the development of the Soviet Union. Its area constitutes one-sixth of the earth's surface, and its population about one-twelfth of that of the world. It is two and a half times the area of the United States and forty times that of Germany, occupying the eastern half of Europe and the northern third of Asia. It contains unrivaled natural resources of all kinds.

But up to the World War, this great area, under the tsarist empire, had remained economically the most backward among the modern nations. To the extent that its economy had been developed along modern capitalist lines, it was largely dependent upon Western European capital and technical management, and economically it was more and more becoming a colony of foreign capital. The World War, with the civil war and invasions that followed the Revolution, almost completely destroyed its industry.

The new Soviet power that undertook the building of a new economic system, therefore, had to begin almost from the bare ground. It was further denied any effective help from abroad beyond a small minimum of imports and technical assistance which it could pay for cash on delivery. These are the chief positive and negative features of the conditions under which the new socialist economy was erected.

From the World War until 1921, when the civil war and interventions were ended, the economy of Russia was continuously shrinking, until the products of its industry had declined in value from a little more than ten billion rubles in 1913 to less than 17 per cent of that volume, or 1,700 million rubles in 1920. Then the Soviet Union began the reparation of its shattered economy, arriving in 1927 at a total national production equal in volume to that of 1913, the last year before the World War. This was the time, also, when the capitalist world had recuperated sufficiently to surpass once more its pre-war level of pro-

duction, and is the point at which we began our examination of the trends of world economy.

Up to this time, the Russian and world economic trends had gone, on the whole, parallel, except that Russia's decline had been more precipitate and to a lower point, while its recovery had been correspondingly quicker. But with 1928-29, a sharp divergence begins between the course of economy in the capitalist world and that of the Soviet Union. The divergence is sharp and startling. While the capitalist economy went into decline which by 1933 had dropped 40 per cent of its production, the Soviet economy began to rise at a rate unparalleled in history; while by 1938 the capitalist world had barely climbed back to its 1929 level and had slipped behind it again, the Soviet economy in the same period had increased its industrial production by more than one thousand per cent, had multiplied it more than ten-fold.

To bring this contrast closer home, we may recall that from 1928 to 1932, our country, under the leadership of Herbert Hoover, dropped more than 40 per cent of its national income into the abyss of economic crisis, dropping from 80 billion dollars to 45 billion; during that same period, the period of the First Five-Year Plan, the Soviet Union doubled its national income, which rose from 25 billion to 50 billion rubles. From 1933 to 1937, our country, under the leadership of President Roosevelt, painfully struggled out of the Hoover pit and regained most of its losses; during the same period the Soviet Union again doubled its national income, which rose from 50 billion to 100 billion rubles, through the successful execution of the Second Five-Year Plan. In 1938, the economy of our country again declined, while the national income of the Soviet Union again surged forward to 112 billion rubles; while the leaders of American economy can only express the *hope* that our country will climb a little above the 1929 level in the next few years, the leaders of the Soviet Union can confidently an-

nounce the *plan* whereby the national income will, in 1942, have increased by 88 per cent, or almost doubled, over 1937.

For another comparison, we may refer again to the statistical tables of the League of Nations. This shows the comparative index of industrial production of the U.S. for the years 1928, 1933, and 1936, at the figures of 111, 76 and 105, respectively. For the same years, the corresponding index for the Soviet Union stands at the figures of 100, 250, and 481. If we had the index of this series for 1937 and 1938, the gap would be greatly extended.

All the facts of the past ten years go to prove conclusively that, if we accept the test of performance, of verified deeds in actual life, the capitalist economy has failed to sustain itself on its previously-achieved level, it shows no promise of any fundamental recovery, it demonstrates all the symptoms of a system which is fatally ill, which is destroying its own reserves, which is preparing the conditions of its own death and disappearance. But in contrast to the obvious failure of capitalist economy, there is to be seen an equally obvious success of the new socialist economy, a success not only in contrast with the current failure of capitalism, but an outstanding success when compared with the achievements of capitalism in its previous days of greatest growth. For never in all its history has capitalism presented a single instance of the growth of a national economy that approaches more than 20 per cent of the growth of Soviet economy under the Five-Year-Plans.

During this week, the Soviet Union will be giving final shape to its Third Five-Year Plan. The preliminary figures already published indicate that it calls for an 88 per cent increase in national income, compared with 100 per cent increase during each of the First and Second Plans. If there remains any skepticism in my audience as to the validity of these figures, allow me to refer to one of the most conservative organs of American

capitalism, namely, *Business Week*, which has the following to say in its issue of February 11, 1939, on this point:

In 1927, when Moscow announced its first Five-Year Plan, the world viewed skeptically the prospect of industrializing a nation of 160,000,000 "according to plan." In 1939, most of the skepticism is gone. Moscow still has far to go to attain its goal of outstripping "all the capitalist countries," but its accomplishments are impressive, and its newest plan is more modest than was the first.

Yes, even for the American business world, most of the skepticism is gone regarding the achievement of Soviet economy. *Business Week* has raised, however, two interesting lines of further inquiry, in the course of making this declaration. One is the query: How long will it be before the Soviet economy surpasses that of the capitalist world; and the second is: What is the scope of a modest plan for a socialist economy from the point of view of American businessmen.

On the first point, it is already established that since 1928 the Soviet Union advanced from the last place to the second among the great powers, in terms of industrial production, being exceeded only by the United States. Thus it has already outstripped "all the capitalist countries" of Europe. The only thing still uncertain is how long it will take to outstrip the United States, the colossus of capitalism, which exceeds all other capitalist countries combined in wealth production. To this remaining question, a tentative answer can be given now: If the U.S.A. and the Soviet Union each performs in the next ten years as they did in the past decade, then before that time is over the Soviet economy will have surpassed our country also. Thus, although we may not disagree with *Business Week* that the Soviet Union has "far to go," yet it is clear that it travels so fast this may not take a very long time.

Now let us examine more closely the task undertaken by the Third Five-Year Plan which *Business Week* considers rela-

tively modest. The general increase of 88 per cent is the average of an increase of 103 per cent in production of means of production and 70 per cent increase in production of consumption articles. Thus, while doubling its capacity for future production, the Soviet peoples will be enjoying an improvement in their immediate living standards by more than two-thirds. If the United States economy should perform just half of that "modest" task, on the basis of its already existing economy, it would exceed the most wildly optimistic expectations ever expressed by its own devoted supporters. Therefore, while we can agree that the Third Five-Year Plan sets a relatively modest goal, we take note that what is a modest perspective for a socialist economy would be an obvious exaggeration for a capitalist economy. This is still more emphasized when we compare this goal with total 1928 production, and find that the *amount of increase* in the next five years will be *four times as much* as the total production of 1928; if the U.S.A. produced a total four times as much in 1942 as in 1928, our national income would then be around 300 billion dollars instead of its present approximate 65 billions.

It must be admitted quite frankly that the progress of the Soviet economy in overtaking the capitalist world has been greater in total than in *per capita* production; that means, while it has surpassed all European countries in amount of production, it is still in productivity per worker behind several of the technically most advanced nations. That is because it has engaged the entire population in its economy, has expanded its working class from 11,000,000 in 1928 to 26,000,000 in 1937; these new industrial recruits were raw peasants, and have had to receive prolonged and difficult training in modern industry to transform them into fully qualified workers. The rapid mechanization of all economy, the high spirit of emulation among the workers exemplified in the Stakhanov movement, the tremendous educational and cultural work, and

the rapid rise in living standards, all of which are outstanding features of Soviet economy today, proved sufficient guarantee that in *per capita productivity* also the Soviet Union will rapidly overtake and surpass the capitalist countries.

Are there any visible natural limits to the expansion of the Soviet economy? It is very difficult to discern any. Its area of 5,000 billions of acres contains every requirement of the national economy for the indefinite future. To give a few examples: the already surveyed iron ore deposits exceed 10 billion tons, and if iron-bearing quartzites are included the figure is 260 billion tons. Surveyed oil reserves exceed six billion tons, more than half the resources of the world. Known coal deposits contain 1,654 billion tons, second only to the U.S.A. Water-power resources exceed 280 million kilowatts, much greater than any other country. The population is greater in number than any other industrial country, but there is plenty of room for expansion, as the population per square mile is the lowest; the natural growth of the population is almost five times as much as any other industrial country.

One of the most important, and least clear for the American public, among all questions of comparison between the socialist and capitalist economies, is that of the relative results upon the living standards of the working populations. If we accept the standard of weekly earnings in industry as the measure of living standards, and their movement during the past ten years, then all capitalist countries show a decline while the Soviet Union reveals a steady and sharp rise.

Again quoting the League of Nations statistics, the U.S.A. index figure of weekly earnings, taking 1929 as 100, declined to 60 in 1932, recovered to 78 in 1935, and to 95 in 1937 (the League does not yet give a figure for 1938, but it is known to have declined). The German index declined from 100 in 1929, to 67 in 1932, recovering to 75 in 1935, and to 80 in 1937. The Soviet Union rises from 100 in 1929 steadily each

year to 240 in 1935, the latest figure of the League of Nations; while from Soviet sources we can conservatively estimate that the same index, when published, for 1936 will be around 300, and for 1937 around 380.

What has been the trend of the intellectual workers in the Soviet Union can be sufficiently indicated by comparative figures of their average yearly wages in 1932 and 1937, during which period the rise was from 3,636 to 6,502 rubles.

Another method of comparison is that of the volume of production of articles intended for mass consumption, which to some degree inevitably reflects the trend of living standards of the population. The United States index of consumption goods declined from 111 in 1928 (the basis being 1923-25 average), to 98 in 1933, rising then to 110 in 1937, still somewhat below 1928. For Germany, the index of 100 in 1928 dropped to 83 in 1933, and rose to 103 in 1936. For the Soviet Union, the index rose to 201 in 1933, and to 348 in 1936. In each case I have taken the latest figures published by the League of Nations, in order to avoid any suspicion that the comparison may be considered by anyone to be unbalanced or unfair. It may be remarked, by the way, however, that the Third Five-Year Plan in the Soviet Union envisages the multiplication of consumers goods by approximately 70 per cent in 1942 over the figure of 1937, which means that the *increase* in consumption articles per capita will be many times the *total* means produced in 1928. Nothing even remotely approaching this rapid rise in the means of livelihood is even dreamed about for any capitalist country.

With regard to the agricultural population, I have not had sufficient time at my disposal to gather adequate comparative data. It is well known, however, that in every capitalist country agriculture has been in continuous crisis ever since the war, and that the decline of income of the farm population has been especially catastrophic. In the Soviet Union, however, since

1933, when its agriculture definitely moved above the pre-war level, the income of the collective farms, comprising 98 per cent of the farm population, increased by 2.7 times up to 1937, while the amount of income distributed in money form multiplied by 4.5 times.

By this time the simple examination of comparative figures will have raised the question in the minds of any person, if he does not deliberately close his mind to such thoughts, as to why the Soviet Union, which started so far behind us in productive powers only a few years ago, is forging ahead so rapidly as already to surpass all other countries but the U.S.A., and to promise to surpass the U.S.A. itself within ten or fifteen years at the outside; while the countries of greatest resources lag behind and cannot even maintain their past achievements.

Is there anything wrong with the American people, the workers, farmers, and technicians, that they could not move forward with equal speed, or at least with half the speed, as the Soviet peoples have been advancing? Clearly, there is nothing wrong with the American people as *producers*, but on the contrary they are a hundred times better prepared for economic advance than the Soviet peoples, insofar as their individual technical capacities are concerned, and many times as well prepared insofar as already existing machinery is concerned. Neither can we say that natural resources and geographical position can account for the difference between the performance of the U.S.A. and the U.S.S.R., for these differences favor the Soviet Union only in the long perspective of the next fifty or one hundred years but have no immediate consequence. The answer, therefore, must be found in the difference in the *economic system*, in the different relations of production as between socialism and capitalism.

Under our economic system of capitalism, the national economy is under the private ownership and operation of a relatively small section of the population, the incentive to pro-

duction being entirely dominated by the search for private profit on the part of these private owners. The result is anarchy in economic life, which periodically brings crisis, which grows progressively more deep and profound. The accumulated surplus production becomes more difficult of reinvestment in expanded production in proportion as it increases in volume.

It is characteristic of this fundamental contradiction of capitalism that when its economic machinery enters a crisis, and paralyzes the nation, the explanation is immediately found, not in lack of production, but in *overproduction*. Because we have produced so much, more than our capitalist economy knows how to make use of, therefore the whole nation is thrown into crisis and chaos, and large sections of the owning class itself are bankrupted and dispossessed. The emergency measures whereby our government attempts to bring some order out of this chaos inevitably take the form of governmental intervention in the economic set-up, directed toward putting idle capital and man-power back to work under governmental direction. But these emergency measures are themselves deprived of much of their effectiveness by the imperative demand on the part of capitalists that such governmental intervention shall be kept down to the minimum, and shall be directed into channels entirely outside the normal development of economic life. We therefore have the crying anomaly that it is precisely in the period when our economic life is in crisis and depression, when the standards of living have been falling most disastrously, that we have suddenly blossomed out in a veritable orgy of public improvements of all kinds.

The present capitalist system has accumulated idle capital and idle man-power which it is no longer able to bring together in any normal way, and has no prospect of ever bringing together again in the normal processes of capitalism. Its emergency measures, typified by the New Deal, while absolutely essential to the continued existence of a large part of the

population, are in themselves no cure for this condition, because they scrupulously keep within the limits of the capitalist mode of production, and avoid the slightest competition with private capital which monopolizes all fields except the narrowest margin of public works.

The unexampled economic success of the Soviet Union is made possible by its system of organization, by the economic relations established between the producers and the productive machinery. The productive wealth of the country is collectively owned and operated by the entire population acting through their government. Whatever surplus they accumulate belongs to all, and there can never be such a problem as overproduction, the bugbear of capitalism. The entire economy is brought under a national plan, which expresses not a *hope* which may or may not be realized, but a decision which experience has proved can be fulfilled, in the main, and often even overfulfilled. It makes maximum utilization of all the productive forces, men and machinery, and constantly raises the level of performance by the systematic application of scientific principles. It realizes, for the first time in history, the full capacity of humanity for the expansion and enrichment of life, first of all materially, and upon that basis culturally and spiritually.

There is an old superstition, often repeated in the textbooks of capitalist economics, that the establishment of socialism is merely the confiscation of the wealth of capitalism which is then divided and dissipated among the masses, leaving them worse off than before because it "killed the goose that laid the golden eggs." But the original confiscation of the national economy from the hands of private owners was of supreme importance, not because of the amount of wealth involved (in the Soviet Union it was relatively small), but because it made the people master of their own destiny. The *new wealth*, directly produced by the new economy and which would not exist at all, except for the new economy, already amounts to ten

and twenty times that of pre-war times. To illustrate this, we may compare the 1913 value of the fixed capital of large-scale industry, which was 7,200,000,000 rubles, with the 1937 value (measured with the same scale) of 50,400,000,000 rubles. This unprecedented rate of accumulation was entirely out of their own resources. As a matter of fact, the old capital has almost entirely disappeared, and the entire economy is practically new, the product of the socialist system.

No other country can hope or expect to expand its economy at any rate comparable to that of the Soviet Union, so long as it clings to the outmoded and self-defeating system that we know as capitalism.

It is, therefore, only a question of time and of a relatively short time in terms of history, a matter of decades at most, until the superior merit of the socialist system in the Soviet Union will have proved itself by producing a land so overwhelmingly rich, prosperous and culturally advanced, above all the rest of the world, that the peoples of all lands will inevitably be compelled by the simple dictates of common sense, to adopt the same principles as the Soviet Union, or resign themselves to permanent backwardness and decay. There is no escape from the logic of the facts of world experience in the last twenty years, and particularly of the past decade.

It is this certainty of the future, which is the foundation of the foreign policy of the Soviet Union, which is a policy of peace and international order, of co-operation with all forces in the world which want to maintain peace and international order. The only thing which can threaten the Soviet economy in its triumphal march forward is war. Therefore the Soviet Union wants peace above all else, and is ready to co-operate with everyone who for any reason also want peace. The Soviet Union concedes to every people and nation the right to decide its own system and its own policies so long as they allow the same privilege to others. The Soviet people and government

avoid every act or even utterance which could in any way be interpreted as a dictation, or desire to dictate, to any other people. It relies entirely upon the example of its own achievements, as its only influence upon other peoples, an influence entirely intellectual and moral, as was the influence of the new republic of the United States upon the world after 1776. Its armaments are entirely for the defense of its own increasingly prosperous and rich economy against the threatening attacks from without. It is supremely confident of its ability to defend itself against any enemy or collection of enemies.

Regardless of whether one may approve or disapprove of the inner regime of the Soviet Union, and of its economic system, one thing is clear beyond all doubt for every American who loves his country and wishes to preserve its independence and well-being. That is, that the Soviet Union, its government and its people, are natural friends of the United States and its people, and the two nations are naturally friends, with common aims and faced with common enemies, in the present strained and dangerous international situation, in which the new world war is already begun. There is no possible or conceivable course of events which could place the United States and the Soviet Union on opposite sides in the world-alignment which is being hammered out by the aggressions of the Berlin-Rome-Tokyo Alliance of war-making powers. The Soviet Union is unalterably on the side of international order and peace, against all aggressions everywhere in the world; the only way in which the United States could be on the opposite side would be for our country to enter the path of imperialistic aggression as a partner of the Berlin-Rome-Tokyo axis, and this, I think it will be agreed, is so directly contrary to the whole history, tradition, and temper of the American people, as to be unthinkable.

It is, therefore, of supreme importance to all Americans, regardless of their economic and political convictions otherwise,

to understand the Soviet Union, its growing weight in world affairs, the system out of which arises its growing strength, and its potentiality as an active friend of our country in a world full of dangers and pitfalls. Perhaps we will be able to learn something from the economic system of the Soviet Union which will help us to solve our American problems. But whether that is so or not, and on this question some of my audience may disagree, it cannot be denied that the Soviet Union is a great and growing power in the world, upon the basis of the Soviet economy, that it is a power most friendly to the United States with no interests or policies which could change this friendship to its opposite, and therefore, and finally, that American citizens of all opinions who love their country should try to understand and utilize more effectively this great, growing and friendly power for the protection of American national interests, which are the interests of one hundred and thirty million American people, which are the interests of world peace.

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