

RESTRICTED

THE DEVELOPMENT OF THE SOVIET ECONOMY

25 March 1953

1713

CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION--Colonel T. A. O'Neil, USA, Member of the Faculty, ICAF..... | 1 |
| SPEAKER--Dr. Carroll Quigley, Professor of History, School of Foreign Service, Georgetown University..... | 1 |
| GENERAL DISCUSSION..... | 13 |

Publication No. 153-120

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

Dr. Carroll Quigley, Professor of History, School of Foreign Service, Georgetown University, was born in Boston Massachusetts, 9 November 1910. He was educated at Boston Latin School, 1924-1929, and at Harvard University, obtaining an A.B. (magna cum laude) in 1933, and M.A. in 1934, and a Ph.D. in 1938. He was an instructor in history at Princeton University in 1935-37, leaving there to do research work at the public archives of Paris and Milan on the Woodberry Lowery Traveling Fellowship of Harvard University. While abroad he wrote his doctoral dissertation on "The Public Administration of the Napoleonic Kingdom of Italy, 1805-1814." From 1938 to 1941 he was instructor and tutor in the Division of History, Government, and Economics at Harvard University. Since 1941 he has been at the School of Foreign Service of Georgetown University, at first as lecturer in history and now as Professor of History and Head of the Department of History. He is regarded as an authority on the comparative history of civilizations and the history of Europe in the twentieth century. He is a member of the American Historical Association, the American Economic Association, the American Anthropological Association, and other learned societies. He is engaged at present in writing two books a two-volume general history of European civilization and a history of twentieth century Europe. His last published work was "Falsification of a Source in Risorgimento History" appearing in the "Journal of Modern History" for June 1949.

RESTRICTED

THE DEVELOPMENT OF THE SOVIET ECONOMY

1715

25 March 1953

COLONEL O'NEIL: This morning we continue our study of the USSR. Our speaker is Dr. Carroll Quigley, Professor of History and Head of the History Department, School of Foreign Service, Georgetown University.

Dr. Quigley has studied extensively in the fields of history, government, and economics, and last year was a consultant with the Economic Potential Branch of the College. Today he will give us a generalized description of "The Development of the Soviet Economy."

It is a pleasure to welcome Dr. Carroll Quigley.

DR. QUIGLEY: Admiral Hague, gentlemen: In order to get this rather large subject into a rather brief period, I am going to take certain liberties with it. First, I am going to emphasize relationships rather than facts. I will assume that if you want to know any facts you could probably find them in some of the books that are available.

Secondly, I will emphasize the early part of the history of the Soviet economy rather than the latter part. The reason is that you are expending more emphasis on the recent period in other lectures.

The lecture will be divided into two major parts, each subdivided into four divisions. The first part will discuss four factors which have determined what happened in the Soviet economy as it progressed through time from 1917. All historical occurrences are the consequence of a large number of causes. If I were to list the causes and say that there were two, three, or four, I would be speaking in a way that would be falsifying the reality that we are talking about.

In this case I am going to say that what happened in the Soviet economy was the consequence of the interaction of four basic factors. Those were the Marxist ideology which the Bolsheviki had; second, the past history of Russia itself, particularly, of course, its economic history; third, the facts of economic reality. After all, you can't produce goods unless you have manpower, materials, and so forth, and there are such things as economic realities, even in Russia. Fourth is the influence of external pressures. I am going to say something about those four in order.

The Marxist ideology you are probably familiar with. I merely want to run through certain items in it. These were in the minds of the Bolsheviki when they came to power. First, the Marxist ideology assumes what they call dialectic materialism. That is, they assume that what

RESTRICTED

RESTRICTED

1716

happens is the result of conflict, dialectic conflict, and you get an outcome from that conflict. The materialism side of that indicates that the basic struggle is on the material level, and what happens on that material level determines what the structure of society will be like on other levels, such as the religious, political, the ideological, literature, science, and so forth. So they have, then, dialectic materialism.

The second factor that they had in their minds was class struggle. "All history is the history of class struggle," said Marx. Third, they believed that the state is a class organization of power, for all history is the history of class struggle. They said that the history of the state has always been the history of an upper class dominating and exploiting a lower class. So the state, then, is a class organization.

Fourth, they believed that there would be an inevitable revolution, that, as a result of the class struggle, the rich, as Marx said, would get richer and richer, and fewer and fewer in numbers, while the exploited proletariat would become more and more numerous, and poorer and poorer; and that if this continued, inevitably they would reach a point where there would be very few rich and a very large number of the exploited, and it would be very simple for the exploited to take over from the few rich; so there inevitably would be a revolution.

The fifth assumption of the Marxist ideology is that this would be followed by a dictatorship of the proletariat; namely, the proletariat as the result of the inevitable revolution having taken over the control of the economic system and of the instruments of production of the state, they would have to have a period of dictatorship in which they would change the other levels of society to correspond with the new Communist economic structure. So they would have to get, then, a Communist political system, a Communist school system, a Communist religious system, a Communist ideological system, and so forth; and that would require a dictatorship.

Lastly, when they finally had the whole thing set up so that in all levels of society they had a Communist society, there would no longer be any need of a state. This is the sixth aspect of this Marxist ideology, that the ultimate outcome would be the Communist society, a Communist society in which there were no groups exploiting anyone else and, accordingly, there would be no need of a state--a kind of glorified Garden of Eden anarchy.

This Marxist ideology was in the minds of the Bolsheviks when they took over.

The second factor which influenced what happened was the past history of Russia itself. Here I am going to sum that up in three words, which

RESTRICTED

RESTRICTED

1717

means it is very much falsified. First, the economy of Russia was "backward"; second, it was "exploitative"; and third, it was "state-dominated", in 1917 and for a long period before 1917. When I say that the economy of Russia was backward when the Bolsheviks arrived on the scene, I mean that it was very largely agricultural, and that it was a poor agriculture, not a productive or advanced agriculture.

The Bolsheviks had commerce, but it was not so dominant as it is in an advanced society, and they had relatively very little industry. Their agriculture was extensive rather than intensive. For example, they still used a three-field system in which one-third of the land that was being cultivated was left fallow each year. The peasants in some places still had scattered strips. They had to spend a good deal of time walking from one strip to another. There was a great lack of livestock, which meant there was a lack of manure. There was a lack of nitrogen. This indicated a lack of leguminous plants which would restore the nitrogen content to the soil. There was only a small portion of the land cultivated; only 25 percent of the land of Russia was cultivated at the beginning of the century, compared with 40 percent in the rest of Europe.

The unit yields per acre were much smaller in Russia than in other places, places in the West. For example, they were about one-quarter of the unit yields of England and of Denmark, and about one-third of the unit yields of Eastern Germany; and one-half of the unit yields of France and other places.

There was a lack of equipment and the equipment they had was quite primitive. For instance, half of Russia's peasants at the beginning of the century still used wooden plows; they still engaged in hand sowing; they still harvested with a sickle, and threshed with a flail by beating out the grain--very primitive methods. Many of the peasants had inadequate areas. One-sixth of the peasants had less than 10 acres, and that meant that one-sixth of the peasants had only about 4 percent of the land; and these peasants who had inadequate land had to find work elsewhere.

As a result of this there was a great deal of rural underemployment--I wouldn't say rural unemployment--they were busy part of the time--but there was a good part of the time when most of the Russian peasants were not doing very much.

There was a great population pressure on the land. For example, the number of persons per square mile was about twice what it was in the United States at the beginning of this century. The area of land cultivated per person on the land was about 3 acres for each person--3 acres, compared to 13 in the United States, and 8 in Denmark.

RESTRICTED

RESTRICTED

1718

That agricultural system obviously was primitive. It has been estimated that the number of underemployed and unemployed people in the rural areas in Russia must be counted in millions at the beginning of the century. Estimates ran them over a long range sometimes from 5 million up.

Commercial relationships at the beginning of the century were poor. They had very poor roads and a poor road system. The roads were dusty, dirt tracks for much of the year, and completely impassable for certain periods of the year. For instance, in the spring they were just mud holes--you couldn't get through at all. The river system was very helpful, but most of it was frozen up for a good part of the year; and the rest of it led to places to which no one really wanted to go. For instance, all the Asiatic rivers led to the Arctic Ocean.

The railroads had been built only after 1890--there had been a few before. These railroads were designed to take crops from the agricultural areas and export them; so they ran to the seaports, and to a certain extent they ran up to the northwestern part of Russia, where the big cities were; but they were designed to drain food from the countryside.

Industry was inadequate at the beginning of this century, as you know. It was very largely based upon the railroads. Thus it was to be found in metals, coal, and petroleum; but because it had come into Russia so late, the Russian industry was very large scale. Five percent of all the factories had more than 50 percent of all the workers in industry. But, while the factories were large, they were not what we can call modern, because the amount of power available to a worker in such a factory was very inadequate. The horsepower in Russian industry was 1.6 horsepower per hundred workers, compared with 24 in England at the beginning of the century, or 13 in Germany.

So the Russian past history, economically, was backward. It was also exploitative. That is to say, the food, as I have indicated, was drained from the rural areas and exported, or was used to support a rather small upper class. There is no objection to a small exploitative economy--don't think I am appealing for social justice; I am not. An exploitative economy is necessary, and is justified only if the surplus gathered together is being used for some productive purpose, notably, for capital investment. But this was being done in prerevolutionary Russia to a rather low degree. There was a low standard of living, generally: excess export of consumers' goods; top-heavy consumption, in the sense that a very small group at the top consumed a rather large portion of the total consumption; a top-heavy state bureaucracy, and a large number of Russians living abroad in leisure.

The drain resulted, of course, from unequitable ownership; from legal claims; from differential taxes which were designed to reduce the

RESTRICTED

RESTRICTED

1719

consumption of the lower classes; from differential freight rates and price differentials. For example, grain which traveled large distances to the seaports traveled at a lower freight rate than short-run rates which would take food, for instance, to the next town. As a result, much of the materials which we would expect to have been used in Russia were exported.

Russia had 19.5 pounds of sugar per capita per year as its consumption in 1900, compared with 92 pounds per person per year in England--you have 19.5 to 92 between Russia and England. One-fourth of Russia's sugar crop was exported and it was sold in London. The Russian sugar was sold in London at 40 percent less than the price for which it was sold in Russia. Similarly with cotton consumption--about five pounds of cotton per capita in Russia; 39 pounds in England; but note, a very considerable part of the Russian cotton crop was exported, mostly to China and India.

Russia produced almost half of the world's petroleum in 1900 and exported much of it. The consumption in Russia of kerosene, which the Russians needed, was very low; 60 percent of their kerosene was exported. The consumption of petroleum in Russia was 12 pounds per person in 1900, compared with 42 pounds per person in Germany.

Of the exports of Russia, 50 to 75 percent were rural products; 40 percent were cereal grains; which shows quite clearly that it was a drain from the countryside and was being exported. As a result of this, an official investigation in 1895 in 46 provinces of European Russia showed that more than half the peasants lacked a minimum of bread and only 20 percent of them had what was regarded by the government at that time as an adequate supply of bread.

That is the second point in the past history of Russia. The first was that it was backward; the second was that it was exploitative. The third I will merely give a sentence on--it was state dominated. To give you an example: Railroads were built largely at state expense; 74 percent of its capital was owned by the state. All the land in Siberia, with minor exceptions, was owned by the state. People who worked on it or lived on it were living on it with use only, not with ownership.

The third factor which influenced what happened afterwards was economic realities. I will not say much about that. You know you must have resources, materials, knowledge, labor, power, and you must have organization of these if you are going to produce anything. Naturally, the Bolsheviks discovered that after they came in.

The fourth factor which influenced their behavior was what I call external pressures, real or imaginary, that gave rise to a need for defense. Inevitably such a need for defense drew resources from capital investments and from consumption. This threefold appeal for the resources of Russia such as manpower, materials, energy, knowledge, and so forth--

RESTRICTED

RESTRICTED

1720

whether those resources should be used for consumption, capital investment, or defense, that has been the basic problem of the Bolshevik economy from the beginning and remains so today.

Now, those four factors gave certain results over the period after 1917, and those results I am going to divide into four periods. The first period, relatively brief, covers from November 1917 to June 1918. I will call that "consolidating power." The second period is called "the period of war communism"--from June 1918 to March 1921. The third period is called "the period of the new economic policy" (the NEP), and that ran approximately from March 1921 to October 1928. The fourth period is "the plan era." That is the period of the five Five-Year Plans, and that ran from October 1928 to the present. We are now in the third year of the fifth Five-Year Plan.

I am going to discuss those four periods in order, beginning with the first--consolidating power. The Czarist government fell from power early in 1917 because of external pressures and not because of internal pressures. It was destroyed by the German attack and the success of the German attack. As you know, when it fell from power, it was succeeded by what was supposed to be a parliamentary government, a coalition government of diverse parties of the more or less moderately left the Kerensky government as it was called. That Kerensky government attempted to continue certain policies of the Czarist government. For example, they attempted to continue with the war against Germany, and second, they attempted to continue with the existing agrarian structure; that is, land owned and the products of the land distributed approximately as they had been before.

Making use of these two tactical errors of the Kerensky government, the small minority of Bolsheviks were able to come to power in November 1917. They did it by offering peace and land--peace with Germany, ending the war, which most people wanted, and land to the peasants. Since many of the soldiers were peasants, this offer of peace and land created a tremendous appeal for the Bolsheviks, an appeal that was not based on the Marxist ideology, was not based on the hope of a future Communist state at all, but merely upon this immediate aim--peace and land.

Accordingly, the Bolsheviks came to power and they came to power in a situation for which their ideology did not equip them. The Marxist ideology had said that there would be an inevitable revolution when the rich got fewer and fewer in numbers and the poor got more and more numerous and that it would occur at a very late stage in a fully industrialized society. Here was Russia with a Bolshevik government presumably in control, which did not have a fully industrialized society, and as a result it did not have a proletariat on which to base its support, and it did not have a highly industrialized capital equipment that would make it a powerful state and a productive state. Accordingly, as the Bolsheviks came to power, they were faced with what seemed to them an almost insoluble

RESTRICTED

RESTRICTED

1721
problem: How were they going to get the fully industrialized state which alone could permit a Communist society to function?

The solution to that, according to Lenin, would be a long period of state capitalism. What he envisioned apparently was a proletarian dictatorship of Bolsheviks, that, since the proletariat were not yet there, the Bolsheviks would take over and would more or less hold control of the state during an extended period in which capitalism would be allowed to develop and would build up the industrialized society which they expected and, of course, which they needed. During that period the small group at the top, which was merely holding the wheel, so to speak, until they were ready to start steering, would do what it could to promote state capitalism and to develop and industrialize society, and would prevent any actions which ultimately would prevent establishing a really Communist state.

Now, before any of this could be done, it seemed clear to Lenin that he had to get support. Since he didn't have proletarian support, where would he get it? The answer was, from the peasants, and accordingly he brought forth the idea that there must be a close alliance between the peasants and the workers. The soldiers, as much as possible, would be brought into this alliance, because the soldiers presumably were made up of workers and peasants. Political control was the real issue of the first eight or nine months of the regime, from November 1917 to June 1918--consolidation of power, without any attention, really, to ultimate communism or ultimate Communist conditions, and with little attention indeed to ultimate economic power.

In order to obtain the alliance which they needed, they continued to repeat the peace and land slogans which had brought them to power. By a land decree of November 1917, the government and local governmental units took over the ownership of all land--presumably to be used by the peasants. The grain trade was nationalized. Peace was made in March 1918 with Germany, on very severe terms, but at least it gave peace. Progressive labor legislation was installed to win the workers, with an eight-hour day, no work for anyone under 16 years of age, no night work for females, paid vacations, sickness and unemployment insurance. It looked marvelous. The only trouble was they didn't have an economic system to support any such legislation and practically none of it went into effect.

But the workers took time off and relaxed and, as a result of this, and as a result of sabotage from the management, and as a result of a whole lot of different things, there was a tremendous fall in production. The undiscipline of the workers, sabotage by the owners, and finally, foreign invasion, brought an acute crisis.

It is quite clear in that early period that the chief aim was merely to get power and somehow hold it; and that in their attempts to get that aim and to achieve it they sacrificed a great deal of economic realities,

RESTRICTED

RESTRICTED

1722

and as a result destroyed economic production. The crisis to which I have referred, caused by the undiscipline of the workers, sabotage by the owners, and above all by the civil war and the invasion of foreign countries, led to the next state, stage two: the period of war communism which lasted from June 1918 to March 1921.

In June 1918 a decree of general nationalization was passed. It took over all enterprises with over a 400,000-dollar capital in industry; 37,000 firms were taken over in this way; all private trade was forbidden; presumably everything that was produced was to go to the state and the state would distribute products where it would be necessary.

In 1920 all factories with more than 5 workers using power, and all factories with more than 10 workers not using power, were nationalized. Compulsory requisitioning of agricultural products was established; that is, the government seized from the producers, the peasants and the farmers, all except a fixed minimum. This grain was then bartered for industrial products. The grain was taken and distributed to the factories; their goods were taken and distributed to the farmers. Rationing and price fixing were established. This is the period of war communism.

The results of the period were approximately as follows: In the first place, there was tremendous dissatisfaction due to the civil war. A very considerable fraction of productive resources, especially agricultural resources, were destroyed. The railroads were largely destroyed. The number of locomotives on hand fell from 14,500 at the end of 1917 to 4,000 at the beginning of 1920; that is in approximately two years they fell 10,500. Industrial production fell by 1920 to one-seventh of the industrial production of 1913. Starvation and disease were everywhere. People fled from the towns. Most towns lost between one-quarter and one-third of their population. Moscow lost one-half of its population. The peasants went on strike. Since all that they produced above a fixed minimum was being taken by the government, they were quite prepared to allow their production to fall to that minimum. Great areas went out of cultivation. In 1920 only half as much land was sown as had been sown in 1913. In certain areas as in the Volga and the Caucasus, only one-quarter as much was planted in 1920 as had been planted seven years previous, in 1913. The total harvest of 1920 was probably less than 40 percent of the prewar harvest.

Now, in order to collect the grain which the government was demanding, soldiers had to be sent out. There were armed clashes between soldiers and peasants. Government agents who went out to supervise this were murdered in the night. There was a 100-percent inflation in prices in three years. There was a bureaucratic breakdown. No one knew who was doing what. Generally, there were seven people delegated not to do each job. It is estimated that by July 1920 one-quarter of the population of Petrograd--Leningrad now--were bureaucrats--officials of the government. That sounds familiar, doesn't it?

RESTRICTED

RESTRICTED

1723

The government clearly was losing the support of the peasants and even of some of the workers, because the workers also were starving. It became quite clear that a change must be made. But such a change could be made only after the civil war was more or less finished and after the foreign invaders had withdrawn. That was accomplished at the beginning of 1921.

The new policy which was adopted is the famous NEP, the new economic policy. This new economic policy was established at the Tenth Party Congress in March 1921. The purpose of the NEP was both political and economic. Politically, it sought to restore the alliance between the peasants and the workers. Economically it sought to restore production. The method by which this was done was to restore very largely a free economy. Agriculture was freed almost completely. This was done by reversing the demands upon the farmer. Prior to this they had given a minimum to the farmer and all above that was to go to the state. Now they established a fixed amount to go to the state and all above that would go to the farmer.

There was a tax in kind in place of the previous requisitioning. This tax in kind was to yield about one-half of the previous requisitions, and it was estimated this would provide a minimum food allotment for the army and for the workers in the most essential industries. All the surplus above that tax was left to the peasant and he could trade it as he wished. This would encourage more sowing and better production, that is, in agriculture.

Practically all commerce was free. Rationing, of course, had to be continued. As a result of this there grew up a character who was known in Russian history as the NEP man. The NEP men were those who every morning hastily got out with a large bag and went out into the country with some things they could get from the city--industrial items or tools, or almost anything they could lay their hands on. They went out in the country and swapped these items with the peasants for various kinds of food which they brought back into the city.

Banking was not free. Banking and finance were left in government hands. However, inflation was curtailed by devaluating the paper ruble to one million, so that one million of the old rubles equaled one of the new rubles, and this new ruble was stabilized in 1924.

Agriculture was thus freed, commerce was almost entirely free, banking and finance were not free at all. Industry was mixed. First, heavy industry was left under state control, on the state budget. Second, all other industry was organized into about 500 cartels which were called trusts. These were financially autonomous. It was expected they would buy in the market and sell in the market, pay their own way and, by their sales, hope to cover their costs. These cartels were made legal persons in law.

RESTRICTED

RESTRICTED

1724

The managers of the factories that made up the cartels had freedom in regard to the production in their own factory, but they had no control over buying and selling. That was done by the cartel to which they belonged.

The third portion of industry was small units which were left completely free. So they had state ownership which continued for heavy industry; an autonomous monopolized structure for most industry; and then freedom for the smaller, less important industry. The result of this--the NEP men. This private trade handled about one-half of all retail trade and about one-fourth of the wholesale trade; but these fractions declined steadily during the period 1923 to 1928. Another result was the recovery from the terrible crisis, the two famines of 1921 and 1922.

Because they now had a competitive agricultural system and a cartelized monopolistic industrial system, they had the problem of price parities, which we have heard so much about in this country. That is to say, agricultural prices fluctuated much more widely than did the monopolistic industrial prices. This had two stages in it--the first stage, early in 1922 and early in 1923, is called the sales crisis; the second stage, in 1923 and after, is called the scissors.

The sales crisis arose when the monopolized new trusts which controlled industry tried to get working capital by liquidating the products they had at hand as rapidly as possible, that is, by selling. They sold the products they had at hand to get cash and capital for working purposes. This meant that they were competing with each other. It meant they were selling at any price so they could get the money; the prices of industrial products fell drastically. This was economically completely unjustified. The shortage of industrial products would not have warranted falling prices. This meant the peasants were in an advantageous position. Agricultural prices, because of the shortage of food, were high; industrial prices were temporarily very low. That is called the sales crisis.

As soon as the system got organized, in the following year--1923, the scissors took over and the situation reversed. That means that as agricultural production increased, agricultural prices tended to fall, since they were competitive; but the industries, having a monopolistic system, as soon as they got the cash they wanted, were able to function arbitrarily, and they raised their prices in order to recapture some of the losses they had made in the preceding sales crisis. This gave rise to a parity problem and, once again, discontent of the peasants.

The new economic policy lasted for many years. During those years they were facing certain basic problems, the real basic problem being a political one, which was that: Is it possible over a long-term period to build up a Communist system in one country. The left Communist, led by Trotsky, said it wasn't. They said, "We must have a world revolution.

RESTRICTED

RESTRICTED

1725

If we do we won't have to worry about defense; we will have a lot of people on our side. We won't have to worry about industrial capital; we will have the German industrial system to supply us with machinery and capital."

The other group, the group that ultimately triumphed, led by Stalin, said "Socialism in one country is necessary." It became clear that they could not get a Communist regime in Germany, which was the turning point. If they couldn't have the world revolution, they would have to have socialism in a single country. If you have socialism in a single country, it means you must get labor and capital internally--this meant from the peasants. People had to be drawn in from the country, and the peasants once again had to be exploited by having a considerable fraction of what they produced taken away and used to build up industrial machinery or to feed the laborers in the city. This meant that the worker-peasants alliance once again inevitably had to be broken. If they imported machinery, the same position would be faced. They would have to draw food or other goods from the country and export them to pay for the machinery; so the problem remained the same.

The decision which was ultimately made was to exploit the peasants and build up a heavy industrial system. The decision was made to emphasize heavy industry rather than light industry, because heavy industry would give them future production rather than immediate consumption, because heavy machinery would make them stronger in the future, because they admired the American methods, and, above all, because heavy industry would strengthen them for defense.

Now we will follow a sequence. First, the failure of the German revolution made socialism in one country inevitable. This made an acute need for defense. This made an emphasis on heavy industry rather than on light industry which might have been used to raise conditions and the standards of living. Emphasis on heavy industry made any immediate returns to the peasants for their food and manpower impossible--both the food and the manpower had to be sucked into the towns. This gave rise to the danger of a peasants' production strike such as had occurred previously. This danger of a peasants' production strike made it necessary to destroy the freedom of the peasants to strike or to reduce their production.

This made necessary a ruthless dictatorship, the end of all pretense of democracy, the establishment of a one-party system which exploited both peasants and workers alike. Accordingly, the first step toward this end was the Five-Year Plan--the first Five-Year Plan, 1928. Now, incidentally, it is not worth while, because the time is running so short, to give you the details of those Five-Year Plans, except to say there were five of them and the first began in 1928. The first one, however, was finished in four years and two months; so that took it to December 1932. Since then they have run in calendar years. So the second Five-Year Plan was January 1933 to December 1937. The third

RESTRICTED

RESTRICTED

1726

Five-Year Plan was interrupted by the war; the fourth Five-Year Plan began in 1945; and the fifth Five-Year Plan began in 1951.

The first step in the first Five-Year Plan thus was to reduce the peasants. Accordingly, 20 million farms were ruthlessly forced to join together to form about 250,000 large-scale units. Of those, more than 200,000 were collective farms run on a cooperative basis, and paying large portions of their production of the state. The other 50,000 or less were run directly by the state.

These efforts to collectivize agriculture led to an acute famine. The reason was that when the peasants were forced into the collective units, rather than take their goods and, above all, their livestock and hand them over to a collective unit, they killed them and ate them. So the livestock were killed off by the peasants. In retaliation for this and to be disciplined, the peasants were ruthlessly starved to death. The goods they had produced and had reserved were taken away from them and were taken to the towns. The result was the tremendous famine of 1932 in which perhaps a million starved.

In order to continue this exploitation of the peasants, price differentials were established for different kinds of goods and a very substantial sales tax was put on goods. It has been estimated by one student that from 1927 to 1948 consumer prices were allowed to go up thirtyfold--the prices of consumers' goods went up thirtyfold, so they had to pay to get them. Wages went up elevenfold. Those together would reduce consumption. Capital goods, producers' goods, and armaments went up in all about twofold or threefold. Thus, the government would take agricultural products from the farmer at low prices, sell them at high prices, take the difference and use it to industrialize--use it to pay for the building up of factories and armaments. Moreover, a sales tax was put on most goods that were purchased and that sales tax varied between 50 and 80 percent--it was generally about 60 percent. This also kept down consumption, because people's incomes were used up. Rationing for most goods continued for the early part of the Five-Year Plans. In fact rationing was continued, except from 1936 to 1941, and since December 1947, when rationing was about at a minimum.

In addition to this, people who didn't believe they had enough could go and buy extra, but they had to buy in commercial stores, where prices were many times higher. This again used up purchasing power.

Now, that is the essence of the plan system. You will be more or less studying what the plan system produced in the rest of this course.

Let me sum up the four factors that determined what happened: The ideology from Marx, which certainly didn't fit the situation at all; the past history of Russia--it was so backward; the realities of economic existence; and the external pressures--the necessity for defense.

RESTRICTED

RESTRICTED

Those four factors, playing against each other in different proportions at different times, gave rise to four successive periods: The first period, in which they were doing anything to get in power-- that lasted for about eight months; the second period of war communism, which lasted for about three years and which ended when the civil war ended, in 1921; the third period of the new economic policy, or the period, if you wish, of state capitalism, which lasted for about seven years; and then the last period, which has lasted since October 1928, the plan era, in which there has been a ruthless exploitation of the peasants and a very considerable exploitation of industrial labor in order to build up both capital equipment in industry and armaments for defense.

I thank you, gentlemen.

COLONEL O'NEIL: We will be glad to have any guest also participate in the question period.

QUESTION: Dr. Quigley, I have a question I would like to get cleared up. You have used four terms--workers, peasants, proletariat, and exploited. I wonder if you could differentiate between the various classes.

DR. QUIGLEY: There are really only two groups. There are the industrial workers, the true workers. That is what Marx meant by the proletariat. There are intellectuals working for the system who are proletariat because they are on the side of the system. Industrial workers are proletariat. The peasants would be a separate group. If you use the term "exploited" that would include both groups. Some people think that in Russia it would include 99.9 percent. Does that answer your question.

QUESTION: Where does the agricultural worker come in?

DR. QUIGLEY: The agricultural worker I would include among the peasants. Peasants would not be landowners, because so few people own the land, and at present very few peasants own the land. All who work in rural area I would include under peasants. These distinctions can be made forever. You have people who hire land; people who own land; people who work on other people's land as day laborers. I would include them all as rural workers, equaling peasants.

QUESTION: Dr. Quigley, how do you explain that communism succeeded in backward areas like Russia and later in China rather than where Marxism should have developed, in highly developed capitalism areas?

DR. QUIGLEY: The first reason is because Marx was wrong. Marx quite rigidly divided the population into the bourgeoisie, who were

RESTRICTED

RESTRICTED

1728

exploiting, and the proletariat, who were exploited. But as a result of the growth in industrialism, you have two phenomena of great importance. One was the rising standards of living, which tended to raise the workers, particularly in the United States and other countries, to a point where they became middle class. They certainly were not bourgeoisie in the Marx meaning of the term, because they didn't own the instruments of production, but they were middle class in their standards of living and in their outlook.

The second reason is when Marx speaks of bourgeoisie and exploiters he is talking of the owners of the instruments of production. As James Burnham pointed out in his "Managerial Revolution"--this is the only thing I will accept from James Burnham--the managers of these industrial corporations are not owners at all. The reason is that the managers, and not the owners, have become a larger and larger group in modern history. In the period in the United States from 1899 to 1929 the ownership of industrial securities increased sevenfold. So the owners were becoming more, not less, numerous, but those owners were having less and less to do with the way a certain large company was being run. Generally, it was being run by the managerial group, so you got a highly different system. You didn't have owners versus workers. If you wanted, you had managers versus the rest of us, but this wouldn't work. The managers knew they couldn't sell products unless they paid those who produced them, so they had to raise the standard of living.

So the whole analysis of Marx was wrong in relation to the industrial situation. But it appealed to backward areas. What happened was there were exploited groups in backward areas. The Marx doctrine was used against their exploiters, namely, the imperialist powers by which they were tyrannized. That appeal was there, but it was used for agrarian groups--peasants against landlords; and that was definitely an error on their part. In eastern Europe, for example, in 1945, they probably tended to welcome the Russians coming in, because they thought they would be given the land, which was what the Russians wanted them to think. Those great estates of eastern Europe were divided up for a short time, long enough for the Russians to get established. Then they set forth again the same policy of collective farms, which meant taking the land away from the peasants.

I think probably that's the explanation.

QUESTION: Dr. Quigley, would you say that Communist China is on the same road, in the sense of following the same kind of pattern?

DR. QUIGLEY: I think that is very definitely what they are trying to do. The only object lesson that they have that will permit them to advance is the Russian experience. I think definitely that is what they will try to do. I don't know much about Communist China.

QUESTION: Dr. Quigley, from listening to your talk, I don't see how the thing ever succeeded; I don't see how anybody bought it at all

RESTRICTED

RESTRICTED

1729

I don't understand. Everybody is exploited; yet they say in Russia today the morale is good and there is great love for the country.

DR. QUIGLEY: I think I have an answer to that. The answer is this: You and I would be very unhappy in Russia because we are used to something different; but the Russian people have always been exploited. There's at least 1,000 years of exploitation in Russia and the Russian people are used to that. I don't know if the exploitation now is any worse than it was before. I think it is not. I think probably it is about the same. And the standard of living in Russia today may well be higher, in general, than it was previously; so far as they are concerned, it is somewhat better. Also, there is this, which is a very important thing. There is an opportunity in Russia today to move upward. Before, that opportunity did not exist. In other words if a worker in a factory today wants to pitch in and look like an eager beaver, there is some opportunity for him to move up. He can go to industrial training and technical schools at night or other times. As a result of that he can better his position.

There are wage differentials, as you know. There is a great lack of skilled labor in Russia. Any unskilled laborer who wants to devote his energies toward becoming a skilled laborer is permitted to do so.

This circulation upward, plus the past experience of Russia, where they were exploited before, tends to explain why they are willing to accept it.

COMMENT: I don't see why they didn't have more revolutions in the early part.

DR. QUIGLEY: Because they didn't have weapons. In other words the peasants couldn't do much when all they had were pitchforks. The Cossacks were brought in and they galloped through the villages with sabres out and cut down anyone they felt like killing.

COMMENT: They were all starving anyway.

DR. QUIGLEY: I would rather starve than be cut down by a sabre. You can have your choice--every man to his own taste.

COLONEL BARNES: Dr. Quigley, I wonder if you could brief the major differences in each of the Five-Year Plans. Is that too much?

DR. QUIGLEY: It is much too difficult. The original intention was that the early plans would sacrifice consumption in order to emphasize heavy production, and the assumption was that as the Five-Year Plans went on, by the time they got to the third one, they would be starting to build up consumption. That whole thing was thrown into a mess by the rise of aggression from Japan and Germany, plus the appeasement policy

RESTRICTED

RESTRICTED

1730

of the western powers. That gave in the thirties such a threat to the Russians that they had to abandon any thoughts they had in the past of building up the standard of living and devote whatever surplus they had to armaments.

In the course of the thirties, armaments became the dominant demand. So I think now very likely it is armaments first; heavy industry which will produce armaments, second; heavy industry which will produce other industrial necessities, third; and still, the raising of the standard of living is definitely in last place--though there has been a fluctuation in aims there, there is no doubt about it. What they expected and hoped in 1928 has not come to be.

COLONEL BARNES: When did they concentrate on heavy industry--right at the beginning?

DR. QUIGLEY: As soon as they began the collectivizing of agriculture, the original Five-Year Plan was definitely weighed in favor of heavy industry from the beginning.

QUESTION: Marxism proposed an international revolution. In the "Christian Science Monitor" recently there was an article on the authentic resolution which was later adopted by the House Congress and which dealt with the lifting of the spiritual to oppose the materials--that this would be the inevitable outcome in history. How do you react to that? Is the spiritual strong enough to overcome the material?

DR. QUIGLEY: Let me say at the beginning that I have a personal prejudice here--I don't like dualism. I don't like the analysis of anything which polarizes a thing and says "We have one end of the pole here and one here." So far as spiritualism versus materialism goes, I wouldn't buy it. I think you must have both. The proportions you have of both are important, too. You can't get very far building up the spiritual if you do not keep the body alive. Do you see? I don't think you can keep the body alive and very happy unless you have a certain amount of the spiritual.

What I would do is, I would start at the beginning of that article--I haven't read it--and reword it so it would not be dualistic. Definitely there is need of the spiritual; but if we say "Let's be spiritual and forget the material," these fellows are going to come over with armaments--and where will the spiritual be?

COLONEL O'NEIL: Dr. Quigley, on behalf of the students and the college, I thank you for a very stimulating session.

DR. QUIGLEY: Thank you, Colonel O'Neil. Thank you, gentlemen.

(28 Apr 1953--750)s/ss

RESTRICTED