
The Five Year Plan in Crisis

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CRITIQUE is printing Rakovsky's article, translated here for the first time, with an introduction by R.W. Davis because of its outstanding theoretical importance. Don Filtzer, the translator, has written an afterword.

INTRODUCTION

by R.W. Davies*

Khristian Georgievich Rakovsky (1873-1941), a Romanian from a landowning family, and a doctor by profession, was active in the Balkan revolutionary movement from the age of 17, joined the Bolshevik party in 1917 and was a leading Soviet diplomat during the Civil War and the 1920s. A close friend of Trotsky, he was a prominent member of the Left Opposition from its formation in 1923, and continued to support it in internal exile until the beginning of 1934; he was one of the last Trotskyists to capitulate. In the Bukharin trial of March 1938 he was sentenced to twenty years' imprisonment; he died in confinement, or was executed, in 1941.

The article which follows was written by Rakovsky while in exile in Barnaul, western Siberia, soon after the sixteenth party congress, which met from 26 June - 13 July 1930. The article reached Trotsky, who was in exile in Turkey, late in 1931, and was published in *Byulleten' Oppozitsii* (Bulletin of the Opposition), no. 25-26 (November-December 1931) (Berlin), pp. 9-32. A note by Trotsky claimed that the document was of "unique value" and "tremendous significance" because it was "in the main programmatic and strategic in character rather than concerned with short-term trends (*kon'yunktury*)" (p. 9). It proved to be the last of the major Opposition documents prepared within the USSR to be published abroad (the "Rightist" platform of Ryutin, circulated in Moscow in the autumn of 1932, did not reach the West).

Rakovsky's article reflects an important stage in the efforts of the Left Opposition to come to terms with the industrialization drive launched by Stalin and the party leadership in 1928. Stalin's "Left turn" was entirely unexpected by the Left Opposition. Like Trotsky, Rakovsky at first regarded the new policies of 1928 as a temporary manoeuvre which would

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be followed by sweeping concessions to rural capitalism and the victory of the Right wing. As late as April 1929, he declared that the leadership was in practice "faithful to its centrist, opportunist policy — uttering Leftist phrases and carrying out Rightist deeds."¹

Even before he had discarded these outdated assumptions Rakovsky undertook a fresh analysis of the social forces supporting the party leadership. Traditionally, the Left opposition had argued that the "bureaucracy" was dominated by former tsarist officials, and a prey to influences from the petty bourgeoisie — the rich peasants and the private traders. But in his "Letter to Valentinov", written in August 1928, Rakovsky concluded that "the Soviet and party bureaucracy is a phenomenon of a new order". Former members of the proletariat were social beneficiaries of the new system and provided a substantial section of the bureaucracy. Rakovsky pointed out that the danger of the emergence of a ruling group separate from the masses was inherent in any revolution — thus the Third Estate disintegrated after its victory in the French revolution. This danger was reinforced in the Soviet Union in the 1920s by the lack of class consciousness of the working class, to which many semi-proletarians and semi-peasants had been recruited. According to Rakovsky, this state of affairs could not be overcome by a reform from above, which would rely on the party bureaucracy. Instead it was necessary to carry out from below the lengthy and difficult process of re-educating the party and the working class.²

During 1928 and the early months of 1929 it became increasingly obvious that Stalin's new policies were not merely a temporary manoeuvre. Many former Left Oppositionists concluded that Stalin had "stolen Trotsky's clothes", and that, in spite of the crudeness of his policies, they must support him against the Right; they included Pyatakov, who became chairman of the State Bank, Preobrazhensky and Radek. Rakovsky's analysis in August 1928 of the social forces influencing the Politburo paved the way for his own recognition that Stalin's new policies also required a fresh analysis. In August 1929 this fresh approach appeared in a statement, dated 22 August 1929, addressed to the party central committee and central control commission, signed by 500 oppositionists in internal exile and drafted by Rakovsky. This statement went a certain distance towards supporting Stalin's policies. Its authors continued to insist that the restoration of inner-party and working class democracy was indispensable if the Left policy was to be maintained. But they also declared support for the five-year plan, arguing that it would strengthen the working class. They called for the purging from the party of those who held to Right-wing theories, and, admitting that the Right-wing danger must "soften the sharpness of the relationship between the Leninist opposition and the

1. I. Deutscher, *The Prophet Outcast: Trotsky 1929-1940* (1963), p. 64; *Byulleten' Oppozitsii*, no. 3-4 (September 1929) (Paris), p. 13 (statement of April 1929).

2. *Byulleten' Oppozitsii*, no. 6 (October 1929) (Paris), pp. 14-20; see E.H. Carr, *Foundations of a Planned Economy, 1926-1929*, vol. 2 (1971), pp. 432-4.

Party leadership", demanded to be reinstated in the party. But even now Rakovsky and his fellow-Oppositionists believed that the final defeat of the Left Opposition and the elimination of the ability of the working class to exercise pressure on the bureaucracy would "immediately create conditions for a new Right turn by the centre, either under its present leaders, or after the removal of the present leaders by that section of the party which supports the Right-wing leaders."³

During the autumn and winter of 1929-30, official policies further undermined the view that the Politburo would soon turn to the Right. The Soviet authorities greatly increased the five-year plan targets for the capital goods' industries, and launched the dramatic first drive for the forcible collectivisation of agriculture and for the "elimination of the kulaks as a class." By the spring of 1930, in spite of the partial retreat from collectivisation announced by Stalin in March, the market relation with the peasantry — the essence of the new economic policy (NEP) — had been largely superseded. The fears of the Left Opposition that capitalism would be restored seemed to have lost all validity.

This was not of course the type of industrialisation advocated by the Left Opposition. They had called for firm measures against the kulaks and the private traders, but had never proposed forcible grain collections from the middle peasants, forcible collectivisation or the removal of the kulaks from their villages. These policies — and the overambitious industrial targets approved by the Politburo — were rejected by Trotsky as "industrialisation maintained by an administrative lash" and "bureaucratic adventurism."⁴ Trotsky unexpectedly found himself criticising Stalin's economic policies from a viewpoint which increasingly resembled that of Bukharin.⁵ The economic policies — and the political and economic system — which emerged in the 1930s were fundamentally different from anything which Trotsky and Bukharin had anticipated in the 1920s. Their old quarrels had become trivial in comparison with these new developments, though neither protagonist recognised this clearly.

In this strange new situation Rakovsky embarked on the difficult task of analysing the effect of Stalin's industrialisation policies and drawing conclusions from the analysis. In April 1930, together with three other exiled Oppositionists, he issued a statement which condemned the central committee for the economic and political crisis resulting from enforced collectivisation, rejected the policy of "elimination of the kulak by decree" as "economic nonsense" and claimed that the general situation in the USSR was more serious than at any time since the Civil War. The

3. *Byulleten' Oppozitsii*, no. 6 (October 1929) (Paris), pp. 3-8; Trotsky's cautious comments on the statement were dated 25 September 1929. Extracts from more detailed theses by Rakovsky and others were published *ibid.*, pp. 8-9, and no. 7 (November - December 1929), pp. 4-10. See also I. Deutscher, *op.cit.*, pp. 78-81.

4. *Byulleten' Oppozitsii*, no. 9 (February - March 1930), 2-5; statement dated 13 February 1930.

5. On this apparent convergence see M. Lewin, *Political Undercurrents in Soviet Economic Debates* (1975), pp. 68-72.

statement called for the abandonment of comprehensive collectivisation, but at the same time warned against the danger of a "Neo-NEP", which could lead to agrarian capitalism; it also insisted that the rate of growth of industry must be maintained.⁶

Rakovsky's further, much more detailed analysis, translated below, was prepared three months later, at the end of July 1930, after unanimous and much-publicised enthusiasm for party policy had been expressed by the sixteenth party congress. It is much more pessimistic about economic prospects than the April statement. At this time, the official view of the economic situation was extremely optimistic. This optimism was primarily based on the rapid expansion of industrial production in the first eight months of the economic year 1929/30. Though somewhat less than planned, the production of large-scale industry was officially stated to be 28.5 per cent higher than in the same period of the previous economic year. Substantial increases in labour productivity, and a substantial decline in industrial costs, were also recorded. These achievements were the subject of a great deal of propaganda in the Soviet press. They seemed to outweigh the failures in industry, notably the continuing decline in the quality of production resulting from the unremitting pressure on factories to produce more. They also seemed to provide some justification for the inflationary currency issues, and for the decline in the real wages of industrial workers, which at this time was half admitted in the press. In agriculture, the retreat from collectivisation in March-May 1930 and the drastic decline in livestock, caused much uneasiness in the party; but by June 1930 the prospects for the harvest seemed favourable.⁷

Rakovsky challenged this official picture, basing his case almost entirely on information culled from the Soviet press. The great merit of his analysis, from the point of view of the economic historian, is that he clearly recognised that the rapid expansion of industry in the late 1920s and in the first six months of 1930 would not continue, at a time when the party leadership, and the major economic agencies, anticipated an indefinite further rapid growth of industrial production. Rakovsky argued that industry had not reached the limits attainable by the existing stock of fixed capital. According to his analysis a substantial part of the industrial expansion of 1929/30 was achieved by greater utilisation of existing capital: the industrial labour force had greatly increased, and the "continuous working week" enabled capital equipment to be used on every day of the week. This was undoubtedly correct. Thirty eight years later, the economist Albert Vainshtein, who returned to Moscow in 1955 after many years of internal exile, pointed out in an obituary of G.A. Fel'dman that the over-optimism of growth models prepared in 1929-30 by Fel'dman and others was not due solely to lack of planning experience on the part of their

6. *Byulleten' Oppozitsii*, no. 17-18 (November-December 1930) (Paris), pp. 11-19; statement by Rakovsky, V. Kosior, N. Muralov and V. Kasparova.

7. These events, and the ensuing crisis, will be further discussed in volume 3 of R.W. Davies, *Industrialisation of Soviet Russia* (Macmillan and Harvard U.P., forthcoming).

authors; it was rather that they had failed to appreciate that the rapid industrial expansion of the late 1920s was a consequence not only of new investment, but also of the improved use of pre-revolutionary capacity:

If we consider the restoration period as a process of achieving the full utilisation of the production potential of pre-revolutionary Russia, then that process was completed not in 1926, but much later, and the tail-end of this period remained even in 1929 - 1930.⁸

Rakovsky further correctly points out in his article below that the problem posed by the full utilisation of capacity in many industries in 1930 was being exacerbated by shortage of labour due to the absorption of the urban unemployed into industry, and by the shortage of agricultural raw materials for the consumer goods' industries. Moreover, railway transport was in a "catastrophic position" owing to the over-utilisation of rolling stock and track. As a result of all these factors, and of the disastrous inflation of the currency, the economy had entered a severe crisis.

Rakovsky's grim analysis and predictions of July 1930 soon received dramatic practical confirmation. In the last quarter of the economic year, July-September 1930, industrial problems mounted. The production of large-scale industry was only 12.3 per cent above that of July-September 1929, and was 4 per cent lower than in the previous quarter, April-June 1930. The production of coal, iron and steel, and copper fell substantially. Productivity of labour ceased to rise. The amount of freight carried by the railways declined, and transport entered a prolonged crisis. The capital construction programme of industry was not fulfilled; and the number of building workers actually declined during the peak months of the building season, in contrast to every preceding year since the Civil War. Inflationary currency issues increased. The one major favourable economic event was the good harvest.

While Rakovsky correctly predicted this severe economic crisis, he badly misjudged the longer-term economic prospects. Believing that Stalin and the "centrists" had embarked on industrialisation six years too late, he asserted that "the collapse of the whole centrist industrialisation is inevitable", owing to "*the disjuncture between old fixed capital going out of service and the impossibility of new fixed capital being there to replace it at the right moment*" (p. [50]); and he had no doubt whatsoever of "*the absence of real resources for carrying out industrialisation at a speed that would extricate us from the crisis*" (p. [83]). This gloomy assessment greatly exaggerated the rate at which old industrial capital would have to be withdrawn from production, and — perhaps the most glaring omission — failed to recognise that the level of capital investment in industry achieved in the second half of the 1920s was already very high. In the economic year 1926/27, it was already higher than in 1913; and in 1929/30, although the plan for the year was not fulfilled, industrial investment in real terms was

8. *Ekonomika i matematicheskie metody*, no. 2, 1968, pp. 298-9.

over three times as high as in 1926/27. This vast expansion of investment was laying the foundations for a later rapid spurt in industrial production, the possibility of which was denied by Rakovsky.

Rakovsky also failed to assess correctly the extent to which the regime had already destroyed the old social and economic structure of the countryside. He believed that the middle peasants would leave the collective farms in the autumn after the harvest (p. [82]), but in fact the authorities then launched the second wave of forcible collectivisation; and like Trotsky, he apparently continued to believe both that the kulaks remained economically powerful and that class struggle of poor peasants against kulaks could and should be encouraged (pp. [92-4]). But his insistence that "*the decline of productive forces in the countryside is inevitable under any circumstances*" (p. [82]) proved fundamentally correct. Moreover, he anticipated the arguments advanced by James Millar and Barsov over forty years later. He showed that, even though the peasants were forced to transfer a substantial proportion of their grain to the state at low fixed prices, the high free market prices they obtained for their products enabled them to improve the overall ratio of agricultural to industrial prices (pp. [68-70]). His pessimism about the prospects for securing adequate supplies of labour for industry from the countryside did not prove to be justified. But, in another article, he accurately predicted that peasants would flock to the cities to get away from the collective farms, and have to be seized in the streets and returned compulsorily: the peasants would be "bound by the iron chains of the bureaucratic apparatus" to a new collective-farm bureaucracy which would blossom and flourish.⁹

When in September 1930 the party leadership admitted that the economy was in serious difficulties, the solutions they adopted were fundamentally different from those of Rakovsky — and the subsequent developments were not at all those he anticipated in his article. The Politburo admitted, in an Appeal dated 3 September, a "shameful reduction in rates of growth," but tried to overcome the crisis by improved organisation, stricter labour discipline, and the further crushing of all resistance. The over-ambitious industrial targets were maintained, and a second collectivisation drive was launched at the end of 1930. In the next three years, agriculture deteriorated, and crises in coal, iron and steel, transport and other sectors of the economy succeeded one another. But the massive investments eventually resulted in a vast industrial expansion, substantial improvements in industrial quality and costs, and the stabilisation of the currency. The economic crises diagnosed by Rakovsky in the present article proved to be profound and long-lasting. But industrial progress was far greater, the political dictatorship was far more powerful, ruthless and permanent, and the human costs were far higher, than Rakovsky or anyone else had anticipated.

9. See R. Medvedev, *On Stalin and Stalinism* (1979), p. 78.

The Five Year Plan in Crisis*

Khristian Rakovsky

Preliminary Remarks

The present article is an attempt to illustrate, through the use of concrete material, certain propositions that only a few months ago had frightened off certain people but today, under the impact of the rapidly unfolding events, have turned into indisputable truths. A second task is to build upon a certain analysis, in order modestly to advance our understanding of the essence of the processes now going on inside the country. Whatever there was to say "generally" about these themes has already been said. It has long been time to move away from general arguments, general repetitions of the fact that centrism leads to Thermidor, and debates over what the odds are that Thermidor is *inevitable*, and to analyze concretely *by what means* current policy is making it *possible* for Thermidor to triumph. This concrete study demands more work, greater reflection, and greater assiduousness than does political chatter about general themes and the endless repetition (with different variations) of commonplaces. But it is only through such study that we can advance towards a greater understanding of what is happening inside the country. I, more than anyone, am aware of the weak points in my work. I am no longer talking about the fact that we are nowhere near to having the materials that would be necessary for this type of undertaking. Even with the materials at hand this job is beyond the capacity of any one person. I know that not everything will be sufficiently convincing and that much will prove subject to debate. This is due both to my mistakes and to the need either totally to ignore many questions or, because they demand their own special study, to limit myself merely to a few observations; also it is due to the fact that I have often had to deal only with the economic side of certain issues. Least of all would I claim to have coped fully with the problem of making a concrete analysis or to have overcome all of the difficulties that such an analysis entails. My primary task as I see it is to explain concretely a number of questions for myself (and, I should hope, also for others), and I should like to think that this work will prod some comrades to direct their labours in the same direction.

*Originally published as "At the Congress and in the Country" (Na s'ezde i v strane), *Byulleten' oppositsii*, No. 25/26 (1931), pp. 9-32. Rakovsky's inconsistent headings and overly-long paragraphs have been tidied up in this translation. Wherever three dots appear these were in the original. All insertions by the editor and translator have been placed in square brackets. The footnotes are Rakovsky's unless otherwise marked. The translation is by D. Filtzer.

Briefly On the Sixteenth Congress

About the Congress itself there is not much that one can say. The task that the Congress had before it was fulfilled 100 per cent. The Congress, it is true, not only did not resolve, but did not even pose a single one of the problems currently confronting the country and the revolution. However, it was not supposed to. The task of the Sixteenth Congress was to use its authority to bolster the organizational "achievements" of the Stalin fraction, to consolidate the apparatus above the Party, the Stalin group over the apparatus, and Stalin himself as the acknowledged leader who crowns the whole top-heavy apparatus that has settled itself comfortably around the Party's neck. Hence the enormous gulf, the gaping scissors between what happened at the Congress and what is going on inside the country. The tasks of organizational mechanics shoved aside the political tasks. With such organizational mechanics as his starting point, Stalin *could not* pose a single one of the questions actually confronting the revolution. Proceeding from these same organizational mechanics, the Right *did not dare* to pose these questions. *The Congress passed life by* — this is the first conclusion, the first sensation experienced by anyone who reads the reports. Another conclusion is that this Congress was one of the most important steps towards the Party's further 'bonapartization' (if that is still possible). It is not just the Party that finds itself removed from political decisions; not even a carefully filtered and selected Congress is entrusted with them. The after-the-fact, unqualified approval of a general line devoid of any concrete content can only mean one thing: the complete unqualified, *a priori* approval of any policy, of any turn in any direction. And a turn has to be made somewhere, and quickly, too! Foreseeing this, the Stalin group set itself the task at this Congress of untying its hands from *both* sides and of getting the Congress to grant it *carte blanche*. The apparatus is gaining even greater freedom of action with regard to the Party. About the Opposition they preferred for the most part to say nothing. Yaroslavsky,¹ usually so free with his quotations, obviously could not produce a single quote, even falsified, that would not have been a blow at the policy of centrism. For this reason they did not dare give an account, even in their own words, of the appeal by the Opposition leadership.

All the outer trappings harmonized totally with the ideological content of the Congress proceedings. When some future historian comes to write the history of mores in the epoch of reconstruction, he will take the protocols of the Sixteenth Congress as his principal illustration. This savage picture of bureaucrats and *apparatchiki* unrestrainedly vying with one another in howling down and humiliating an opponent already defenceless and with his back against the wall i.e., the Right, provides a

1. Emelyan Yaroslavsky (1878-1943) — Described by Trotsky as "the official historiographer of the Stalin faction" also made up for his lack of scientific rigour and knowledge by "his complete willingness to rewrite all history, including that of ancient Egypt, according to the demands of the bureaucratic faction led by Stalin." See writings of Leo Trotsky 1932, pp. 33, 40, 41.

fitting symbol of the present regime. Most detestable of all is the fact that this contest in vile behaviour towards an already prostrate sinner is the price that the bureaucrat must pay for his own well being: who is there so innocent that he can guarantee that tomorrow he, too, will not become an expiatory sacrifice to the cause of preserving the prestige of the general line? It is hard to say who suffers the greatest loss of personal dignity, those who, in the face of the whistling and the catcalls submissively bow their heads and ignore the insults in the hope for a better tomorrow, or those, who likewise hoping for a better future, deliver the insults, knowing in advance that the opponent will give in. At the Fifteenth Congress [December 1927] the *apparatchiki* were still unable to allow themselves this. Over that Congress one could feel history breathing, one had a sense that something serious was taking place, and that the Party was living through some sort of tragedy. Now they have tried to do the same thing with the Right, but as always happens, the second time around is a banal farce. Contemplating the possible consequences of the centrists' struggle against the Right, L. D. [Trotsky] wrote: "Although practically it [the struggle against the Right — Kh. R.] might mean that the Party rids itself of the most outspoken elements of Ustryalovism³ and puts a stop to or retards the downward slide or the degeneration, at the same time it will mean a further disorganization of the Party's thinking, the further debasement of marxist method, and will in this way pave the way for new and even more dangerous and vexing stages in the Party's development."

The fulfilment of this programme as outlined by L. D. has proceeded in total and unmistakable conformity with the law of uneven development: if in regard to the first part of the prognosis the programme has been fulfilled no better than industry fulfils its qualitative indicators, with regard to the second part the programme visibly has been overfulfilled by a wide margin.

In the Country

Meanwhile, events in the country follow their own course. If the Congress found it possible to pass life by, then life is all the more justified in by-passing the official resolutions of the Congress. The farther one gets from the Congress, the more one sees in all its unpleasantness everything that the centrists have so carefully slurred over and concealed and which the Right has not dared to speak of. If the Congress proved unable to draw the balance of the last two and a half years of centrist policy (and of the entire preceding policy of the Right-Centrist bloc), life, classes, and the

2. [Editor's note: The Left Opposition always referred to the Stalin group as "centrists", placed between the Right headed by Bukharin and the Left headed by Trotsky.]

3. [Editor's note: Ustryalov was an emigre who supported the Soviet regime, arguing that the New Economic Policy would result in the defeat of communism and the replacement of revolution by evolution and moderation.]

Party (to what extent we still do not know) will draw it up instead. *The main result of the balance is that the revolution has now come face to face with the impending, enormous historical retribution* to be paid for seven years of opportunist policy. Politics, and not fate will decide whether this retribution turns into a decisive transfer of power into the hands of other classes. This in turn means no general phrases or devising and concocting general schemas (even if very leftish ones), but drawing up a concrete, clear programme of action for reducing as far as possible the consequences of this historical retribution and saving the dictatorship at any price. However, it is impossible to construct such a programme without making a full and sober reckoning of the concrete situation that the country now finds itself in. Before deciding what one must do, it is necessary to have a sound knowledge of what is. And before constructing a concrete programme, one must have a concrete conception of the initial assumptions on which one is going to build it.

Industry, Quantity, and Quality

There can be no debate that in quantitative terms output has grown substantially over the past year. For the first three quarters of the current year⁴ the total value of gross output of large-scale industry has come to 11,705,700,000 rubles (at constant prices); this compares to a gross output of 9,137,400,000 rubles last year, or an increase of 27.4 per cent. Although the plan is 3.7 per cent below fulfilment, such growth is nevertheless exceptionally high. We would be lapsing into optimism, however, if we simply stated this fact without analyzing the factors and phenomena that have accompanied this rise in quantitative indicators. I have already had cause to point out that a rise in the quantitative indicators taken in and of itself is an inadequate criterion for judging not only the volume of real growth of the productive forces but also whether or not overall growth actually has taken place at all.⁵ The real measures of growth of the productive forces, and hence also of the assurance that quantitative indicators will continue to rise in the future, are the following three factors: (1) the basis on which these quantitative indicators have been achieved; (2) the correlation between quantitative and qualitative indicators; and (3) the rate of accumulation and expansion of industrial capital.

Quantitative Increases in Production and Output

A rise in quantitative indicators can be of two basic kinds: (1) growth

4. [Editor's note: The economic year 1929/30 was from 1 October 1929 to 30 September 1930.]

5. [Translator's note: For an illustration of this point, see the declaration by Rakovsky, Kosior, Muralov, and Kasparova of April 1930 (cited in R. W. Davies's Introduction, note 6), where the authors cite the example of galoshes production: "The extent to which the quantitative balances are inflated can be judged from the following, officially-cited fact: output of galoshes in 1928 was 48 per cent higher than in 1913 (41.5 million pair as opposed to 28 million). If we take into account the deterioration in quality, real output comes to only 74 per cent of the pre-war level." (*Bulletin of the Opposition*, No. 17-18, p. 14.)]

on the basis of an expansion of fixed capital, with which we usually associate a rise in the *productivity of labour* (in the sense in which Marx used the term, i.e., the increase in output per person that comes as industry moves to a higher stage of development); and (2) growth on the basis of the old fixed capital (hence also on the basis of the old technology) by its more intensive utilization. In the latter case the rise in quantitative indicators is closely tied to an increasing *intensity of labour* and to a relatively sizable expansion of the work force. In practice these two methods usually run parallel to one another, and it is then a question of determining the relative weight of each. No really precise calculation is possible here, at least not on the basis of the materials that I have available to me; and so we shall have to make use of a number of indirect indicators which, however, are sufficient in my view to give a general idea of what is going on. There is no doubt that last year [i.e., 1928/29] saw a certain expansion of industrial fixed capital, despite the fact that the plan for capital construction was underfulfilled and the amount set aside for depreciation was inadequate. Nor is there any doubt that this expansion of fixed capital has continued into the current year and has provided, at least to some extent, a basis for the rise in quantitative indicators. However, if we approach the problem from the other end the conviction is inescapable that *the principal methods for raising quantitative indicators have been those in the second category*. Primarily we see *an enormous increase in the load being placed on old fixed capital* through the introduction of continuous production and the increase in the number of shifts ...

According to the Control Figures⁶ the rise in output per worker was "to have been based only to a very small degree on increasing the intensity of labour". Practice has proven otherwise. Already for the first six months of this year the number of workers has risen 14.3 per cent over the same period last year, more than four times the increase assumed by the plan. As for output per worker, this has gone up by approximately 18 to 19 per cent during the first half year against a planned figure of 25.3 per cent. Were we able to ascertain just how much of this rise in output was due to the greater application of technology and how much was due to an increase in the intensity of labour, we would be able to shed some additional light on what the basis has been for the rise in quantitative indicators. Here, however, we can make only a very rough estimate on the basis of the above figures. Just on its own, the introduction of the continuous working week⁷ means an increase in the running time of equipment of one sixth, or 16.6 per cent. Since during these three quarters [October 1929 - June 1930] approximate-

6. [Editor's note: The annual Control Figures of the National Economy, prepared by the State Planning Commission (Gosplan), were the equivalent of the annual economic plan and were published as a separate volume; the 1929/30 control figures referred to by Rakovsky were approved by the Soviet government at the end of 1929 and published early in 1930 as *Kontrol'nye tsifry narodnogo khozyaistva SSSR na 1929/30 god* (1930).]

7. [Editor's note: With the continuous working week, each worker had four days on and one day off, with different groups of workers having different days off; plant and machinery could thus be used every day of the week. The system was later abandoned.]

ly fifty per cent of the workers, or roughly half of industry, have gone over to an uninterrupted work week, this increased running of fixed capital in and of itself should account for a boost in output of eight or nine per cent. The increased number of shifts per day should have raised output by a further one or two per cent. The rise in the number of workers will have had a similar effect: since a considerable portion of this increase has been amongst auxiliary workers, there has been greater opportunity for skilled workers to operate equipment. Finally, if we take into account that the shift to continuous production means automatically doing away with a number of strictly technical equipment stoppages, we shall probably be very close to the truth if we say that of the growth in output, approximately 15 percentage points are due to the transfer to the continuous working week, the increase in the number of shifts, and the rise in the number of workers — in other words, have come *at the expense of raising the intensity of equipment utilization*.⁸

The remaining 12 per cent come from the rise in labour productivity, the greater intensity of labour, and the expansion of fixed capital. As we shall see below, the lions share here belongs to the intensification of labour, which correspondingly lowers the influence of the other two factors in raising the quantitative indicators. I repeat, this calculation — a number of whose details I have missed out — is extremely approximate; however, it is more than adequate for drawing our first, basic conclusion about the growth of the quantitative indicators: *The decisive factor in this growth has not been the increase of fixed capital or the expansion of industry's technological base, but the more intensive utilization of old fixed capital which comes, on the one hand, from the rise in the number of workers, and on the other hand, from the greater intensification of labour.* This method of raising quantitative indicators *creates the conditions of its own collapse* — not to mention the fact that it does nothing to guarantee the quantitative growth of industry in the future. It is a method that rapidly comes up against its own natural limits: neither the more intensive utilization of machinery nor the intensification of labour can go on indefinitely. This method still makes sense — although even here only from an economic point of view — if applied over a short period during which it is possible rapidly to lay down a material base, that is, new fixed capital.⁹ The very fact that it was necessary to resort to this method and turn it into a system is an eloquent indication of just how far behind we are in creating this material base. The extent of the pressure on the working class, by which means centrism hopes to overcome this lag, to a certain extent *serves as a measure of this lag*. What is absolutely basic, what leaves its mark on the current situation is this: *it has already been proven beyond any doubt that it will be impossible to eliminate this lag in a short time on*

8. Scattered data for individual enterprises and industries indicates that the real figures are considerably higher.

9. This method also can be dictated, for instance, by military circumstances, when questions of expanded reproduction become relegated totally to the background.

the basis of the country's own internal resources. Before proceeding to consider this question I shall deal with three factors that from different sides and in different ways testify to the fact that *we have already reached the limit beyond which we cannot possibly raise the quantitative indicators on their existing base.*

The Question of Product Quality

The first and most important factor is *product quality*. It is enough to open any number of any newspaper to be convinced that matters here are truly catastrophic. No agitational, administrative, or legal measures can halt this steady deterioration of quality. The facts are so well known that I can limit myself to presenting just a few of the most striking examples. Below we give the levels of defective production [*brak*] for the following factories and types of output:¹⁰

<i>Factory</i>	<i>Product</i>	<i>% brak</i>
im. Dzerzhinskogo	boiler iron	32
im. Dzerzhinskogo & im. Petrovskogo	steel semi-finished products	as much as 40
Verkhne-turinskii	—	100
Lopaevskii	roofing iron	40
Nadezhdinskii	high grade steel	30
im. Marti	steel	32

This list could be multiplied many times over. Therefore we are dealing not with individual defects, but with the *systematic production of defective products (brak)*. The ash content of coal has been rising sharply, in some cases reaching 18 per cent. Only twenty per cent of bricks will support the established load norms. The situation in light industry is even worse, where the textile industry has set a record. According to frequently quoted data, *brak* among "clean" products (i.e., those that have slipped through quality control) averages fifty per cent for the various [textile] trusts. The press, too, has been producing figures showing losses in the millions connected with this deterioration in quality. It is characteristic that when it comes to *brak* the new factories are just as bad. The weaving factory now being built as part of the melange yarn *kombinat* produced 93.8 per cent (!) *brak* in April and 92.37 per cent in May. According to data of the People's Commissariat of the Workers' and Peasants' Inspection, *brak* in the sewing industry is 30 per cent this year as against 10 per cent last year. *Brak* on galoshes is running as high as 14 per cent, on footwear 13 per cent. There literally is not a single industry where quality is not in a wretched state; there is hardly an industry where the current year has not seen the decline continue. It is clear in such a situation that wherever the product passes through several stages of manufacture or through several

10. The data are from various numbers of *Za industrializatsiyu* [For Industrialization — the industry newspaper and *Ekonomicheskaya zhizn'* [Economic Life] at the end of the half year [i.e., October 1929-March 1930]. Any changes that might have taken place since then would only have been for the worse.

branches of industry, poor quality in one branch becomes multiplied by the poor quality of all the others. To what conclusions does this analysis of quality lead us?

(1) *The worsening of product quality means that the quantitative indicators are more or less fictitious.* Even Kuibyshev¹¹ had to admit this at a meeting of the Praesidium of the Supreme Council of the National Economy [VSNKh], where he declared: "The figures for the enormous growth of industry *become relative* if we take qualitative changes into account." (*Ekonomicheskaya zhizn'*, 22 May [1930].) *Za industrializatsiyu* expressed it even more energetically when on 18 July it declared, "our quantitative achievements are not worth a brass farthing". Here is a concrete example taken from real life (one of thousands), quoted by Rafalovsky in *Za industrializatsiyu* of 16 July. "If eight thousand single-spindle drilling machines work with rapid-cutting drills at a cutting speed of 30 mm. per minute and a feed of 0.4 mm. per revolution, drills of inferior quality, whose cutting speed was 20 mm. a minute with a feed of 0.28 mm. per revolution, would require *17 thousand machines* together with the servicing that goes with them". Under these conditions, what benefits the nation's economy the most, a given number of top quality drills or twice as many second grade ones? Clearly the first, for here doubling the number of drills we turn out would mean doubling output. We could apply this reasoning to any other product, from tractors to galoshes. In a number of cases, the deterioration in quality not only has nullified quantitative achievements, it has actually turned them into losses. Thus we read in a survey of the work of the textile industry for the first half year (*Za industrializatsiyu*, 20 April): "In many enterprises the quantitative plan is being fulfilled at the expense of a rise in production losses and in *brak*, for both finished and semi-finished products. *The effect has been to reduce quantitative results to zero*, bringing losses both to the textile industry and to the national economy as a whole. *As a result, for individual classes of commodities to an enormous degree costs of production are not being covered*, not to mention there being any accumulation." *This is the other side of high rates of growth in output.*

It is impossible to make any judgement about quantitative indicators without comparing them to the indices for quality. *In the absence of any calculation of the quality of output its quantitative indicators will be a statistical fiction*, bearing no relation to the actual state of affairs. It is obvious that quantitative indices can provide a picture that corresponds to reality only if they are divided by a coefficient for quality, and that this picture would be fundamentally different from the one the official press depicts in its frivolous articles. Regrettably until now there have been no such indices that would allow us to express the level of product quality, and hence also the real level of quantitative growth. This, then, is our first conclusion.

11 Valerian V. Kuibyshev (1888-1935) — made chairman of the Supreme Council of National Economy (1926), a dedicated Stalinist who nevertheless died in mysterious circumstances.

(2) Quality indicators reveal not only how relative our quantitative indicators are at present, but also how they might change in the future. At the same time, quality indicators provide an indirect measure of the degree of labour intensity, since the two are closely related. The intensity of labour has now reached the point where the worker, to turn out the quantity demanded of him, cannot pay any heed to quality. All the data testify to the fact (and I shall return to this below) that *with our existing technological base, we can no longer boost quantity by increasing the intensity of labour except at the expense of a deterioration in quality*. The quality of output is a signal that to raise quantity by such a path is now impossible.

Shortage of Skilled Workers

If the quality of output signals the limit when it comes to raising the intensity of the worker's labour, the limit to increasing the intensity of equipment utilization is set by the number of *skilled personnel (kadry)*. So far as placing a greater load on old fixed capital is concerned, there are still large reserves to be tapped by increasing the number of shifts and going over to round-the-clock work. It is not part of my task to expound on the question of personnel, but anyone who follows the problem must know *that it cannot be resolved in the immediate future* and that hence it is only to a very limited extent that reserves can be tapped by increasing the number of shifts. The issue of personnel is tied, of course, to the question of servicing new enterprises, but this aspect of the problem does not concern us here. What is important for our purposes is to point out that *the shortage of personnel at a time when it is impossible to place any further load on the existing work force places a limit* on any future increase in quantitative indicators from this end as well.

The Relationship between Industrial Backwardness and Agriculture

The third factor lies outside the borders of industry proper, but is nevertheless connected with it. *We are talking here about the shortage of agricultural raw materials for light industry*. Because of this shortage the volume of production in light industry fell by nearly 30 per cent in May and June. In these two months the plan was little more than 50 per cent fulfilled. The *fat industry* cut production by 15.5 per cent in April, 15.7 per cent in May, and down to 38.6 per cent of the May level in June, i.e., production practically came to a standstill. The foodstuffs industry cut production by 15.5 per cent in April, by 12.9 per cent in May, and by 23.7 per cent in June. The situation in the sugar industry is absolutely catastrophic, and in June it virtually halted production. During the last year production capacity in the sugar industry was only 42.8 per cent utilized. Even from these figures it is obvious that we are not dealing with individual stoppages in isolated industries, *but with a sharp fall off in production virtually throughout light industry, with some industries coming to a total halt*. Even if industry was completely blameless for this state of affairs it would still be a fact to be reckoned with. But the fact is that industry is not completely blameless. We are merely seeing the effect of

something we have warned about many times: *the tardy development of industry has become in turn a factor holding up the development of agriculture.*

One of the articles to which we have referred correctly discerns the basic reasons for the shortage of agricultural raw materials. These are: (1) an incorrect prices policy; (2) incorrect regulation of the supply of industrial commodities to the producers of agricultural raw materials; (3) the backwardness of those industries that produce fertilizers (the demand for fertilizers this year has been only 25 per cent satisfied); and (4) a severe shortage of machinery for cultivating technical crops and a near total absence of harvestors — thanks to which for the majority of technical crops the work of looking after the sowing and initial cultivation is being carried out by primitive, manual methods.

These are all direct consequences of the backwardness of industry.

Analyzing the question of quantitative indicators in the context of the above-mentioned factors leads us to the following basic conclusions. (1) *The official figures for quantitative growth are a fiction, because they have failed to take into account the quality of output.* Once we take quality into account the quantitative figures become relative. (2) To the extent that there really has been quantitative growth, *the decisive factors have been the more intensive employment of the work force and the greater intensity of labour.* (3) By utilizing this method of quantitative growth — which by itself creates the conditions for its own collapse and in no way assures quantitative growth in the future — *we have clearly reached the limit beyond which its further application can have only negative consequences for the national economy. This method has exhausted itself.* (4) The question of any future growth of quantitative indicators, or even of maintaining what has already been achieved, depends directly on laying a new material-technical base for industry.

This latter question is decided by the volume of accumulation and the amount of capital construction.

Accumulation and Its Sources; Capital Construction

At the end of last year, when the necessity of industrialization became obvious even to the blind and its significance had finally sunk in after an enormous delay, centrism flung itself headlong down the path of forced tempos, hoping at a single stroke to bridge the gap created by the whole of previous policy. The plans that were drawn up were truly grandiose, sharply exceeding the drafts of the Five Year Plan [*pyatiletka*]. Total volume of capital investment for this year was to be 3,423 million rubles, with another 117 million coming from a four per cent deduction from the capital construction of other branches — a total of 3,540 million rubles, compared to 1,600 million rubles last year and 2,331 million in the Draft Five Year Plan. These figures then were increased to 3,583 million rubles and set finally at 3,923 million rubles by the Council of People's Commissars [*Sovnarkom*] decree of 12 April 1930. Where was this colossal sum to come from? So far as the initial sum was concerned, six

sevenths of it (2,980 million) was to come from within industry itself (550 million from amortization and 2,430 million from profits). The remainder was to come from the four per cent deduction from the other branches of the *socialized sector*, from budget financing, and from bank credits. This left 221 million not covered in the Industrial-Financial Plan [*prom-finplan*]. If we deduct the 550 million amortization (which represents no *new investment*) from the total investment figure of 3,540 million listed by the *Control Figures*, we find that there is to be 2,990 million rubles in *new investment*, of which 2,430 is to come from *industry's own profits*.

To grasp the significance of profits of this size, one must bear in mind that this year's profits are to be *more than 220 per cent* of last year and yield *an additional 1,200 to 1,300 million rubles*. The share of profits in the prices [value] of output was to rise this year to 21 per cent, from 11.6 per cent last year. What were to be the sources of such an enormous absolute and relative rise in the volume of profits? The smallest source was to be the expansion of production. As the *Control Figures* indicate, wherever extra profits might come from this direction would be eaten up first by the greater proportion in the total assumed by less profitable heavy industry (Group "A"), and second by the rise in industrial exports, which frequently show a loss. According to these same *Control Figures* (p. 100), the main source of this huge accumulation of profits is to be an 11 per cent fall in production costs, projected as an average for industry as a whole.

At the projected volume of output, each percentage fall in production costs would yield approximately *130 million rubles*, so that the entire drop in production costs would give roughly *1,400 million rubles, or a sum exceeding the planned growth in profits*. The other side of this reduction of production costs is the planned rise in output per worker of 25 per cent compared to 15-16 per cent in 1928/29. Below we analyze what were to be the sources for lowering production costs and raising output, as well as what actually happened in practice.

According to available data, the fall in production costs in eight months [October 1929 - May 1930] was only 6.4 per cent (7.1 per cent for Group "A" and 5.8 per cent in Group "B"), i.e., little more than half the planned fall of 11.5 per cent (*Za industrializatsiyu*, 18 July). In the first six months [October 1929 - March 1930] output per worker was 18 per cent higher than the same period last year (more recent data is not available). Both the degree of plan fulfilment (in absolute terms) for these two indicators and their comparison confront us with a number of questions: (1) how real can we consider these official results; (2) why was the plan not fulfilled; and (3) what were the sources for achieving the results actually obtained?

Falls in Production Costs and Product Quality

It is enough just to pose the first question to answer it. The measurement of changes in production costs makes sense only if one is *comparing products of identical quality*. However, if the fall in production costs takes place while quality is worsening, one can only decide if costs

really have gone down by comparing this drop in costs against the degree of quality deterioration. If, let us say, a pair of galoshes now lasts 11 months instead of 12, there will have been a deterioration of quality of just over eight per cent ($1/12$). If at the same time production costs formally have fallen by eight per cent there in fact will not have been any real saving. Yet who can doubt but that the percentage deterioration in quality (if only it could be measured) has been hardly less than the fall in production costs?¹² This means that the future for the drop in production costs is even more fictitious than that for the growth of the quantitative indices. Does this mean that production costs have not declined at all? From the point of view of the national economy, they have not. Here we have one of the great paradoxes, or more accurately, one of the greatest stupidities of centrist methods of industrialization: all the factors that work to bring down production costs — in the first instance the intensification of labour — are "on hand", and yet in the final accounting they yield no savings from the point of view of the national economy.

One can produce any figures one likes, but this will not increase the amount of real values. A rail is a rail; and if, let us say, its formal production cost goes down by several per cent, this does not mean that the economy has benefited by this same amount. The fact that this rail looks outwardly just like a pre-war rail deceives no one; nor does it eliminate the fact that our contemporary rail lasts not even five years, while a pre-war rail lasted forty. And this is happening not only with rails. Whole factories are being erected out of defective construction materials and equipped with machines made from defective metal. Today's decline in production costs will turn into tomorrow's (and tomorrow is already upon us) colossal losses for the national economy.

This all points inexorably to the fact that there is something wrong with the very methods of lowering production costs.

Increasing the Intensity of Labour

The *Control Figures* gave a rough outline of from what sources the fall in production costs was to come. In an article in *Na planovom fronte* (No. 9-10), Buretsky lists the same sources for the fall in production costs that nominally has been achieved. These he enumerates in the following table:¹³

12. In a speech to the Presidium of the Supreme Council of the National Economy, Kraval' openly declared, "over the last two years the growth in defective output [*brak*] has outstripped the decline in production costs". (*Ekonomicheskaya zhizn'*, 22 May [1930].)

13. Judging from the general data for the first three quarters, it is clear that no change took place in the third quarter.

<i>Source</i>	<i>Planned Fall in Production Costs</i>	<i>Achieved Fall in Production Costs (6 mos.)</i>
1. Technical norms for utilization of raw materials	2.6%	1.9%
2. Labour power (pro- ductivity of labour & wages)	3.7	1.6
3. Growth of physical volume of production	3.2	2.3
4. Prices:		
a) For industrial raw materials & supplies	1.2	0.8
b) For agricultural raw materials	0.3	0.4
Total:	11.0	7.0

A glance at the table tells us that something is wrong with this calculation. Let us assume that items 1, 3, and 4 were calculated correctly, and let us consider item 2. It would seem that wages and increase in output resulting from the greater intensity and productivity of labour (in Marx's sense of the word) have given a total reduction in production costs of 1.6 per cent, in other words, there has been a saving of approximately 200 million rubles. Yet we know that in the first half year the plan for nominal wages was underfulfilled by three per cent, which by itself yields a "saving" of almost the same amount, i.e., 200 million. Some authors have pointed to this "saving" as the sole positive development of the first six months.

The intensity of labour is responsible for about one per cent (or just over) of the drop in production costs; in other words, the greater intensity of labour is providing an annual saving of between 130 and 150 million rubles, or 65 to 75 million rubles for six months. This naturally raises a number of questions. Has it been worth launching such a furious agitational campaign, has it been worth declaring competition and shock work [*udarnichestvo*] the basic pillars of industrialization for a measly 75, 150, or even 200 million rubles out of a budget of 13 milliard and an industrial investment of four milliard? For the sake of such a relatively paltry sum, has it been worth entering into pitched battle with the working class? Secondly, is it possible that all this unbridled persecution of the working class (which goes under the name of struggle for the industrial-financial plan), all the vicious pressure on it, and all the draconian measures taken against it, could have yielded such insignificant results?

The answer to these questions will differ, depending on the vantage point from which one approaches them. If one adopts the standpoint of the

national economy, then, as we have already seen, there have been not even these insignificant results. If we look at it from the point of view of the workers, more has been extracted from them than can be judged from the official figures. In precisely this consists the sheer economic absurdity that has been the fulcrum of centrist industrialization. How so? Unfortunately, it is not possible to illustrate this paradox with figures. However, we can gain a general idea of what is happening from the following hypothetical example. The final figure for production costs gives a remainder, i.e., a difference between those factors that act to raise costs (deterioration of quality, losses from stoppages, breakdowns, etc.) and those that reduce them. Let us imagine, for instance, that the loss-bearing factors cause production costs to go up by six per cent of the value of total output. Let us assume further that net production costs go down, also by six per cent. This means that the positive factors would have to cut production costs by 12 per cent — i.e., they first have to compensate for losses of six per cent and then on top of this lower costs by six per cent. If we assume that the factors other than labour power together produce a 4.4 per cent fall in production costs for the first half year, then *labour power itself is reducing costs not by 1.6 per cent, but by 7.6 per cent*. Let me repeat that this example is only hypothetical, but it does make it possible to explain the true state of affairs. If this explanation is correct (and it would be impossible to come up with another one, especially since it is supported by the facts) it means that *the intensification of labour is producing a substantial saving, but this saving is being in large part, if not totally cancelled out by losses in other areas that the workers have nothing to do with*. This in turn means that *the intensification of labour is the only area in which the plan is being fulfilled and overfulfilled*. The fact that this has been gobbled up by other factors and that production costs have not fallen is eloquent testimony both to the policy of industrialization and to centrism's policy towards the workers. It is characteristic that whenever there is any genuine attempt to analyze the basic reasons why the plan for production costs is not fulfilled, the explanations offered are essentially correct, but as soon as we enter the realm of "generalizations" and practical conclusions, it is the workers who get the blame and the opprobrium.

In concrete analyses of plan underfulfilment there is never any question of blaming the workers, since it is the workers — and only the workers — who cover over the extremely dangerous technological primitivism by increasing the intensity of their labour; and if this makes it impossible for them to pay attention to quality, this is not their fault — either the norm or quality, it is physically impossible to give both. However, as soon as it comes to drawing conclusions, the workers turn out to be the culprits. In the Urals they organize the wives of workers to hold their husbands "in disgrace" for not fulfilling their norms. To the strains of *Barynya* [a folk song] the women adorn the entrances to the pits with brooms and coal shovels as a symbol of their contempt for "slackers", and even threaten methods of coercion *a la* "Lysistrata". As gratitude for the workers driving themselves into exhaustion, the *apparatchiki* humiliate

them in most refined fashion. An article on the general situation comes to the basic conclusion that "in collaboration with the trade union organizations, industry must actively launch a revision of output norms" (*Za industrializatsiyu*, 24 April). Here lies salvation! And the trade union organizations echo the appeal: *Trud* [the trade union daily-D.F.] prints banner headlines about how "*raising output norms is one of the most important sources of industrialization*". And the *Control Figures* had promised that "thanks to the more intensive supply of energy [*energovooruzhennost'*], the increase in fixed capital, and the latter's higher quality owing to new and improved equipment, the growth of labour productivity in 1929/1930 will rely only to a very small degree on an increase in the intensity of labour" (*Control Figures*, p. 293) ...

Anyone saying that the intensity of labour is the main pressure point gets labelled a "Trotskyist", yet when it comes to practical policy raising the norms of output becomes one of the most important sources of industrialization. It is not part of our object here to clarify the question of the material situation of the working class (this would require a separate article); concerning this topic I consider it necessary merely to point out that *one of the methods of putting pressure on the intensity of labour is to cut wages and hold up their payment*. *Za industrializatsiyu* openly proposes holding up wages in the future as a lever for applying pressure. "The plan for nominal wages", writes the newspaper, "will be 100 per cent fulfilled, but the fact that we still have certain reserves in this area makes it possible to tie the implementation of this directive to an improvement in the indicators for labour productivity". Judging from the overall situation, centrism intends to tread this path from now on; however, to fulfil the annual plan it now will have to double the pressure: to fulfil the annual plan for reduction in production costs the fall in the fourth quarter will have to *be more than 20 per cent*, instead of just 11 per cent. Yet economically this avenue has already been shut off. As I have tried to show, the intensity of labour has reached its physical limit given the existing level of technology. The best proof of this is the quality of production. However strange it may seem, the decline in labour discipline, the growth of absenteeism [*progul*], and the need to raise the number of workers beyond planned levels are all evidence of the same thing. The official explanations turn all these questions on their head. It is *not because* of the rise in absenteeism, the decline in labour discipline, and the above-plan increase in the number of workers that the plan for reducing production costs is underfulfilled, but to the contrary, absenteeism is going up, labour discipline is falling, and the number of workers has to swell *because the workers are physically unable to sustain the impossible work load*.

Therefore, concerning results of the plan for lowering production costs and the sources for this reduction we arrive at the following conclusions: (1) *The rise in the intensity of labour has surpassed all the assumptions of the plan and has reached its physical limit*; (2) *this rise in the intensity of labour has been the basic means by which losses were cancelled out and output boosted*; (3) *despite the enormous increase in*

labour intensity, production costs have not fallen — the official figure for the drop in production costs is fictitious; (4) *for these reasons the real imbalance in the financial plan is greater than it appears in the official figures*; (5) *for these same reasons any attempt to look for resources for industrialization from this quarter is doomed to failure in advance*. Even from a purely economic point of view — that is, leaving aside the political consequences of intensifying the pressure on the working class — the results of such pressure can only be negative.

Funds for Capital Construction

All the circumstances listed above, which take place inside industry, together with a whole host of other circumstances external to industry, cannot fail to influence the progress of capital construction. First and foremost, the movement of production costs (even if we take the formal figure for the cost reduction as the correct one) has created an imbalance in the financial plan. Taking into account that each percentage fall in production costs ought to yield approximately 130 million rubles, a five per cent underfulfilment of the plan over the year creates a deficit of about *600 million rubles*. In any event, the eight months for which we have information already show a real deficit of about 440 million rubles. If we allow further that the general plan for the growth of output is also going to be underfulfilled by several per cent, the annual deficit increases to *700 million rubles* (on condition, of course, that production costs remain at the level already attained). However, this is not the only deficit. As we have already noted, *117 million rubles* is to come from a four per cent deduction from the capital construction of other branches. Since these other branches are just as badly off as industry, it is highly doubtful that industry is going to receive any of these deductions. What is more, the financial plan, as we have also noted, contains its own imbalance of *221 million rubles*. Finally, the Council of People's Commissars, in its decree of May 2nd, made an additional allocation of *340 million rubles*, but it is not known where it is going to come from. It is difficult to imagine that the resources to cover a single one of these sums could be found. Even if we assume, however, that the four per cent deduction (117 million) is forthcoming, that the unbalanced 221 million are somehow covered, and that there even takes place a substantial reduction in production costs, there still will remain a deficit of some *800-900 million rubles*. How is it going to be covered? Industry can cover it internally either by underfulfilling its nominal wage plan or through greater mobilization of its own internal resources. As for the first source, attempts undoubtedly are being made in this direction: for eight months nominal wages went up by 5.4 per cent over the average monthly wage last year and by 8.1 per cent compared to the first eight months of last year. According to the plan they were to rise by 9 per cent. Each per cent underfulfilment yields between 50 and 60 million rubles from the urban proletariat alone. However, the resources that might be created from this are being eaten up by the excess in the number of workers above the plan.

The plan for mobilizing industry's own internal resources — originally projected to be about 600 million rubles — has even been overfulfilled. It would appear that here we have a potential source for covering the deficit. However, even here not all is going smoothly. The fact is that this mobilization of internal resources, as well as the direct relative decline in the circulating capital of industry and the syndicates, have created a shortage of circulating capital. Industry is compensating for this by diverting funds allocated to it for capital construction into circulating capital. I. Miroshnikov (*Pravda*, 28 May), using data for the first half year, comes to the conclusion that during this period industry has been "applying allocations for capital construction not to the purposes for which they were assigned, but to enterprises' circulating capital". In any event, even if this source yields something, it will not nearly be enough to bridge the gap, which is enormous. The only source that could cover it is the budget, which in the current situation cannot avoid a deficit as it is. I shall deal specifically with the question of the financial state of the economy in its proper place (see the section "Finance and Monetary Circulation"). Here I shall note only that in eight months the budget has already issued industry with 70.8 per cent of what has been allocated to it for the year, while the plan for capital construction is only 36 per cent fulfilled. As we shall see, this imbalance (together with numerous others) is impelling centrism to make rather liberal use of the printing press. Outwardly it appears as if capital construction is encountering no financial difficulties whatsoever and that, from the financial viewpoint at least, things are doing well. The problem is that *in our system* it cannot fundamentally appear otherwise. In any capitalist country it would be totally different: Wherever a capitalist or group of capitalists is in possession of certain (material) resources, another group can obtain them only if it has the appropriate means of purchase. In this way the absence of real values assumes the form of financial difficulties. With us, however, where the state is the principal owner of all material resources and has sole command over them, the absence of real resources appears *directly*, as such, without manifesting itself through financial troubles. Hence what shows up as an imbalance in the financial plans is in fact merely the manifestation of a shortage of real resources, of material values.

The Progress of Capital Construction

General data for plan fulfilment on capital construction over eight months gives the following picture. In value terms the plan as a whole is 36 per cent fulfilled.¹⁴ Here the dislocations that characterized last year's plan

14. The insufficient detail with which I am treating the empirical side of the matter is because comrade Trotsky has devoted a special article to this question, and I refer the reader to it. It is difficult to discern to which article Rakovsky is referring. In his article "The New Course in the Soviet Economy" (*Writings of Leon Trotsky*, 1930 [New York, 1975], p. 116) Trotsky promised to produce "an extensive work" of this description. However, the only piece of any substance to appear in this period was the December 1930 article, "The Successes of Socialism and the Dangers of Adventurism" (*Writings*, 1930-31 [New York, 1973], pp. 88-107); the article is empirically thin and seems to borrow almost the whole of its argument from Rakovsky himself — *Translator*.]

fulfilment are revealing themselves even more sharply this year. Whilst the plan for group "B" is 47.2 per cent fulfilled, that for group "A" has been fulfilled by only 34.3 per cent. On the other hand, while overall fulfilment for the plan for new construction is 34.4 per cent, for heavy industry it is only 27.6 per cent. However, one has to deduct from these figures what has gone to fill the gaps from last year; more important, it is necessary to keep in mind that this year even more than last, plan fulfilment in value expression says nothing about its fulfilment in physical terms. The figure for plan fulfilment only tells *how much has been spent* — it says absolutely nothing about *what has been done*.¹⁵ It is impossible to compute the size of this divergence with existing data. We have evidence that on a whole number of construction projects vast resources have been squandered doing pointless jobs; the cost of construction is enormous — several times what was outlined in the plan. But the plan projected an overall decline in construction costs of 14 per cent, and of 18 per cent on new projects. Precise figures exist for only one extremely important element of construction costs — construction materials. According to the plan, production costs were to have gone down by 13 per cent. In fact, the fall was 3.9 per cent. Thus for an important component of construction, prices are nearly 10 per cent higher than planned, leaving quality out of account. If we include quality, the percentage cost rise turns out even higher.¹⁶ It is possible to form some general conception of the rise in construction costs from the fact that, according to an estimate of the Supreme Council of the National Economy, *one quarter* of the plan for capital jobs has been fulfilled over eight months (*Za industrializatsiyu*, 20 July). If this calculation is correct, it means not only has the cost of construction failed to decline, it *has gone up*: there is a disjuncture between the value and material expression of *more than 25 per cent*. If this ratio has been correctly calculated, and if we allow for the fact that the greatest cost overruns have taken place in new construction, this means that *in material terms the plan for new construction has been at most 20 per cent fulfilled in eight months, and even less for heavy industry*.

What are the concrete reasons for this disruption in the plan for capital work? The basic causes are as follows:

15. After writing these lines I read the following in a leading article of *Za industrializatsiyu*: "These figures are for fulfilment of *expenditure*, and not for construction in the proper sense. Given the conditions under which construction currently is proceeding ... fulfilment of the *construction* plan and fulfilment of the *expenditure* plan are far from being one and the same thing".

16. *Za industrializatsiyu* of 26 July, discussing the change in production costs of building materials, tells us: "Although building materials this year are cheaper ... building sites have been left completely without automotive or animal-drawn transport, so that the enormous, excess sums laid out to pay for the delivery of materials *are totally eating up* this saving". As regards the fall in overall construction costs this same article reports that "the government directive on reducing production costs by 18 per cent *has not been fulfilled*". A leading article in *Za industrializatsiyu* of 27 July declares, "Not only is there no assurance that construction costs will fall as projected, there is no guarantee even that they will remain stable," which, in the opinion of the editorial, "is evidence above all of how conditional are the data for plan fulfilment in capital construction for the first three quarters".

1. *The severe shortage of building materials.* The production programme is being underfulfilled. Average fulfilment for the building materials industry as a whole over seven months is no more than 45 per cent. Last year the plan for capital construction [in this industry] was underfulfilled by 15 to 20 per cent in value terms and by not less than 25 per cent in physical terms. This year the plan for capital construction is fulfilled by 33.5 per cent in value terms for seven months, which means that if the above ratio is correct, it is fulfilled by less than 25 per cent when expressed physically. At the same time there has been a sharp deterioration in product quality which necessarily affects construction quality and costs. The situation with metal used in construction (rails, girders, nails, etc.) is no better. According to a note in *Za industrializatsiyu* of 17 July, capital construction in the RSFSR is receiving only 50 per cent of its building materials. In the Ukraine — as is obviously the case in the Union as a whole — an even smaller percentage of the demand for building materials is being satisfied.

2. *The total breakdown of the mechanization of construction.* "Mechanization of construction jobs in the current year is in ruins; there are no measures that today can cardinaly alter this situation. Of an overall need for 45 million rubles worth of domestically produced mechanisms barely four million rubles worth will have been delivered to construction sites as of July 1st. About 60 per cent of orders have not even been placed (*Za industrializatsiyu*). It goes without saying that the question of supplying construction with materials turns on the plan for the work of the iron and steel industry and engineering.

3. *The lack of equipment* at a time when the current state of our exports offers no hope of additional imports. Imports of equipment ordered earlier are overdue, thanks to the fact that the orders were neither placed nor filled on time. As for domestic machine building, it cannot by itself cope with the task of providing equipment and of late has simply refused to accept orders — not to mention that the orders it has accepted are being met with enormous delays. The quality of equipment is also poor. Here, too, we do not have the data, but it is clear that the deficit is to be measured in tens of percentage points. The question of equipment often does not arise simply because the deficit of construction materials imposes itself beforehand.

4. *The total planlessness of construction.* This shows up, first of all, in the fact that we often build what we do not need. The most graphic illustration of this is the recent decree of the Central Control Commission and the Workers' and Peasants' Inspectorate, based on a survey of construction in the cotton textile industry. It turns out that new construction is going on even though "the supply of raw materials is extremely limited and existing equipment is only being used at 50 to 60 per cent its technical capacity" (*Za industrializatsiyu*, 25 June). Because of this the cotton textile industry has spent, according to different versions, between 60 and 150 million rubles "without any real necessity". What figures would we get if we made the same sort of survey for industry as a

whole? Secondly, this absence of planning is engendering enormous losses by *severing coordination between the different components of construction*. In some cases the shells of the factories are finished, but there is no equipment; in other places equipment lies around unused either because the shells are unfinished or because other pieces of equipment are missing. On individual construction sites this planlessness takes the form of *the absence of any construction plan [proekt]*. A large proportion of construction gets started not only without working drawings, but even without a general plan for the job. When the plan arrives it then becomes necessary to alter everything or even to begin all over again. One can appreciate what kinds of losses this entails. The question of planning in general, and of drawing up individual construction plans in particular, turns on the question of *specialists*.

5. *The general shortage of labour power, especially of skilled workers.*

6. Lastly, in these as in other areas, the overall situation in the country, the general violation of all proportions in the national economy, affects the progress of construction. The difficult food situation and the workers' worsening material and living conditions are affecting capital construction: directly, in terms of the supply of labour power, and indirectly, by making things worse in those industries upon which construction depends. The poor state of transport is disrupting haulage for construction. As soon as there is any attempt to assist transport and (as in one recent example) to have iron and steel factories boost their output of rails, this quickly takes its toll on construction by creating a shortage of girders, U-bars, etc. Sometimes construction comes to a standstill over such laughable trifles as the lack of hay, because wagonners wander off when they have no feed for their horses.

In a word, any defect, small or large, in any part of the economy has a ten-fold impact on construction. The character of these defects is such that *they cannot be eliminated* in the short run. The country does not possess — and will not possess in the near future — those real resources that are needed to do away with these obstacles; least of all can it create these resources through the rapacious employment of labour power. *The plan for capital construction is going to be frustrated to a considerable degree.* This brings us back to the question posed at the very outset, when we were discussing quantitative indicators: *The only normal basis on which the future growth of quantitative indicators can proceed is not going to be created in the immediate future. This fact foreordains the fate of the quantitative indices.*

Some Results of Industrialization

Previous policy did nothing at all to prepare either the growth in total output or the capital construction that had been called for by the plan. Within industry, the whole of preceding policy was reducible in essence to expanding the utilization of old fixed capital; in a number of branches this utilization was purely and simply rapacious, without the slightest regard

for the future. In the sphere of distribution of the national income, the entire policy — especially price policy — led to industry having extorted from it even those slender profits it was able to make, not to mention having no resources pumped in from outside. People began to think about tomorrow only when today reminded them of it. This is all so well known that it is superfluous to discuss it. I shall cite merely two illustrations from branches basic to the whole rest of industry. Characterizing the state of the Krivoi Rog region, which feeds our iron and steel industry with 72 per cent of all its iron ore, S. Dubiňker writes: "So long as extraction was not intensive *and it was possible to draw on what had been prepared during the pre-war period*, it seemed that all was well in the Krivoi Rog. But then work tempos were changed ... *prepared deposits began to be exhausted*, and the question arose of forcing capital construction" (*Za industrializatsiyu*, 17 May). There is nothing more to add: the question of capital construction in the iron ore industry was posed only when *the deposits prepared in the pre-war period had come to an end*. An analogous situation existed in the coal industry. Here "planning careered towards the old Donbass", with operations being constrained by the working of the "old Donbass's obsolete, tattered, small-scale installations" (*Za industrializatsiyu*, 9 May). It never occurred to anyone to build new pits until we found the old Donbass completely spent. As Shveltovsky notes (*Na planovom fronte*, No. 9-10), "We were scandalously late in preparing production reserves in the coal industry". *In fact, coal extraction throughout the USSR in 1929-30 is nearly double the pre-war level; at the same time 90 per cent is coming from old mines.*

Only in the light of these facts can we understand what right there is to upbraid the workers for failing to fulfil the plans for increasing output and lowering production costs. The situation is roughly the same in other industries, which even in the best of cases have restricted themselves to the current repair of existing fixed capital. Centrism had hoped to overcome this legacy at a single bound — to skip stages and jump directly to super-American tempos — by putting pressure on the working class and by resorting to what it calls "socialist competition" and shock work — all in the context of a steady deterioration in the working class's material situation. The greater the impact of failures in other areas, the more practical policy opted to follow the line of least resistance: pressurizing the working class. With such great achievements in this field, it is hardly surprising that for the most part this reserve soon exhausted itself simply from the point of view of profit and loss accounting. The use of this reserve has reached its limit: its further application, exhausting the worker as it does, will yield nothing to the economy and will even do it harm. The concrete expression of this is the contradiction between quantity and quality.

The policy of the last two years has completed from the other end what the policy of the preceding years had started. Widening all the disproportions, deepening all the shortfalls, it created a stupendous demand for resources that the country does not in fact have. After a while,

the process became characterized by a growth of quantitative indicators at the expense of exhausting the working class. Once this reserve had been spent, it became clear that we were dealing with a *lack of real resources*. This fact then determined the course of capital construction. What will this situation mean for industry? Underfulfilment in capital construction does not mean simply underfulfilling the plan for a single sector of the national economy. *Under existing conditions it means frustrating attempts to provide the national economy with a new industrial base and to set industry itself on a new technological footing in the immediate future.* There is no need to point out that the failure of capital construction in one branch has a corresponding impact on other branches, that it creates shortfalls in the quantitative indicators that then affect the further progress of capital construction, etc., etc.

All this is beyond debate. However, it is necessary to emphasize one factor that is going to take on decisive significance in the immediate future. To underfulfil any construction project even by two or three per cent means that *none* of this construction can yet enter the ranks of functioning capital. Until it is finished, all the resources expended on it will remain dead capital. Hence the enormous importance assumed by the *rate* of construction. The larger the project in question, the more significant its delay becomes. If the plan for construction, let us say, is 70 per cent fulfilled, this in no way means that 70 per cent of the planned number of new factories, aggregates, etc., will go into operation. Only perhaps 10 to 20 per cent can do so. Under these conditions everything can hinge on just a few percentage points of plan fulfilment. And when we are talking about tens of percentage points, the real impact will be ten times greater.

Assessing the actual situation, not only can we positively establish that the collapse of the whole centrist industrialization is inevitable (in fact, it has already begun), but we can even pinpoint the breach through which the crisis is going to burst. *The breach will come at the disjuncture between old fixed capital going out of service and the impossibility of new fixed capital being there to replace it at the right moment.* The total value of the remaining fixed capital plus the resources invested in construction might well exceed the value of the fixed capital with which we began the five-year plan, nevertheless industry still is going to experience a severe crisis of fixed capital so long as the resources invested in unfinished construction projects continue to lie as dead capital. At first the crisis might take the form of a sharp fall in the quantitative indicators sneaking up from various directions: the impossibility of any further rise in the intensity of labour (or more accurately, a fall in labour intensity, since it is physically impossible to sustain the existing level for any length of time), the failure of the plan for capital construction, or (finally) the severe shortage of agricultural raw materials — already one of industry's most serious problems. Through a number of intermediary links the worsening food situation works in the same direction. Together with this collapse in the quantitative indicators (or perhaps somewhat later) the crisis of fixed capital will break out with full force, owing to the breakdown of capital

construction. *The industrial crisis can no longer be averted — in fact, it is already upon us.* The longer present policy continues, the more abrupt and sharp will be the collapse and the further back shall we be driven. *The attempt to vault over the entire legacy of past policy, to by-pass it through the shady practice of shifting the full weight of industrialization onto the working class, is approaching its inevitable end.* Given the manner in which the centrists belatedly set about industrialization, the effort was doomed to failure. The collapse of centrist industrialization at the same time will totally discredit industrialization *per se* in the eyes of the working class. For, with the present policy, the working class identifies it with unprecedented pressure and the drastic decline in its standard of living.

Electrification

"Energy is one of the worst bottlenecks in the development of industry and the national economy", says Kuibyshev in his Theses to the Sixteenth Congress. Translating this into concrete language, Kukel'-Kraevsky writes that "an electricity famine is impending" (in an article of the same name in *Za industrializatsiyu*, 6 June). "It is enough", he says, "to go over the numbers of *Za industrializatsiyu* for the last two months to be convinced that a real 'electricity famine' already exists in every industrial region of the USSR ... The country has not a single spare kilowatt of electric power". Any breakdown — the number of which is steadily increasing, owing to the fact that we continue to work with "equipment that is past its useful lifespan" — causes a halt in the supply of current. Even if new industrial construction was going according to plan, the new factories still would be unable to go into operation because they would have no electricity. The example of electric power construction is convincing proof of how little one can judge the actual state of things from the data on plan fulfilment. The plan for electric power capital construction has been 37 per cent fulfilled, a figure slightly higher than the average for industry. However, the programme *is already disrupted, with three quarters of all construction projects having come to a halt (ibid).* And why? All for the same reason: the absence of real resources, the lack of building materials and equipment. "*The shortage of building materials*", writes Kukel'-Kraevsky, "*did not become the decisive reason for the failure only because a large part of the unfortunate construction sites had previously had to close down because they had no equipment*". A large proportion of orders for imported equipment have been cancelled, others, although filled, have reached our factories four to 18 months after the time specified in the plan. However, many orders could not be filled internally and were again abandoned to wait for orders to come in from abroad. The failure of this year's plan for electric power construction has already determined the fate of next year, at the end of which we shall face an unavoidable deficit of at least a *half million kilowatts*. For Moscow and Leningrad this will mean a deficit of 30 to 33 per cent — and even then only on the assumption that not a single power station goes out of action and that there is no

overburning of fuel (which would upset the fuel-power budget from the other direction). New electric power construction in 1930/31 can still save the situation in 1932, but only if next year's construction is substantially greater than the preliminary control figures are calling for.

The situation with regard to electrification displays yet another of our already innumerable disproportions — this time, that between industry and its energy base — and yet another limit to industrial development.

Electric power construction, transport, and other areas have had their resources taken from them and thrown into industry. This year [1929/30] allocations for electric power construction amounted to 14.1 per cent of allocations to industry, against 32.7 per cent in 1925/26. However, since the transfer of resources does nothing to increase their overall quantity, this merely created additional disproportions. Kukel'-Kraevsky gives an excellent characterization of centrism's policy — which shoots for quick results without regard for the future — when he melancholically remarks: "Since the results of electric power construction only make themselves felt after several years, no-one has given them much thought or paid any attention to the protests of Glavelektro [the Main Electricity Board]". All the same, he does not grasp the heart of the matter. He sees only a "staggeringly thoughtless attitude on the part of our industrial leadership", when in fact it is a question of not having the real resources.

Transport

The situation in transport is catastrophic in the most literal sense of the word, as testified to by the accelerating frequency of railway disasters. In transport, too, there has been substantial growth in the quantitative indicators. But here it is absolutely clear that this is based on the out and out plunder of fixed capital without any serious attempt to replace it. In 1928/29, our rail transport system was first in the world in the intensity with which it utilized its rolling stock. However, this took place, and is taking place still, at the cost of its massive depreciation. In previous years transport has been neglected no less than other sectors of the economy. Thus, when it was "ascertained" that it was necessary to develop industry, an attempt was made to sacrifice transport. Far from saving the situation, however, this created *yet another disproportion in the national economy*. Transport already has become perhaps the most troublesome disproportion for both industry and agriculture. The following comparison will give us a general idea of the strain under which transport and transport's resources are working.

In 1928/29 in comparison with 1913:

freight haulage went up by 62.5 per cent;

the operational length of railway track increased by 21 per cent;

the number of wagons increased 4.5 per cent.

This year the gap has widened even further as both rail beds and rolling stock have continued to wear out. What this disproportion means in physical terms and just how hopeless it is to expect any kind of short-term improvement are both clear from the following: To haul the amount

of freight that will have to be carried by the autumn of this year, the five-year plan envisaged a need to invest *seven milliard* rubles (including 4.5 billion on the existing rail network and 2.2 billion on new construction). We can pose the question even more sharply by pointing out that concretely this would mean: more than 3000 new locomotives; 24,000 kilometres of new rails; 17,000 kilometres of new rail bed; seven million tonnes of metal; 95 million creosoted sleepers; 59,000 kilometres of train control telegraph wires; and the universal introduction of automatic brakes. *None* of this has been received; nor, as Rudzutak declared to the All-Ukrainian Party Conference, "will it receive it in the near future". What is more, transport is receiving barely enough to cover current depreciation. The percentage of large locomotives on the different roads fluctuates between 11.2 and 23.9 per cent (Order of NKPS [People's Commissariat for Transport] *Pravda*, 13 July). More than 10,000 kilometres of rails have outlasted their useful life. On the southern railroads as much as 37 per cent of the rails are worn out and will not accommodate the stock that travels over them. There are rails with between 10 and 12 millimetres worn away. The *lapu* are completely unsuitable and a huge proportion of the couplings demand immediate replacement. Thirty-eight per cent of water pipes also need to be replaced. A number of bridges are in such a state that not only can they not transport the heavy stock, they are endangering traffic. Warehousing has been totally neglected. Of the enormous number of items that transport needs it is getting nothing. To obtain "anything at all" it has to fight for it. Actual deliveries from the timber industry of the Supreme Council for the National Economy for the first half year were: 10 per cent of ties (instead of 20 per cent); 12 per cent of the rail crossing timbers (instead of 20 per cent); 13 per cent of the timber materials needed for haulage (versus 40 per cent); and nine per cent of the timber materials needed for bridges (as opposed to 20 per cent) (*Ekonomicheskaya zhizn'*, 10 July).

Although transport needs 460,000 tonnes of rails it has managed to order only 420,000; yet even this order goes unfilled, with transport getting only 115,000 tonnes in the first half of the year. The Council of Labour and Defence [STO] found it necessary to issue a special decree ordering rolling mills to start filling this order, but this soon reflected itself in a cut-back in iron girders and U-bars for industrial construction. In a number of places — particularly in Siberia, where it is especially important — the construction of second road beds has had to be abandoned. It has been necessary to cut 500 kilometres off the laying of rails on new construction sites and to postpone the replacement of rails on old beds. Yet even where transport obtains rails, laying them still represents an out and out waste: whereas pre-war rails lasted 30 to 40 years, our present-day rails last less than five years (*Ekonomicheskaya zhizn'*, 21 June). Despite this situation, transport finds itself having to cope with greater and greater demands, thanks to which the size of loads is ever rising, and with it the rate of wear and tear. Under such conditions, it is hardly surprising that transport is suffering a greater number of stoppages. The number of so-

called "incidents" is rising rapidly, including "serious accidents accompanied by damage to rolling stock and even by loss of human life" (*Ekonomicheskaya zhizn'*, 8 July). In June more than 8000 locomotives were damaged in accidents alone. In the first half of July the figure was already up to 5000, as against 1920 accidents in all of last year. Is transport really in any state to cope with the workload being placed upon it? Hardly anyone still could think this a serious possibility. Miracles do not happen. If last year, with a daily load of 45,000 cars, transport still suffered serious stoppages, can there be any doubt that this year, when the situation is that much worse, it will be unable to sustain a daily load of 25,000 cars?¹⁷ If throughout the year transport has not been able to cope with the freight needs just of construction, can anyone think that it will cope any better when it also has to carry grain and fodder? If transport is to carry the grain procurements it will have to stop carrying building materials. And so we see reinforced yet another factor undermining the progress of construction.

The situation with river transport is even worse, in terms of both its quantitative indices and new construction. The situation in both rail and river transport is such that not even the application of those great cure-alls, socialist competition and shock work (delays in wage payments are already worse in transport than in industry) can do any good. Here, too, the question hinges on *the absence of real resources*, of which a colossal quantity are required. The attempt to force industrial development at the cost of depriving electric power construction and transport of real resources has had the effect of turning them into backward branches which themselves are becoming a brake on the development of industry.

Finance and Monetary Circulation

Finance is not a separate branch of the economy. Rather it reflects, and permits us to evaluate, economic processes from a particular vantage point. The unified financial plan (which combines the state and local budgets and the financial plans of industry, transport, etc.) will amount this year to about 20 milliard rubles, as against 12.4 milliards last year. The consolidated (i.e., state and local) budget will be 13.06 milliard rubles versus last year's figure of 9.1 milliard. Because of the enormous role that the state plays in our economy, some 55 to 66 per cent of the national income passes through the financial plan (A. Vainshtein, *Ekonomicheskaya zhizn'*, 26 June). The vast majority — more than 80 per cent — of the revenue of the financial plan accrues through prices. In the current year the resources collected through the prices obtained by the economic organizations of the socialized sector should account for 16.5 of the financial plan's 20 milliard rubles. Fifteen per cent of revenue will come through taxes. (The data are from a meeting of the board of the People's Commissariat of Finances, *Ekonomicheskaya zhizn'*, 28 May.)

17. [Editor's note: This is probably a misprint which should read 75,000 cars.]

It is obvious that the problem of the financial plan and its sources is to a very large extent a problem of the distribution of national income. Thus I cannot deal with the problem as a whole, as this would take us too far afield. Rather I shall deal mainly with the reasons for what is by now a substantial — and officially acknowledged — imbalance in the financial plan, as well as with the prospects for eliminating it.

The retreat in the area of rural policy — begun under the impact of major events — led first to a reduction in taxation from the countryside and then to the abandonment of a number of other payments obtained with the help of administrative pressure. At a meeting of the board of the People's Commissariat of Finances, Bryukhanov reported on this as follows: "In view of the situation that has arisen in the countryside in recent months, it is necessary to put into operation in the immediate period a strict directive, namely to obtain completely the use of administrative and tax measures to collect share-payments [to cooperatives], deposits, and loans from the monetary savings of the peasantry. The same economic situation is compelling government agencies to follow a policy of reducing tax payments from the countryside" (*Ekonomicheskaya zhizn'*, 25 May). Adding to this the other concessions and price rises, Bryukhanov concludes that this year it will be possible to draw only 1.7 milliard rubles from the countryside, as opposed to the 2 milliards called for by the plan. Therefore, there will be a deficit of 300 million rubles.

The same economic circumstances have made it necessary to revize the plan for financing agriculture and to set aside 500 million rubles for the collective farms [*kolkhozy*]. In all, then, the countryside is producing a shortfall of 800 to 900 million rubles.

As already pointed out, there is a deficit in the industrial-financial plan for industry and other branches of the state economy amounting, according to an official estimate made by Mindlin, to over one milliard rubles (*Ekonomicheskaya zhizn'*, 21 June). Thus according to official data "the overall need for additional financial resources will equal two milliard rubles, or even somewhat exceed this very considerable amount".

This imbalance, now officially acknowledged, raises two questions: (1) Can this imbalance be overcome, and how? (2) What does the imbalance mean? As for how the state intends to cover this deficit, we find the answer in this same article by Mindlin, who lists the following sources: reserves and surplus income from the social insurance fund, the state insurance fund, and the accounts paid to the State Bank and the People's Commissariat of Finance by other organizations will yield 250-300 million rubles; the excess of transport receipts over the plan will yield 250-300 million rubles; the excess of state budget revenue over the plan will yield 600-700 million rubles; the additional mobilization of the internal resources of industry, transport, etc. will give 150-200 million rubles; the cut in budget expenditure and the deferral of part of it to next year will provide 200-250 million rubles. In all this comes to 1450-1750 million rubles.

Even assuming that these sources are real (more on that below), this still leaves a deficit of 300-550 million rubles. How is it to be covered? In Mindlin's opinion it can only be covered "*by somewhat exceeding the plan for currency issue*". This leads us directly to the question of the state of our monetary circulation and hence, onto the question of how real a source this is. The question of the state of monetary circulation — or to be more precise, the question of whether or not we have inflation — has been debated for several years. We answered this question affirmatively at least as early as 1928. When Bukharin, in his "Notes of an Economist", got himself caught in a vicious circle and was struck dumb at how it was that all branches of the economy could lag behind each other and how both industrial products and agricultural produce could be in short supply, Smilga explained to him what was going on. If, wrote Smilga in his reply to Bukharin, there is a shortage of every commodity, this means that *one commodity, namely money, is in surplus*. Actually, if we start out from the concept of inflation provided by the marxist theory of monetary circulation, only those unfamiliar with that theory could deny that we have inflation (as we know, familiarity with this theory is not obligatory for adherents of the general line). Over the past year, the growth in the money supply has been sharply outstripping all the assumptions of the plan and proceeding considerably faster than the growth of the money incomes of the population; beginning last year, it has also been outstripping the growth in commodity turnover. The following table provides a general idea of what has been happening.¹⁸

	1926/27	1927/28	1928/29
Annual growth in total money supply in per cent	[21]	[24]	34
Ratio of rate of growth of money incomes of the population to rate of growth of total money supply	66.7	33.3	37.7
Ratio of rate of growth of [intermediary] commodity turnover to rate of growth of total money supply	98.6	105.4	87.4

Source: D'yachenko in *Ekonomicheskaya zhizn'*, 29 June and 2 July.

18. [Editor's note: The figures in brackets are cited by D'yachenko; they are misprinted in Rakovsky's text.]

It has been projected that this year the money supply would rise to as much as 3.1 milliards; now the intention is to raise it even further, at a time when the goods famine of both agricultural produce and industrial commodities is becoming increasingly acute.¹⁹ This will mean that this one commodity — money — of which there is already too much as it is, is going to be in even greater abundance. No justification is given for this plan — if we ignore the general argument that "it is not the same with us as it is with others".

Not being able to say anything articulate, D'yachenko proposes to make a scientific inquiry into the question of "what we should term inflation under the conditions of Soviet economy, under what conditions it becomes inevitable, and what its symptoms are in the sphere of monetary circulation and commodity turnover". Right away, however, he rushes to anticipate the results of this scientific investigation: declaring it "illegal(?) to engage in any talk about an impending inflation (or an inflation already upon us)" he promises (along with Mindlin) to "smack the hands" of anyone "sallying forth on questions of currency issue."

Since, however, life is unconcerned with such threats, and since we have nothing to fear from being accused of attacking the general line, we shall endeavour to make an analysis of this problem.

What are we to label as inflation under Soviet economic conditions? Exactly what we would call inflation in any non-Soviet economy: Inflation — to use Smilga's words — is when all commodities are in short supply and one commodity — money — is in surplus, when the growth in the supply of money does not correspond to the needs of the national economy. Under what conditions does inflation become inevitable? Despite the very real difference between us and other countries owing to the special role of the state in our system of national economy, the conditions under which inflation becomes inevitable are the same for us as for everybody else. It becomes inevitable when the state does not have at its disposal enough real values to soak up its expenditures. To extract these resources the state issues paper money, considering neither the requirements of commodity exchange nor the requirements of its own financial estimates. As in other countries, this issue of paper money is an *inflationary tax* that enables the state to extort the real resources that it needs. The question, therefore, is not whether inflation exists or when it becomes inevitable, but *what is the degree of inflation and on whom is this inflationary tax falling*.

With regard to the channels along which the inflationary tax reaches the ultimate payer, here we have a substantial difference with other countries. In countries where the state plays a very small *direct* role in the national economy, it profits by as much as the economy loses. There then begins a struggle between the separate classes and strata of the population to determine on whom this tax ultimately is going to fall. With us it is different. Our state appears as the immediate subject of the economy (for

19. [Editor's note: Currency in circulation reached 4.3 milliard rubles by 1 October 1930, the end of the economic year.]

industry alone, net output comprises 37.1 per cent of national income); thus it would have to bear a corresponding share of any inflationary tax. It would receive through the People's Commissariat of Finance whatever it had lost through the Supreme Council of the National Economy, the People's Commissariat of Transport, etc. Merely shifting out of one pocket and into another in this way would be senseless. Therefore the state strives, by whatever levers are available to it, to transfer the tax. It is clear that it can shift the tax only to the countryside or onto the working class — on the condition, of course, that the rural and working class budgets possess real resources that can be exacted. Should there be no such resources, the state would have to pay the tax itself and in real terms would gain nothing.

As regards the countryside, over the last few years it has worked out a number of means by which it has attempted to dodge all payments — including the inflation tax — and shift them into other groups. The basic method — which flows quite naturally out of the commodity-capitalist nature of our agriculture — is to raise prices. According to data provided by Maimyn (*Na'planovom fronte*, No. 9-10), the overall index of agricultural prices has moved as follows [1913 = 100]:

1927/28	1928/29	1929/30
165.8 ²⁰	196.8	217.4

In line with this the "scissors" [the ratio of industrial to agricultural prices] have been closing:

1926/27	1927/28	1928/29
140.6	126.6	110.7

There is no doubt that this year the "scissors" will close altogether. Thanks to this we see greater accumulations of both industrial commodities and money being put aside in the countryside. According to Maimyn's calculations (*ibid*), after meeting all its payments to the state the countryside this year will increase its consumption fund of industrial commodities by 600 million rubles, after which it still will have "some two hundred million rubles" left over. And this refers only to *growth*. I have not managed to find any assessment of how much money has been accumulated in the countryside in the current year. A report of the board of the People's Commissariat of Finance has set this sum for next year at two milliard rubles. Nevertheless, in our conditions a rise in the prices of agricultural produce still does not mean that the peasantry is evading the inflation tax. It would do, were it receiving industrial commodities for its paper notes. However, because of the severe goods famine and the virtual absence of industrial commodities from the market, the peasantry is receiving fewer commodities than it is accumulating money; and when it

20. [Editor's note: This is misprinted in Rakovsky's text as 185.8.]

does get hold of them, over the last few years it has been doing so only in exchange for agricultural produce. Thus for the peasantry the accumulation of money is ceasing to have any rationale. The peasantry increasingly is refusing to sell for money. The peasantry needs only enough money to meet its state payments and to buy what necessary commodities it can hope to find on the free market. Thus even when it does sell, it evaluates money to reflect the prices it has to pay on the free market for the commodities it needs, i.e., at a rate of about 20 kopeks to the ruble (the index of the private market has already gone beyond 500). Once having reached the limit of the amount of money it needs, the peasantry is more and more often refusing to sell anything for money, demanding real values for its own commodities. Therefore, the peasantry is trying to free itself from the inflation tax first by refusing to accept money, and second, when it does accept it, by evaluating money in step with the ruble's depreciation on the free market. Certainly the peasantry has not succeeded in freeing itself fully from this tax; however, neither is it bearing the burden anywhere near proportionally to its weight in the national income as measured by net output (27 per cent).

There remains the question of how the inflation tax is distributed between the state and the working class. There is no doubt that part of the tax falls back on the state; however, the latter has in its hands a number of levers for sparing itself from the tax, which it uses in order to shift it onto the working class. The form in which the inflation tax is paid is palpably obvious: *real wages lag behind nominal wages*. The size of this lag provides a measure of what proportion of the inflation tax is falling on the working class. The working class is the most defenseless against the tax, not having (unlike the peasantry and the state) any means for shifting it further along; as a result, the working class bears the greatest brunt of it — at the very least far out of proportion to its share of the total national income. From such facts — and not from any adherence to the general line — do we draw the real answers to the question of whether or not we have inflation and who bears the heaviest burden of the inflation tax.

The next stage to flow from our monetary policy obviously will be to drive the chervonets out of circulation. Virtually the only issues now are treasury notes (one, three, and five rubles). Issues of the chervonets [10-ruble coin or note, nominally gold-backed] are being internationally held up, the idea being to preserve the chervonets and sacrifice the treasury notes. There is almost no doubt that should present trends continue we shall reproduce at a new level that same, special system of parallel currencies that we had at the end of 1923 and the beginning of 1924, when the chervonets sat astride the depreciating "soviet note" [*sovznak*]. But then it was possible to save the chervonets by this method. The present situation is that the treasury note, having assumed the function of the *sovznak* (and in essence there is virtually no difference between them), can drag the chervonets down with it. Should there be any attempt — as there is bound to be — to save the chervonets by limiting its issue and separating it completely from the treasury notes, then the chervonets will quickly

disappear from circulation. These symptoms show the scale of inflation. The latter clearly has reached a point where it threatens to wreck the monetary system. This is the real answer to the question of how much inflation we have.

I now shall take up the question of the financial plan. In order to judge where the resources can be found to cover the deficit in the plan we need to take a closer look at its overall sources of revenue. As we have already indicated, the basic channels for mobilizing resources are direct exactions from the population (15 to 18 per cent) and prices (75 to 80 per cent). Direct exactions take the form of the agricultural tax, peasant self-taxation [intended to cover local needs] the income tax on workers and [salaried] employees, loans, deposits in the cooperative system, etc. How do these affect the different groups and classes of the population? The agricultural tax, together with rural self-taxation amount relatively to very little (probably 300-350 million at the very most); in any case it is not possible to increase them any further. The increase in deposits in the cooperative system is going, as we know, quite "well" among those who work for a wage and rather poorly in the countryside, especially since it became necessary to stop using compulsion to collect these voluntary contributions. The income tax on the workers and employees naturally falls on them and them alone. As for loans, how they are distributed over the basic classes is obvious from the following data on the subscription to the third industrialization loan, which showed the highest peasant participation.

	<i>In millions of rubles</i>	<i>In per cent</i>
Workers and employees	671.4	71.3
Peasantry	205.9	21.9
Others	64.3	6.8
	941.6	100.0

Obviously the loan is coming basically out of the earnings of workers and employees. The state, following the line of least resistance, would seem to have squeezed everything out of this source that is possible. It even became necessary to limit the "voluntary" subscription to the loan to two week's wages. As for the peasantry, here, too, it proved necessary to abandon initial plans, so that there will be no further resources coming from this quarter, at least for the time being (that is, if we leave out the direct exaction of resources in kind through extraordinary measures). Consequently, this first source for mobilizing resources has been effectively shut off.

Let us turn now to those resources gathered in through prices. Proceeding from the role that pricing plays in the financial plan, Teumin, speaking at a meeting of the board of the People's Commissariat of Finance, stated: "The three pillars which define the entire essence of our financial policy are prices, production costs, and wages". From which of these are additional resources likely to come? Teumin, uttering not a word

about wages and considering that "it is not possible for us to raise prices", naturally concludes that "the only additional resource is a reduction in production costs". Teumin has given an absolutely precise statement of the guiding aim of present policy; and, taking this policy as his starting point, it is not for nothing that he neglects to make any mention of wages. If "it is not possible for us to raise prices", clearly the resources can be got either by bringing down production costs — which in the present situation we can do only by raising the intensity of labour — or by cutting wages. However, the fact that clearly very little has been squeezed out of reducing production costs means there will have to be a corresponding fall in wages. The only person at this meeting to ponder these issues was the representative from the Central Black Earth Region, Malakhovsky. It is characteristic that he kept silent about production costs and instead posed the necessity of guaranteeing a 10 to 15 per cent rise in real wages. After this it proved easy for him to show that if prices remained stable it would be possible to achieve "a formal balance in the financial plan and budget by leaving two or 1.5 milliard in monetary resources in the countryside that cannot be used". Considering that leaving such a large unmet demand in the countryside would mean leaving "the basis of the national economic plan defenseless and without a cordon", he proposes to extract this amount from the countryside by raising prices, involving a significant extension of the system of dual prices.²¹

I shall deal below with the question of what this might actually yield. The fact is, however, that centrism is not going to take this route ... It can still drag a little more out of the working class through the "reserves and surpluses" of the social insurance fund and a few other sources, but the fact that it already has had to cut the loan subscription from a month's to two week's wages is an indication that even the centrists are beginning to understand that the worker's budget cannot be squeezed indefinitely. There is no doubt whatever that the centrists will try to stick to the path of putting two-fold pressure on the working class: increasing the intensity of labour and cutting real wages. Yet if they are unable — or unwilling — to grasp the political consequences of procuring resources in this fashion, the irrationality of it will impose itself on them strictly from the point of view of economics. The fact that it is still possible to get something out of the worker might be enough to sharpen his acute discontent, but it is totally insufficient for making up the deficit in real resources. Insofar as the burden is shifted back onto the state economy, it simply completes a vicious circle. It cannot provide any *new* resources, other than those that can be made available through the more rational redeployment and utilization of those that already exist. However, given that every single reserve in the state economy is stretched to the limit, this rationalization will not yield very much. It may make it possible to make ends meet in strictly bookkeeping terms, i.e., to balance things up formally, but it cannot

21. Although all these prices are intended for next year, our arguments are fully applicable to this year, as well.

provide anything new. What this means is that, given the minimal reserves now available to the state economy and the extreme physical exhaustion of the working class, we shall find no additional resources from this end.

What about beyond the nexus of the state economy and the working class? Here we must bear in mind three basic circumstances.

(1) First, everything that is happening in the countryside is taking place against the background of a decline in the economy's productive forces. One expression of this is that accumulation is taking the form of *monetary* accumulation and is not being transformed into means of production. In drawing resources from the countryside via economic measures it is these accumulations of money that first and foremost will be extracted. Obviously, to a certain extent this will cut rural demand and allow these resources to be shifted to other purposes. As I have pointed out, however, the effect will not be all that large, since the peasantry is presently able to transform its monetary accumulation into real resources only to a limited extent. *The peasantry's accumulation stays frozen in its monetary form because this money does not confront an adequate supply of real resources.*

Whatever real resources the extraction of these monetary accumulations might liberate will prove totally inadequate to make up the colossal shortfall from which the economy suffers. Several years ago, when the gap was immeasurably smaller than it is now and the countryside was prospering, this could have done some real good; now, however, the gulf is too wide and the productive forces of the countryside too depleted.

(2) The second circumstance to bear in mind is that the relationship of class forces is such that the withdrawal of resources from the countryside, while it might prove efficacious from an *economic* point of view, brings with it extremely severe *political* complications.

(3) *The final point to consider is that even if we could remove any real resources from the countryside in kind, their in natura form is such that we could not employ them directly to close the breach in the state economy. Does this then mean that the problem is reducible to one of a simple redistribution of national income? Certainly not. It does, however, change its significance. We must be absolutely clear that the country as a whole does not possess the resources needed to carry out the adventurist programme of the centrists. It is this, in fact, that makes the programme adventurist.* So far I have been proceeding from the two milliard ruble deficit quoted by Mindlin. However, this is merely the figure necessary to bring the figures formally into balance. It is enough to recall that transport requires seven milliard rubles to carry out the work it is now undertaking in order to grasp how much we really need and how great the shortfall actually is. The fact that industry has enjoyed its relative advance at the cost of neglecting transport means merely to create new shortfalls in both these sectors. *No redistribution of national income can help this situation.* A redistribution of national income is necessary to carry out those investments without which the basis of the proletarian dictatorship would

face liquidation: *investments in the working class*. For these investments a redistribution of national income would yield sufficient resources, both quantitatively and qualitatively. However, no redistribution of national income can bridge the gaps created by years of opportunistic policy.

The Situation In the Countryside

The problems besetting the countryside are so broad in scope that we cannot possibly deal with them extensively in a brief space. Thus I shall have to limit myself to the most general comments (I have dealt partially with these issues above). To say that the policy of wholesale collectivization and liquidation of the kulak has collapsed is banal. In fact, the centrists themselves have had to abandon it, reserving these remarkable policies for their resolutions. It remains only to sum up a few general results and to outline the main ways in which these results are going to make their effect felt.

The first result is *the depletion of agriculture's productive forces*: made possible by the years of preceding policy and made worse by the period of ultra-left adventurism, it has taken undisputed hold of livestock farming and a part of the production of technical crops, and is beginning to manifest itself in the cultivation of grain. The spring sowing must be considered a failure. Here, too, quantitative indicators (even where they do not just exist on paper) depend on those for quality. The great delay in carrying out the sowing (due not to bad weather but to the bad mood of the peasantry) and poor cultivation will have a palpable influence on the harvest. No less telling for the economy as a whole have been a rapacious attitude towards the means of production thrown into the countryside and the wasteful dispersal of these means of production, which was the inevitable accompaniment of present policy.

A second factor is that much of what exists in the countryside cannot be taken out so easily as, for example, industrial output. *With the countryside you still have to be able to get hold of the product*, and in the present situation that will be no easy task. There is no doubt whatsoever that the *kolkhozy* will be no more willing to surrender their grain than will individual holdings, and that it will be necessary to take extraordinary measures²² — together with other measures of "social" persuasion — against them. But this will mean an end to the construction of collective farms. The collapse of the *kolkhozy* was held back in the spring by the fact that the sowings were being carried out by the collective farms, and anyone who left would in fact have been deprived of his share in the sowing. Therefore, the peasants on the collective farms are impatiently awaiting the end of the harvest in order to set about dividing it up. A vicious struggle is going to develop around the division of the harvest. When the heavy hand of the state meddles in this fight it will dilute the internal struggle and strengthen the united front of the countryside, rallying together the

22. [Editor's note: The "extraordinary measures" were introduced in January-February 1928 to compel peasants to sell grain to the state that they would not part with voluntarily.]

peasants not as collective farm members but as small-scale property owners. At that point their existence as "collectivists" will come to an end.

The middle peasant [*serednyak*] will leave the *kolkhoz* disillusioned with yesterday and uncertain about today. Under these conditions it would be out of the question to compel him to expand his sown area in the autumn. *The decline of productive forces in the countryside is now inevitable under any circumstances*, whether we stick to present policy (which is bolstering the united front of the countryside) or adopt a correct policy of smashing this united front by carrying the class struggle to the village. Neither will create the conditions for boosting the productive forces. Yet a decline in the productive forces of agriculture constitutes one of the most serious obstacles to industrial growth. We have come full circle. Holding back industrial development already has become a cause for the degradation of agriculture, which in turn is now blocking the way to industrial development.

*Some Results and Proposals*²³

For us there has never been any doubt that sooner or later opportunist policy would lead the revolution into a severe crisis. And although we had no doubt as to what the *ultimate* results of this policy would be, we had no clear conception of what *concrete form* the crisis would take when it did erupt. Now that we can practically feel the results of the whole of preceding policy, can probe the open wounds of the revolution, these results have bared themselves in tragically simple form: *the absence of real resources for carrying out industrialization at a speed that would extricate us from the crisis*. It is incumbent upon us to say that many of us have felt this simple truth for quite some time, but we feared to call a spade a spade so long as we still had certain doubts and so long as this truth had yet to establish itself beyond all debate. It is no less true for being masked behind fictitious resources, invented to bring adventurist and phantasmagoric plans formally into balance. Perhaps the centrists were themselves unaware of how they were beginning to get caught up in the vicious circle of these fictitious, paper resources. Losing their basis in reality, they began to resemble the famous dog who ran around in a circle faster and faster hoping to catch his own tail. The faster his head moved, the faster his tail slipped away from him.

Today they increase the programme for coal and iron to make it possible to fulfil the programme for machine building; tomorrow it will be necessary to expand the programme for machine building to make it possible to fulfil the enlarged programme for coal and iron; later they will again find it necessary to increase the programme for coal and iron in order to guarantee the new programme for machine building. In the midst of this spiral it suddenly turns out that it is posing tasks for transport that

23. Since these general conclusions relate directly to what I have had to say in previous articles — from whose basic ideas I find no reason to dissent — I shall limit myself to adding certain points arising from a concrete analysis of the situation.

transport will not be able to cope with unless the latter receives an appropriate supply of iron and steel — and so the programme for coal and iron is boosted again and the circle begins anew.

Hence the exaggerated tempos, the exaggerated figures, the exaggerated plans which collapse as soon as they come into touch with reality. At this point appear comrades who, without the slightest understanding of the essence of what is going on, talk about the "re-armament" of the opposition, about the fact, (or so they claim) that the opposition, after having stood for high tempos in the past, now, when Stalin finally has gone after these tempos, comes out against them simply to be able to remain in opposition. With these comrades one has to drag them by the nose into the real world and show them that these high tempos exist only on paper, in books, in articles, and in plans, that any advance in one area comes at the expense of violating all proportions, of creating colossal disruptions in other areas, of creating huge new disproportions. To these comrades one has to explain that our weapon is never rigid formulae, but the marxist method, which allows us to work out the formulae most useful at any stage along the way. What certain of our comrades take for the re-armament of the opposition in fact represents a radical change in the entire situation. The questions are all now different from what they were — here Stalin is right. It is just that he is unable to understand *how* they are different and *why* they have become so. And even if he could understand, he still could not say so. We have never adhered to a policy of acting like an ostrich. However harsh the reality, no one ever found salvation by refusing to recognize it. And reality is whispering the same simple truth that I stated above.

This naturally raises the question, how much of the blame for this situation lies with Stalin's policy? Are we really convinced that the real resources would have been there had we embarked upon industrialization earlier, when we were demanding it, and had it been based on the methods we were proposing? It depends. If we mean, would we have had the resources to guarantee the construction of full socialism, the answer is *no*. If we mean, would we have had the resources to strengthen the basis of the dictatorship, to forestall the eruption of social contradictions, and to delay any sharp deterioration of the crisis, then the answer is *yes*. We have every right to say this: to us it is absolutely clear how the policy of opportunism has weakened the basis of the dictatorship, accelerated the bursting apart of social relations, and hastened the onset of the crisis. By the time the centrists embarked upon industrialization it was already inevitable that we would have to make *partial* restitution for our lateness, for the fact that over the years industry not only had failed to accumulate, but had sold off its own resources at a song; yet the difficulties resulting from this delay could have been overcome by a correct policy, *even though it would have taken more time. The ultra-left adventure* (the "horse races") *rapidly exhausted these possibilities*, violating all proportions in the national economy, and deepened all the dislocations.

The other side of this adventurist policy — the policy of wholesale

collectivization and the liquidation of the kulak — has undermined the productive forces of the countryside, brought to a head the sharp conflict with the village that all of previous policy had been leading up to, and thus finalized our exclusion from the international division of labour — for in the immediate future we shall only be able to participate properly in that system through agricultural exports. The methods by which centrism presently is trying to bridge these gaps, as well as those by which it seeks to gain inclusion in the international division of labour (i.e., through the use of loans), will only deepen the shortfalls and disproportions and tighten the noose around the neck of the revolution.

We are entering an entire epoch (how long it will last we can only surmise) during which it is ordained that we shall pay for our past. How pitiful, in light of this, are those comments about how "the opposition is demanding a rejection of industrialization". We demand only one thing: that we look reality squarely in the face, that we acknowledge and carry out today what tomorrow may prove too late. When an army is facing total rout and spontaneously starting to pull back, it is ludicrous to say that those trying to bring some order to the retreat, to stave off the inevitable panic, and to save as much as possible out of the situation, are the ones calling for the retreat. What, they ask, is the difference between us and the Right? They, too, when it comes down to it are for retreating. Pursuing the military analogy, we could say that the difference between us and the Right is that between an army in orderly retreat and deserters fleeing the field of battle. The formal, outward similarity that exists here occurs because up to a certain point the retreating army and the deserters are moving in the same direction. Precisely because of this external similarity with the Right, however, we must not limit ourselves simply to repeating that it is necessary to retreat. We draw a clear line between us and the Right by the fact that we formulate clearly and precisely *what form* this retreat must take, *what its aim* is, and *how and to what positions* we are retreating.

As to the form the retreat should take, this flows from the very essence of the viewpoint we have already expressed. There is no arguing that we cannot hold out for very long with a declining or even stable level of the productive forces. It is natural, therefore, that we have always posed their development as a major aim. However, the dual nature of our economy means that the development of its productive forces can proceed in two directions: in a situation where the overall balance of this growth can only be unfavourable to the proletariat, it becomes essential to subordinate the task of raising the productive forces to the more general task of saving the dictatorship. This was what we did under War Communism. This is equally the case today: thanks to previous policy we are unable to develop the state sector of the economy at a speed that would guarantee us predominance on the basis of an overall growth of the country's productive forces. Thus our first conclusion is that *the retreat, which is now inevitable, must be a retreat along the front of the productive forces*. This, by the way, is only saying in different and more precise language what I (simultaneously with comrade L. D. [Trotsky]) put

forward in my April article, where I stated that "there is no purely economic way out of the situation". The objection that purely economic methods never exist, and that one really can only talk about percentages is not a serious objection: it is rooted in an altogether undialectical attempt to reduce a qualitative difference to a quantitative one. A purely economic path towards strengthening the basis of the dictatorship means, in our situation, strengthening it on the basis of industrialization. However, once it becomes impossible to pursue the rate of industrialization needed for this at this stage, once the attempt to ravish the economy has created all the preconditions for withdrawal and made it necessary to retreat — including along the industrialization front — this means that for this stage there are no purely economic ways out. This, at least, is how I understand my own formulation.

This leads us directly to the question of what we see as the aim of the retreat. Here, too we have already provided the answer: *We retreat along the front of the productive forces in order to save the dictatorship, in order to attempt to regroup our forces at this lower level and, on the basis of this, return to the attack on a sound economic basis.*

It is true that all the *fundamental* questions of our revolution are now posed point blank. It is true that the *basic* contradictions of the revolution stand out in relief. But it would be wrong to conclude from this (if one cannot *prove* it) that this is the *final* eruption of our revolution's contradictions, and that henceforth the proletariat can wage only a defensive struggle, only rearguard actions. There is no doubt that the attempt to effect a regroupment of class forces at a lower level of the productive forces, or even when they are in process of declining (both the inevitable consequence of extensively applying methods of non-economic coercion) is fraught with dangers. The only guarantee (and even this is not ironclad) is a correct policy, a clear and precise formulation of aims and methods, and a clear class line. It seems to me that the central task of the Opposition must be to work out, using our basic strategic position and our overall assessment of the situation as our starting point, a minimum programme of concrete measures for the present period, just as we did for an earlier stage in our Platform. The general class character of this programme is clear and is reducible, in my view, to two basic propositions: (1) It is necessary to retreat alongside the working class and not distance ourselves from it, as do — and will do — the centrists. Hence the exceptional urgency of adopting measures — *no matter what the price*²⁴ — to alter fundamentally the material and legal position of the working class. It is necessary at all costs to break up the united front of countryside, to carry the class struggle into the village, and to deliver the poor peasant from the authority of the kulak.

24. I retain this formulation because it best reflects the unqualified necessity of this measure. Any objections that I might be construed as proposing, let us say, to implement it at the expense of abandoning the monopoly of foreign trade, are unfounded. It is necessary to take every formulation in its overall context.

It is far more difficult to translate this general programme into a system of concrete measures. It seems to me that the most important measures are as follows:

(1) *In industry and the state economy: sharply reduce the number of construction projects, concentrating on the most important and possibly cutting back on their scale in individual cases.* Work on some projects temporarily will have to be halted. The losses associated with this operation are already inevitable. With the resources set free by abandoning fantastic plans it should be possible for backward sectors (transport, electrification, etc.) to catch up.

(2) *In agriculture: "Striking a tough contract with the kulak", without, however, depriving him of all incentive to economic activity. With regard to the middle peasant, shift over to a tax in kind so as to allow him to exercise a certain degree of control over his remaining output (or at least to see the possibility of it), thereby trimming some of the fat that has been accumulated. Under these conditions it should be possible to set the tax in kind at a level that exceeds the current agricultural tax. The basic portion of the output left with the middle peasant should be procured by selling him industrial commodities at higher prices. It might make sense in this situation to increase the fund of industrial commodities by exchanging some of our agricultural produce for foreign imports. Decisively reject (as in fact already has been done) any extension of wholesale collectivization and liquidation of the kulak. Prevent any bargaining away of the means of production thrown into the countryside during the period of "feverish growth of the collective farms". Concentrate these means of production on the most viable kolkhozy, made up predominantly of poor peasants, and turn them into a material base for organizing unions of poor peasants.*

(3) *In finance: Bring expenditure into strict conformity with real resources. Sharply reduce nonproductive expenditures. Have a solid cutback in currency issue.*

(4) *With the workers: Draw off special resources from all branches of the national economy, including the state sector (but mainly from the countryside by redistributing national income), in order rapidly and palpably to improve the position of the working class; at the same time drastically alter its position within production.*

It goes without saying that I consider centrism incapable of implementing this programme. Its implementation assumes the radical reconstruction of the whole political system, a class mobilization of the proletariat and poor peasants, a reform of the Party, and replacement of the centrist leadership, with all that this entails. It also goes without saying that no-one can guarantee us the success of this programme any more than it will be easy to carry out. Better than anyone else I am aware of the real obstacles that stand in its way. Thus I can already anticipate a whole host of objections that can, and will be raised against it. To those comrades objecting I merely wish to point out that ours is not a choice between best and the worst solutions, but between the best of a number of bad ones. Anyone objecting to this or that measure must be able to point to a better

measure to put in its place. One also ought not to think that this programme can be implemented without trauma. It is a programme of sharp class struggle in the countryside, of struggle between the poor peasants and the kulaks, and most probably against significant sections of the middle peasantry as well. Finally, one ought not to think that this will come about quickly. This programme *will take years*. A situation of sharpening class struggle is not the best soil for a flowering of the productive forces, a decline in which is *inevitable* in the first years. The difficulties and the time this takes will grow until, having successfully implemented the programme of retreat, it will again be possible to pass onto a new attack.

Khristian Rakovsky
27 July - 7 August 1930

Translator's Afterword

When the Stalinist leadership of the Bolshevik Party launched its drive for forced collectivization and wholesale industrialization under the banner of the First Five-Year Plan (1928-1932), marxists both inside the Soviet Union and abroad were faced with the problem of how to understand these awesome events. The Soviet Union was in turmoil. The private peasants were in the process of disappearing, the old working class was under attack, while a new working class and a new elite were being formed on the basis of new relations of production. None of the analytical approaches of the 1920's — including those of the Left Opposition — were adequate to explain what now was taking place.

One extremely rich theoretical current emerged in the late 1920's and early 1930's that attempted to challenge the Soviet leadership's pretensions to building a "planned economy". Working independently of one another, the left wing of the exiled Mensheviks (grouped around the journal *Socialist Herald* [Sotsialisticheskii vestnik]), the trotskyist opposition leader, Khristian Rakovsky, and to a limited extent Trotsky himself, began to develop a theory of the "planlessness" of the Soviet economy (*besplannovost'*). The essence of their critique was that genuine planning required positive preconditions that were absent in the Soviet Union: rational coordination between the interlinked parts of the economic mechanism based upon proletarian democracy. Only then could the results of centralized instructions conform to the instructions themselves. The "forced tempos" of the five-year plan — based on bureaucratic caprice and coercion — were producing precisely the opposite result. Proportionality and coordination were breaking down, transport was in chaos, and quality was deteriorating.

What the Mensheviks and Rakovsky were describing (Trotsky in these years based most of his political economy on Rakovsky, only to abandon this ground in the mid-1930's) was the setting in place of the basic core of modern-day Soviet production relations. Their analysis showed

uncanny foresight in bringing to light the reproduceable nature of such phenomena as waste, defective production, and the permanent disproportionalities engendered by the system of bureaucratic command.

This theoretical tradition, once a part of the marxist critique of Soviet society, faded into virtual oblivion, to the great cost of the socialist movement. Many of the theoretical tools that later marxists (including those around *Critique*) have laboriously tried to develop in an attempt to analyze the class character of the USSR were already there in these long-ignored writings of forty to fifty years ago.
