

Characteristics of the NEP Economic System and Its Collapse

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1. Introduction

This article examines the factors and causes of transition in the New Economic Policy (NEP) period of the U.S.S.R. The transition from the NEP society to the Stalin regime was not merely the consequence of the power struggle among the factions inside the governing party, nor did it result from the strong institutionalization of power that is inevitable under political and cultural backwardness. Despite the successive occurrence of such events, their underlying factors have not been explained. Therefore, it is crucial to analyze under what circumstances, which social elements manifest themselves and how. In this article, we intend to use an evolutionary approach.

Any historical society has its characteristic social elements. These elements have been inherited from the past (path dependency), can manifest or conceal themselves, and occasionally assimilate, differentiate, or metamorphose under changing circumstances. Correspondingly, an economic sys-

tem is characterized by the arrangement of subsystems (e.g., market economy, command economy, cooperative system, and community). The arrangement of subsystems implies that assuming a system as a core, certain relationships exist between the core system and the others, that is, they may coexist, rival, subsume or complement each other. Therefore, while analyzing social transition, it is essential to elucidate the changes that occur in the composition of social elements.

After the Revolution and the Civil War, the Soviet government adopted the NEP to reconstruct the ruined Russian economy. Despite being promoted as a “serious” and “long-term” policy, the emergent NEP system was too short-lived to be called a regime. It was short-lived because NEP disharmoniously combined heterogeneous elements with social dislocation. In any case, NEP was placed in the perilous world of disequilibrium; in its embryonic stage, it had the potential for various vicissitudes.

Hence, the NEP society, characterized by

its democratic socialism, did not directly degenerate into an oppressive regime after Stalin's usurpation of power. Therefore, it cannot be idealized as an alternative to the Stalin regime. Instead, the grave inconsistencies within NEP itself facilitated its mutation into the Stalin regime¹.

Hitherto, NEP has been essentially regarded as an alliance of laborers and peasants, leading to the market equilibrium between industry and agriculture, the heavy-handed destruction of which gave rise to the Stalin regime. While NEP's principles involved reconciliation between strata, the Stalin regime abandoned the reconciliatory policy and tyrannized peasants. However, this paper suggests that Stalin's socialist offensive against peasants was enforced only after solidifying the foundations of power in city-based industries. In the following discussion, we would like to clarify the institutional characteristics and intrinsic elements of the NEP economy. Thereafter, we will investigate the process of NEP's transition into the Stalin regime, using the categories of closedness, high pressure, power relations among strata, and social dislocation, mainly in the city-based industries.

2. Formation of the NEP economic system and its characteristics

The NEP economic system was never adopted deliberately and systematically. It was neither a system wherein "the State controls the market economy" (Stalin) nor was it "a planned economy with a built-in market mechanism" (central planning with a regulated market) in accordance with the

theory of market socialism². Although the Soviet government intended an "economic system that connects state planning with market relations and individual initiatives" (Lenin), NEP was more a mixture of various systems than an organic connection.

The NEP economy was an ad hoc plural economic system that arose from allowing market activities and providing a certain degree of autonomy to each economic entity for reviving the ruined economy at all costs. It comprised various subsystems, including market economy, that coexisted, competed, and complemented each other. Undoubtedly, the economic entities could not be completely independent, and nearly all the individual enterprises were integrated into trusts and syndicates. Similarly, workers were generally organized into trade unions with various branches and regions, and consumers were affiliated to consumers' co-operations. As long as the Communist Party was unable to manage the economy (see Lenin's very frank speech at the 11th Party Congress), these organizations were responsible for its management. They were grouped together, and the administrative machinery of the state and the Party coordinated, regulated, and controlled their activities³.

Generally speaking, the fundamental social institutions inherited by the NEP society can be listed as follows.

- (i) A traditional patriarchy, which bred centralized government organizations
- (ii) Extensive and deep-rooted commune relations
- (iii) An immature market economy and

distorted industrial structure, comprising a few gigantic enterprises (mainly heavy industries) and numerous small-scale enterprises unevenly distributed across cities and villages⁴

- (iv) A party organization and a mass movement

In addition, there were cooperative relations between economic organizations, trade unions, and consumer co-operatives. At the same time, the Soviet government had to implement the slow process of modernization. The resultant NEP society, therefore, contained the following social elements.

1. Paternalism
2. Principles of commune
3. Organized mobilization
4. Cooperative relationships or corporatism
5. Modern rationalism

The abovementioned social elements are essential ones that determine the intrinsic thoughts and behavior patterns of members and groups in a society. Each group's characteristic elements particularly depend on the milieu (social environment) under which the groups have been formed. The first element is a coupling of dependency on others and authoritarian leadership (enjoinment). The second is the concept of a firm sense of belonging and mutual aid that was traditionally nurtured under despotism. The third is derived from the demonstrative behavior on which the political party was originally founded, but which became a part of the governing system when the party rose to power. The fourth element represents an inclination for concord and reciprocity among the society's groups and members. Corporatism,

wherein vocational groups or social strata sharing common values and interests set up a representative organization to collaborate with superior organizations, is one form of this element. The fifth is a foreign concept that was introduced to Russia. This element can be summed up as relativization of subject-object relations and bounded rationality in end-means relations. It involves emphasis on technology, contract principles, and conformity with rules.

The institutional configuration of the NEP economy is as follows. A consultation system from above occupies a core position. (It is formally subsumed by market forms.) The negotiations between the superior economic organizations and trade unions (industrial associations, concerned governmental offices, and central organizations of trade unions) mainly decide the important economic problems. The trade unions participate in the decision-making of many economic problems (including industrial plans) as well as labor problems. Commodity transactions are mainly conducted through top-level negotiations between the producer and the consumer organizations. Decisions, including those in the other domains of the economy, are taken based on the consultations and consensus between the organizations and groups⁵.

The apparatus of the State operates in a parallel manner, while attempting to reconcile the conflicting interests of the above organizations. The Party acts openly or covertly as a curator or guardian for the resolution of challenging problems. In case of bottlenecks, the Party initiative is to carry out a

campaign to resolve the same. Furthermore, communal relations remain a deep part of the society, and an original market economy serves a complementary function. We would like to consider the NEP system with respect to the commodity market and labor relations.

The commodity market under NEP was chiefly composed of the following subsystems.

1. The general contracts between the producer organizations and consumer organizations
2. Planned distribution decided by the administrative machinery of State
3. Free market

These subsystems coexisted with each other. The first system featured organized, long-term business relations, determined through top-level negotiations between the trusts or syndicates and the central union of consumer co-operatives. In accordance with its terms, each affiliated organization concluded an individual contract. Thereafter, most of commodities were transferred from factories to the principal bases and local branches of syndicates, from where they were conveyed to the elementary cells of consumer organizations via the local consumer co-operative unions. However, these negotiations frequently needed mediation and arbitration by governmental offices (the conciliation commission of VSNKh and Tsentrosoiuz, Narkomtorg). Usually, general contracts were applicable to goods that retained the balance between supply and demand, while important producer's goods and deficit goods, being under the jurisdiction of Narkomtorg, were distributed according to plan.

The free market economy was still significant, formally or informally, and it was of great importance in the retail market. Although it was ostensibly supposed to deal with oversupplied commodities in a free market, in reality, a considerable amount of deficit commodities were sold at high prices. Thus, the three subsystems coexisted, partly in competition and partly in complement with each other⁶.

Labor relations were in a similar state. These were basically regulated by collective agreements between labor and management organizations. The main parties in the negotiations were the central committees of vertical trade unions by branch and industrial associations or chief administrations. Local agreements, though increasing, were relatively unimportant.

The labor market did not function effectively, and primitive market mechanisms operated for temporary employees. During skilled laborer shortages, factories contended with each other and attempted to lure away workers from other factories.

The State's direct regulations were not sufficiently strong. Although stipulations regarding the minimum wage, working condition standards, quota for hiring under-aged persons, etc., were laid down, these were not strictly obeyed.

Even in the industries, communal relations were deeply ingrained. Rules for hiring and firing people were governed by a mutual aid principle and human relationships (workers were prevalently employed through their personal connections)⁷.

Labor-management negotiations did not

necessarily progress well—they were often prolonged, and reaching consensus was difficult, with many disputes and conflicts. In dispute settlements, there was greater dependence on grievance machinery, government offices, or the Party. Furthermore, arbitration was preferred to mediation, because arbitration released people from bearing the responsibility for the decision. Moreover, people were not sufficiently qualified to participate in the negotiations, because the personnel administration was controlled by the Party, and the manager had severe restrictions regarding the funds at his disposal. Trade unions also had a fragile support base in the laboring masses⁸. For instance, at the onset of their collective agreement campaign, the Moscow Party committee urged both labor and management fractions to sufficiently prepare in advance so as to negotiate without conflict⁹. This illustrates the pe-

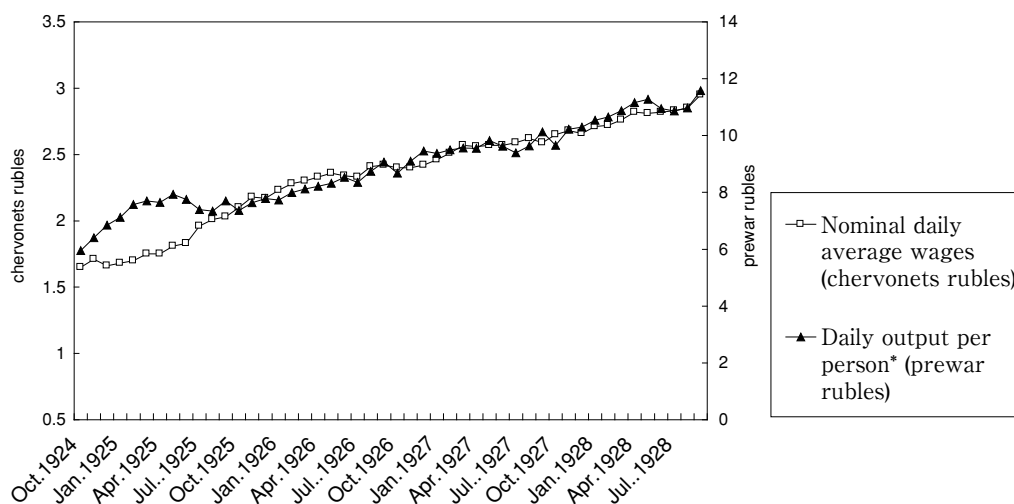
culiar state of the labor-management cooperation policies of the time.

The collective agreements concluded in this way mostly contained compromising elements, with a slight bias in favor of labor, clearly indicated by the simultaneous increase in both labor productivity and wage [figure 1]. However, the Party apparatus directly intervened if the dispute between labor and management exacerbated.

For instance, in the event of an actual or imminent strife due to a delay in wage payment, the Party influenced various organizations through its network to settle the situation¹⁰. In the late 1920s, the significance of collective agreement began to decline, whereas the State's control over wages and labor conditions strengthened. Planning began to assume priority over collective agreement¹¹.

In this way, the system of consultation be-

Figure1. Wages and Labor Productivity



*For 1924/25 estimates.

Sources : Promyshlennost` SSSR v 1925/26, M-L., 1927, I, p.45 ; Promyshlennost` SSSR v 1926/27, M., 1928, I, p.44,46 ; Promyshlennost` SSSR v 1927/28, M., 1930, I, p.84, 86

tween economic organizations and trade unions formed the mainstay of the NEP system, which was not only coordinated and complemented by the State but also under the Party's patronage.

3. Corporate governance under the NEP

In the NEP period, state enterprises (considering trusts and syndicates as independent economic units) acted on self-supporting accounting systems; however, their activities were restricted in many ways. Since they belonged to the socialized sector under national ownership, their activities were defined accordingly, and their rights to dispose of assets, including funds, were limited.

The executive officers comprised communist managers who were frequently transferred to other positions and noncommunist specialists who continued in employment for long periods of time¹², both of whom collaborated to run the enterprises. The board of directors, being the supreme decision-making body, generally relied on the specialists' reports while determining the management policies¹³. However, the board also needed to coordinate with trade unions and governmental offices. Moreover, local party organizations (province-, district-, or ward-level) intervened in important issues, including personnel affairs and dispute settlements, while the Party provided general guidance¹⁴. Thus, state enterprises were characterized by the consultation system, a loose vertical functional hierarchy, and strong external interference, and their activities can be assessed using the following indicators.

1. Stability

2. The degree of target attainability (quantitative and qualitative)
3. Improvement of employee welfare
4. Effectiveness (profitability). Although they did not pursue profitability itself, balancing their accounts could be considered the criterion for effectiveness.

The behavioral patterns and traits of state enterprises are as follows.

1. Inclination for stability
2. Tendency toward cooperation and compromise between organizations and groups within and without the enterprise. In fact, the efficiency or performance of administrators was evaluated with particular stress on their ability to get along with the trade unions and other organizations in workplaces, besides their business skills.
3. Running enterprises along the line of least resistance. This implies a preference for measures involving the least difficulty, among all possible choices.
4. Maintaining spares and reserves. This is intended for securing adaptability, which is required for stability and target achievement.
5. Evasion of responsibility and risk aversion
6. Behavior characterized by subterfuge or pretense. Managers do not have to bear responsibility if they can keep up appearances. Therefore, they do not directly or indirectly undergo sanctions by the market.
7. A pseudo market behavior. Managers behave in imitation of the prewar Russian economy or Western developed economies

rather than according to market principles.

8. Dullness of reception, inflexibility of adaptation, and warped reactions to changing circumstances. For example, let us consider that the demand for a certain commodity increased. First, there would be a delay in the reception of this information, followed by slow information processing and decision-making regarding the measures to be taken. State enterprises respond to a change in circumstances through a built-in reaction function while seeking a short-term and ostensible achievement along with a preference for stability rather than being motivated by profit. Therefore, they take measures that do not involve alterations in the so-called production assortments (ones convenient for production), impose a tie-in sale, or change the transaction conditions, except for price.

Such activities of state enterprises have resulted in numerous problems, such as exhibiting precedence to quantitative targets; neglecting qualitative problems; short-term management; delayed response and slow measures; non-fulfillment of orders, plans, or projects, and so on.

Therefore, it was necessary to monitor the activities of state enterprises and adopt sanctions against them. Under normal conditions, this monitoring was perfunctory. Excepting for the planning and budget stages, they seldom faced interference as long as their economic activities appeared to run smoothly. However, the enterprises were completely

overhauled if they were found to have obvious defects¹⁵.

Monitoring was carried out in many ways and involved several stages. The planning agency, concerned government offices, trade union, Party apparatus, party fraction, Rabkrin, and OGPU, all participated in this monitoring. The production conferences, production commissions, and temporary control commissions monitored from below, but they did not have much significance.

This monitoring was divided into three stages, i.e., preliminary, intermediate, and ex post facto stages¹⁶. Preliminary monitoring mainly constituted the deliberation and inspection of the plan and the budget by the planning agency, concerned government offices, and the trade union. The party apparatus also unofficially monitored the process and provided general guidance, even if it did not participate. At this stage, external organizations were very influential, and enterprises were utterly swamped with vertical and horizontal negotiations. Force was sometimes used. Intermediate monitoring was practiced when necessary, and the party cells and fractions played an important role at this stage¹⁷. Ex post facto monitoring was performed for the results of the enterprises' activities. In addition to the organizations mentioned above, Rabkrin and OGPU, too, gradually began to make their presence felt¹⁸.

More detailed investigations were made only when the defects and deviations of enterprises became too noticeable to ignore, following which the enterprises were offered improvement recommendations and sanc-

tions. In this way, there were several restrictions over the activities of enterprises, predominantly controlled by the Party.

In this way, enterprises under the NEP lacked autonomy as regards staff selection, finance, individual decision-making, and other autonomous activities; consequently, the pseudo market mechanism had limited regulation ability.

4. Factors affecting transition

The primary reasons behind the transformation of an economic system include a fragile basis existence, inconsistency among its constituents and internal contradictions. But these are revealed by means of some factors.

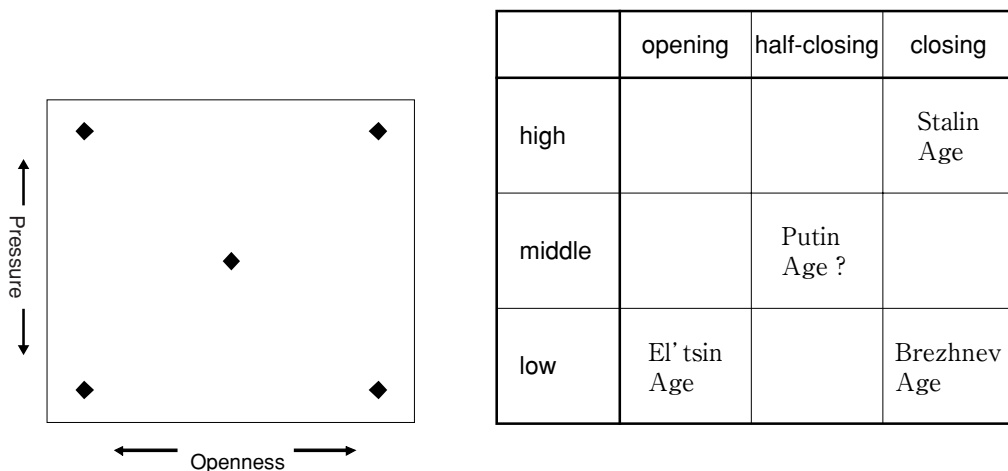
Soviet Russia underwent a Civil War in 1918, and under the resultant unavoidable circumstances, avant-gardism (leadership by the elite) and pragmatism (the end justifies the means) came to the fore, with other potential elements in the background. These elements, combined with a centralized distribution and mobilization system, gave birth to the War Communism regime. This regime,

however, did not have sustainability.

After the introduction of NEP in 1921, the economic system underwent a certain openness and relaxation of pressure, only to become more closed and pressured in the latter half of the 1920s, particularly in 1927. This year marked the beginning of a diplomatic collapse between the Soviet Union and England, thus aggravating the war crisis. As Soviet Russia's circumstances deteriorated, the national economy became increasingly closed. Under such a stifling atmosphere, the industrialization drive became full-scale after the 14th Party Congress, and intensified pressure on the enterprises and workers. Undoubtedly, the closing the economy and putting it under high pressure facilitated the transition.

Thus, we would like to discuss the economy's closedness/openness and change of pressure as factors affecting the transition. Closedness and openness, in this context, imply the leeway and the degree of control and regulation in transactions of money and commodities, transfer of capital and laborers, and

Figure 2. Degree of Openness and Pressure



exchange of information, which facilitate the convergence or divergence of the system.

Pressure means an intense power that ob-
sesses or spurs a person to do something,
comprising spontaneously competitive pres-
sure and external, compulsive pressure¹⁹. It
reflects the degree of tension or relaxation in
a society. If the whole pie of a society is rela-
tively insufficient under uncooperative rela-
tions, pressure can be intensified. A change
of pressure can suppressive or accelerate the
appearance of social elements and function-
ing of systems.

The situation of a particular time can be
expressed as a combination of closedness/
openness and intensity of pressure [Figure
2]. The Stalin regime emerged at the height
strengthening closedness and increasing
pressure. Since then, pressure gradually re-
duced, resulting in the closed and low-pres-
sure society during Brezhnev's time. The
stabilization of the regime diminished social
convection currents and established the
domination of technocrats and a hierarchical
social structure. Subsequently, under Pere-
stroika, the concurrent opening and relaxa-
tion revealed heterogeneous social elements
in the Soviet regime and weakened disci-
pline, which could potentially disintegrate
the Soviet Union. In the post-perestroika pe-
riod, the society was suddenly opened and
freed from pressure, leading to the spread of
greed for money and power. Thereafter, the
economy again became more closed and
pressured. In this connection, we can say
that under an open and high-pressure situ-
ation, a liberalistic capitalism may "run wild",
while a soft-collectivistic capitalism may

"take a sinuous course".

One more factor affecting the transition is
the changing distribution of power, namely,
the interrelations among groups like opposi-
tion, alliances, splits, or integration. The con-
figuration of social strata yields the following
major organized forces.

- A) The party functionaries (apparachiki)
working in the party apparatus²⁰
- B) The staffs of economic organizations,
comprising noncommunist specialists
and communist managers or administra-
tors. Although both groups do not neces-
sarily own joint interests, the latter, if
they attach importance to economic per-
formance, are forced to rely on the for-
mer²¹.
- C) The unionized adult laborers. The
party members who founded the trade
unions must, in theory, be responsible
for their interests²².
- D) The youth who are affiliated with
Komsomol²³.

Though never homogeneous, these strata
share common interests and values. There-
fore each stratum has its own preference re-
garding the goals and means of policy. As re-
gards the goals, choices include effective allo-
cation of resources, priority allocation of re-
sources, growth, expansion, stability, public
peace, concord, reciprocity, equality, and fair-
ness ; as regards the means of policy, choices
include administrative measures, campaign,
coordination, complementary measures, and
guidance.

Group A prefers high growth, priority allo-
cation of resources, and fairness (equal treat-
ment from above or equality of results) as

goals, and it prefers administrative policy and campaign as a means of policy. Group B prioritizes the effective allocation of resources, stable growth, etc., and prefers administrative measures, guidance, coordination, and complementary measures. Group C prioritizes employment stabilization, growth with welfare improvement, concord, equality, etc., and prefers coordination, complement, and campaign. Group D prioritizes high growth, job creation, etc., and prefers campaign.

The NEP society was founded based on the delicate balance of power among these social groups. The composition of social elements characterizing it would alter with changes in the interrelations among these strata. In fact, the configurations between the strata drastically changed as the rifts among them widened in the latter half of the NEP period.. How did this occur?

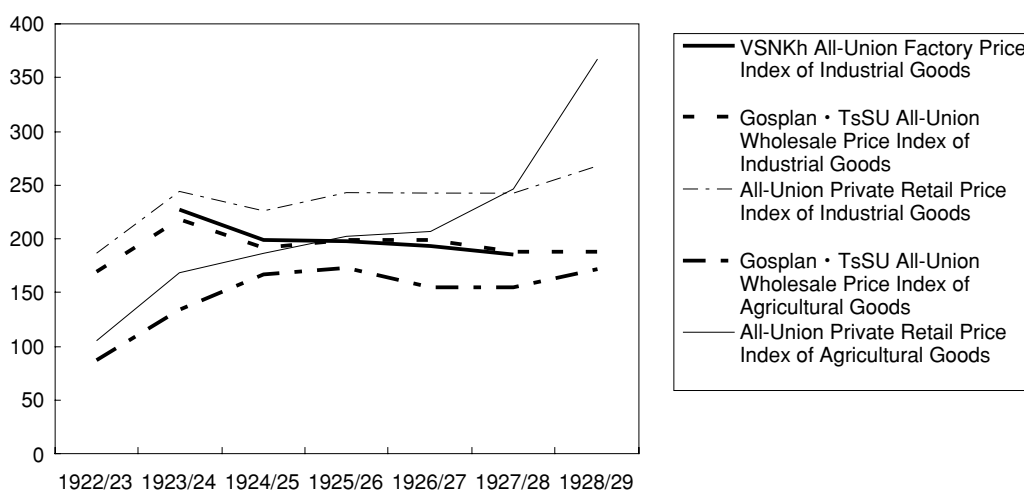
5. Collapse of the NEP economic system

In the latter half of the 1920s, the economy was rapidly closing, and pressure was mounting. The government intensified internal accumulation to speed up industrialization without relying on foreign capital. Concurrently, the Soviet government adhered to the deflation policy (hard budget constraints in the macroeconomic scale) in accordance with the classical equilibrium theory ; it also pursued the retrenchment and rationalization policy from above somewhat forcibly²⁴.

The price trends shown in Figure 3 clearly indicate a downslide for industrial goods, resulting from the strong downward pressure. In 1928/29, the prices took an upward turn.

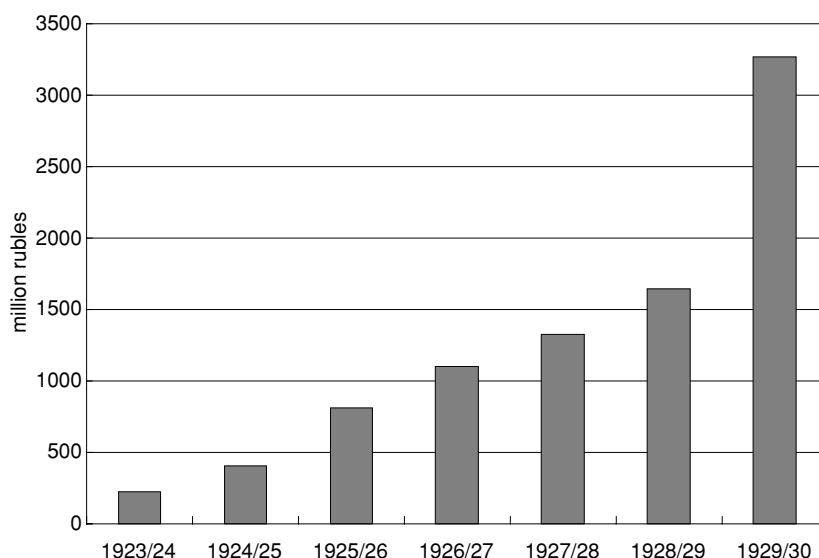
Capital investment shows a tendency to increase²⁵. In 1929/30 it peaked [Figure 4]. Figure 5 reveals, based on rough calculations, that internal resources are of great importance to industry. The industry did not receive much funding from outside (a consider-

Figure 3. Prices in the NEP period (1913=100)



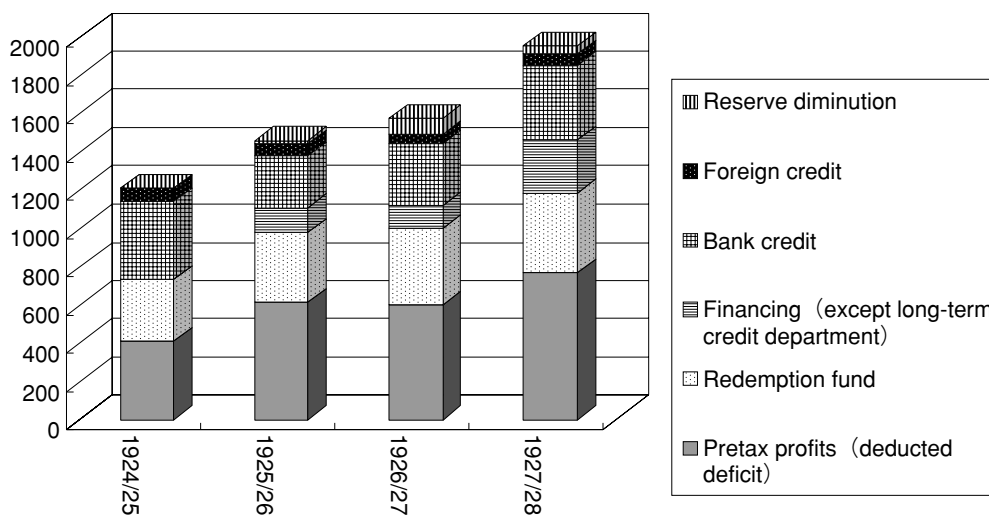
Sources : Ekonomicheskii biulleten' kon' iunkturnovo instituta, 1928, No.1,p.6 ; No.9, p10-11 ; 1929, No.1, p29 ; No.9, p27 ; Dinamika tsen sovetskovo khoziaistva, M., 1930, p.162

Figure 4. Capital Investment (VSNKh–Planned Industry)



Sources : Promyshlennost' SSSR v 1925 godu, M., 1926, ch. I, p.59 : Promyshlennost' SSSR v 1926/27 godu, M., 1928, ch. I, p.57 : Promyshlennost' SSSR v 1927/28 godu, M., 1930, ch. I, p.14 : Kontrolnyi Tsifry narodnogo khoziaistva SSSR na 1928/1929 god., M., 1929 : Davies (1998), p.490

Figure 5. Investment Resources of State Industry



Sources : Promyshlennost' SSSR v 1926/27 godu, M., 1928, ch. I, p.8, 68, 70, 72 : Promyshlennost' SSSR v 1927/28 godu, M., 1930, ch. I, p.146, 149, and estimates.

able part of resources of governmental financing had been paid to the Treasury by the industry)²⁶, and even less foreign capital. Except for the funding from the long-term

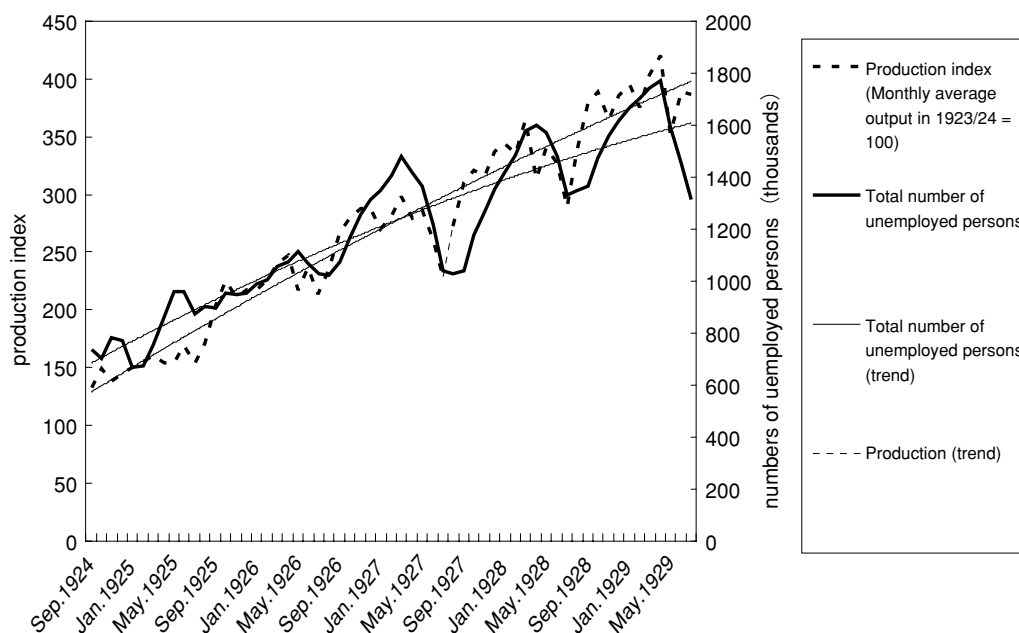
credit department, bank credit, mostly short-term, was used as a working capital. However, a considerable amount was also sunk into fixed capital.

When compelled to intensify internal accumulation and substantially reduce costs, the economic organizations generally behaved shortsightedly and followed the line of least resistance. They were more liable to adopt superficial measures such as ostensible cost cuts rather than a rationalization and improvement of production or undertaking a thorough organizational reform. This was illustrated, first of all, by their employment policy, by which many full-time employees were replaced with low-cost temporary employees. As a result, the number of unemployed trade unionists increased, which weakened the trade unions. Regarding engineers, the enterprises avoided employing new graduates, who could not be immediately effective. Such a myopic policy increased the number of young, unemployed

technicians. They also avoided employing under-age persons, which became increasingly expensive (juvenile workers were under the protection of the law)²⁷. In vocational education, too, training systems such as factory schools were curtailed because they heavily burdened the industry and took considerable time, while quicker training methods were adopted to economize expenditure. In the pursuit of practicality and efficiency, technical education came to be overemphasized, at the expense of the liberal arts²⁸.

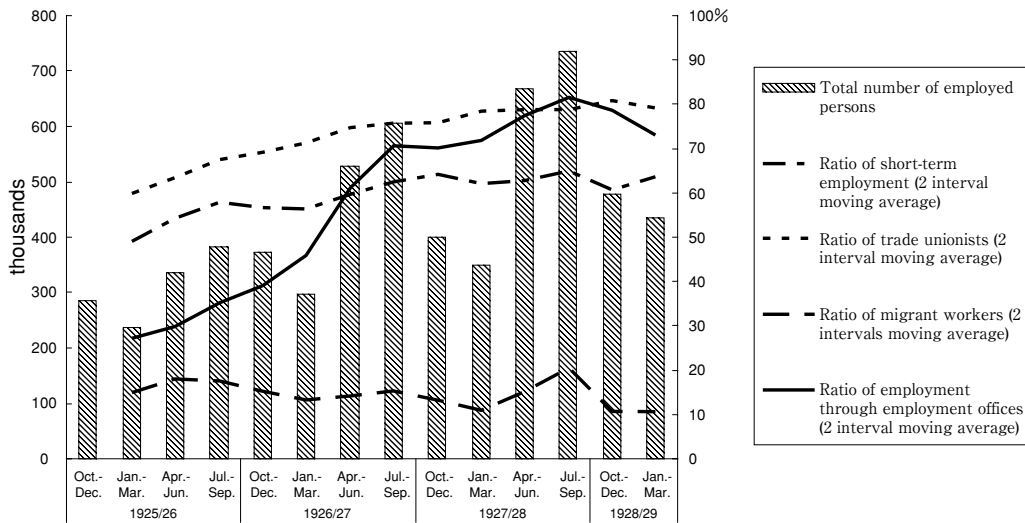
Regarding the number of employed and unemployed persons, the data reveal the seemingly incongruous trend that although the number of employees increased in proportion to industrial production growth, so did the number of unemployed persons. Even the unemployment rates of skilled in-

Figure 6. Production of State industry and Unemployment



Sources : *Ekonomicheskii biulleten' kon' iunkturnovo instituta*, 1925-29, all numbers. For the number of unemployed persons, *Voprosy Truda*, 1925, No.3, p.21, 1928

Figure 7. Structure of Employment



Sources : Voprosy Truda, 1927-1929, all numbers : Statistika truda, 1925, No9, p.9, 1926, No2, p.9, No4-5, p.20, No11-12, p.14-15, 1928, No1-2, p.23, Trud v SSSR, Statisticheskii spravochnik za 1924-1925 g., M., 1926, p.42-7 and others. For the unemployed of trade unionists, Ekonomicheskii biulleten' kon' iunkturnovo instituta, 1926-28 : Voprosy Truda, 1926, No12, p.9, Pravda, 10 Mar. 1927 : Trud, 27 Aug. 1927 ; 28 Aug. 1927 : Izvestiia, 30 Sep. 1926

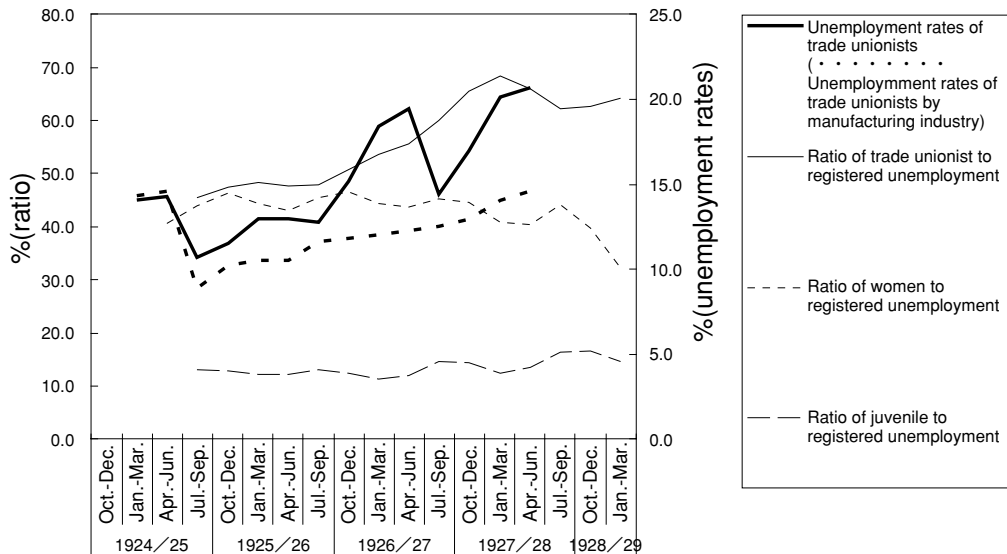
Note : Unemployed persons of trade unionists were not always registered in employment offices.

dustrial workers exceeded the growth rate until the latter half of 1928. The reasons were as follows. Although the number of employees increased, most of these were temporary employees [Figures 6, 7]. The highest labor turn-over rate, therefore, corresponded with the highest ratio of short-term employment²⁹. This means that unemployment increased because many full-time employees were replaced with temporary employees³⁰. Consequently, laborers were divided into two opposing categories, i.e., those who would work for a short period and those who would be employed for a relatively long time (illustrated by a distribution chart of the length of an industrial worker's continuous employment in 1929)³¹. The latter comprised the cadre of employees who were difficult to re-

place.

Unemployment was a serious problem [Figure 8]. In 1927/28 the trade unionists' unemployment rate exceeded 20%; it increased even in the manufacturing industry, aggravating the conflict between labor and management. The number of under-age unemployed persons also increased, but since they were not always registered in employment offices, their actual situation was even more miserable. Eventually, there were over one million such people, with neither jobs nor education. The jobless youths aged eighteen and above were correspondingly many³². The unemployed technicians and specialists, mostly fresh graduates, accounted for approximately 20% of them³³. This situation became the primary reason for the hostility be-

Figure 8. Composition of Unemployed Persons



Sources : See figure 7.

Note : All figures are 2 intervals moving average.

tween old and new specialists.

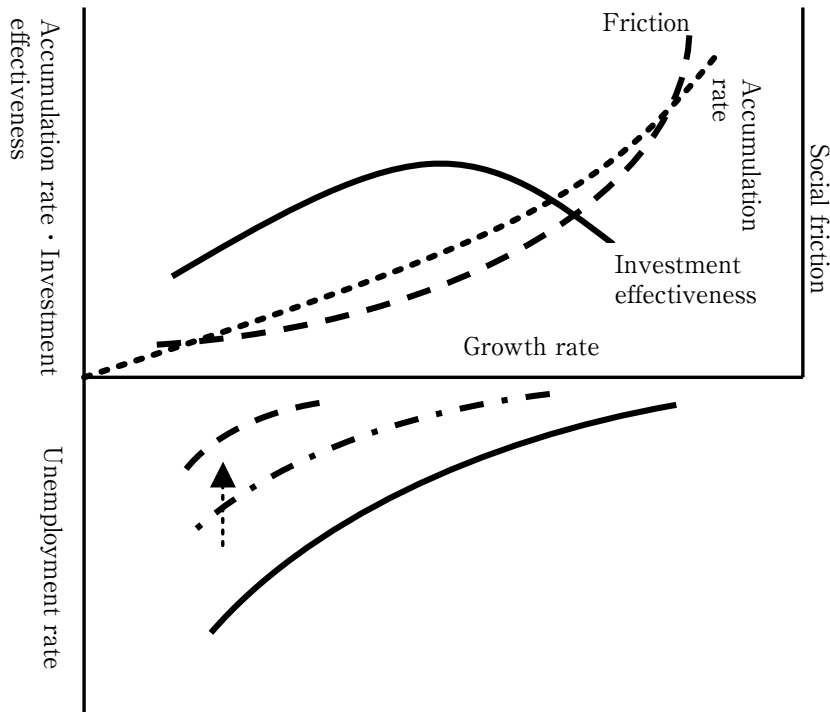
In 1928, the widening rifts between various strata set off a severe social earthquake (beginning with the Shakhty affair)³⁴. Against a background of generational confrontation and exacerbating labor-management relations, the Party apparachiki won the youth to their side (both interests coincided in a high-growth policy)³⁵, and they mounted an attack over the old specialists, who resisted the somewhat irrational policy of accelerated industrialization both overtly and covertly, under the connivance of trade unions. This attack effectively weakened the foundation and influence of old specialists.

Following this, since trade unions had taken self-protection measures in the face of mass unemployment of their members (they agreed to restrict an apprentice's wage, reduce the hiring quota of under-age persons, etc), the confrontation between them and the

youth was aggravated³⁶. The Party apparachiki, in de facto collusion with the youth groups, increased their offensive against the trade unions, after which the trade unions, as a social force, receded into the background. This situation is illustrated by the following facts: the policy prioritizing industrial planning over the labor-management agreements, granting a concession to the youth in the joint directive of VTSPS and VSNKh concerning the collective agreement dated November 3, 1928 and the defeat of the mainstream faction in the 8th Trade Union Congress³⁷. In this manner, a path toward the employment bureaucracy without counter-balance was paved.

The balance of power collapsed under the disunity and confrontation among the social strata, with the Party initiative pushing a forcible integration. The Party also held hegemony over economic management by in-

Figure 9. Unemployment, Growth Rate and Social Friction

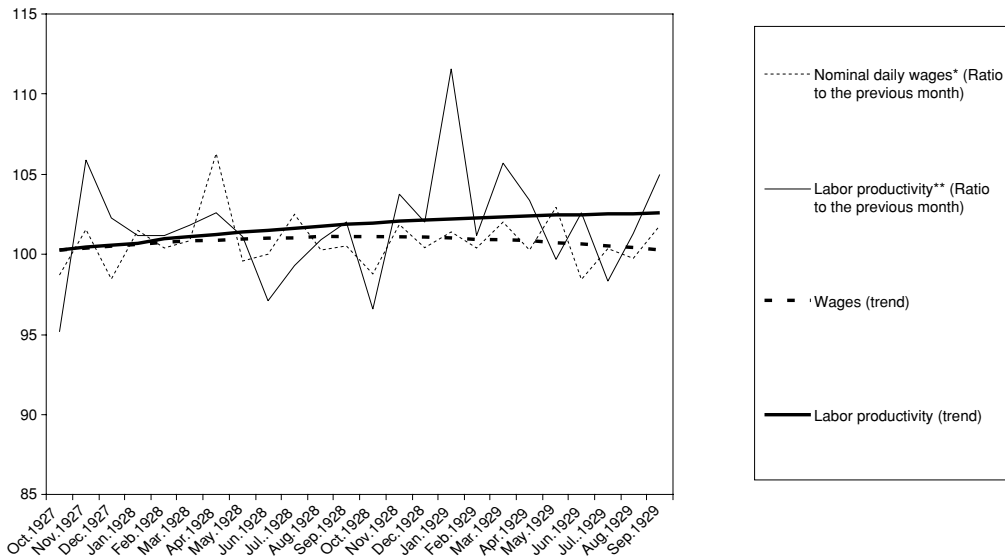


stalling its officials in responsible posts of economic organizations and trade unions and positively promoting young people to higher positions. As a result, the stable growth policy with welfare improvement was abandoned in favor of a hyper-industrialization policy, regardless of economic rationality. Thus, mass unemployment was mainly responsible for excessively high growth and intense accumulation, leading to the rapid spread of social friction. Figure 9 illustrates the relation between unemployment rate, growth rate, accumulation rate, investment efficiency, and degree of social friction. Here, investment efficiency is the marginal output per a unit of additional investment. Generally, it increases to a certain level, after which it gradually decreases. Therefore, progressively higher investment is required for

higher growth. Accumulation rate is considered to be a proportion of investment to the value added. Evidently, there is a negative correlation between unemployment rate and growth rate and a positive correlation between growth rate and accumulation rate. The higher the accumulation rate, the more severe is the social friction or strife, with the degree of friction depending on whether the resources are internally or externally funded. The severity of friction is also shown in wage restrictions and coercive productivity drives. In fact, the discrepancy between the wage growth rate and labor productivity widened in 1928/29 [Figure 10].

A heavy handed policy was also implemented in the collection of agricultural products; this resulted from the rapid rise in demand for foods in cities and the necessity for

Figure 10. Wages and Labor Productivity



* Census industry

** State industry

Sources: Biulleten'kon'iunkturnovo instituta, 1928-29, all numbers, Torgovo-promyshlennaia gazeta, Oct. 21, 1928; Oct. 23, 1929: Statistika truda, 1928, №11-12, p.12

exporting. The Soviet government adopted an extraordinary measure for procurement, organizing a mobilization led by Komsomol. Without doubt, the Party deepened its confidence in administrative policy after the seeming success of the implementation of this extraordinary method to grain collection in 1927³⁸. Although there could be other ways to reduce unemployment (e.g., work sharing or stable growth with mild inflation), the Soviet government chose the rapid growth policy. Consequently, the people were compelled to make further sacrifices, such as accepting great reductions in real wages, etc.³⁹

In this process, the social elements constituting the NEP society were activated or suppressed under the growing closedness and pressure, giving rise to a new composi-

tion of society.

First, an enlightening despotism or heavy-handed leadership (an evolved form of paternalism) came to the fore⁴⁰, with the dominance of hard collectivism without common interests. Thereafter, an organized mobilization (mass mobilization or campaign from above) was subsumed under governance mechanisms, which sometimes exceeded the authorities' expectations. Modern rationalism was modified and served only as a tool to manage and control the social structure, thereby it degenerated into social rationalism. Corporatism virtually disappeared, while communal relations gave away under suppression. In this way, the NEP system collapsed.

6. Conclusion

From the viewpoint of policy, the collapse of NEP was mainly due to the enforcement of aggressive industrialization under the classical market equilibrium and deflation policies, and misgovernment with regard to employment, education, and agriculture.

As mentioned above, the NEP economy was characterized by a plural, consultation system, and the economy was basically managed through cooperation, coordination, or compromise among social groups or strata.

However, this consultation system had no solid social foundation. Neither economic organizations nor trade unions were necessarily competent enough to negotiate, decide, and execute the management policies by themselves; therefore, so they needed the State to coordinate and complement their activities, while they operated under the patronage of the Party.

Before this plural system could become sustainable, there was a drastic change. With the increasing closedness and pressure for industrialization in the latter half of the 1920s, market equilibrium and high growth became severely inconsistent⁴¹. Since external funding was ruled out, intensifying accumulation was the only way to finance industrialization. Under the deflation policy, enterprises tried to reduce expenditure and raise funds by replacing regular employees with low-cost part-timers, avoided employing young specialists, and cut education costs for short-term stability, which was a behavior pattern of subterfuge or pretense, proceeding along the line of least resistance. Enterprises could not afford to train human re-

sources thoroughly. Such measures caused mass unemployment and failure in the education of young people in the latter half of the NEP period. Consequently, it widened the rifts among strata and aroused enduring hostility. The irreconcilable confrontations among social groups brought about extrinsic consolidation. As mentioned before, the Party apparatchiki sided with the organized youth against the group of specialists who resisted hyper-industrialization. After they held the economic organizations under their control, the Party apparatchiki in conjunction with the youths acquired power over trade unions. The youth organizations' leaders were also purged shortly after, and the youths were transformed into a social group mobilized by the Party's will⁴².

After such a crucial realignment of the distribution of power in society, the specific goals and values preferred by the Party apparatchiki were sublimated into "universal interests." Voluntary hyper-industrialization was prioritized above all other goals, and the Party became a governing force, leading and ruling all the strata to conform to the "national interest."

In order to maintain a regime of administrative control and organized mobilization, the concepts of "distrust" and "hypocrisy" were institutionalized.

Thus, a plural system characterized by cooperation and compromise among strata was transformed into a command economy-centered system comprising an enlightened despotism and social rationalism.

Notes

- ¹ The contradiction in this case is not the inconsistency between a market economy and a planned economy, as indicated by E. H. Carr, but an intrinsic one in NEP itself. See Carr (1979).
- ² Burs (1972) (1989)
- ³ See Carr (1950) (1979) : Fitzpatrick (1991) : Davies (1990) (1991) (1994).
- ⁴ In the prewar days, 37% of the laborers were employed in large-scale industries (Census industry), 51% in small-scale village industries, and 12% in small-scale city-based industries. Large-scale industries accounted for 73% of all the sales. This structure changed little, even in 1923/24 (*Pro-myshlennost' i narodnoe khoziaistvo*, sbornik statei, pod red. A. M. Ginzburga, E. I. Kviringa i S. P. Seredy, M., 1927, p.104-5).
- ⁵ For instance, in 1927, there was a dispute between the military authorities and the government economic offices regarding the location of a sulfuric acid factory; however, they reached a compromise through negotiations (RGAE, fond1576, op.6, d.50).
- ⁶ Kimura (2002)
- ⁷ Kimura (1991) (2006) There were rules against the dismissal of needy persons, e.g., a widow with children to feed, or when a worker died, his/her family was given priority while hiring.
- ⁸ Kimura (1995) (2005)
- ⁹ Pravda, July 5, 1927
- ¹⁰ PGAE, fond8145, op.1a, d.5, 13, 16 : Kimura (1999) (2003) (2004)
- ¹¹ Kimura (2005)
- ¹² Kimura (2001)
- ¹³ RGAE, fond7783, op.1, d.2 : fond1576, op.7, d.18.85 ; op.6, d.18.59 : fond7770, op.4, d.7 ; op.5, d.9 ; op.4, d.200 : fond8145, op.1, d.2a ; op.1a, d.2, 7, 27, and others.
- ¹⁴ RGAE, fond7783, op.3, d.5, 14 : fond1576, op.6 : fond8145, op.1a, d.15, 16, 37 : fond 7986, op.3, d.23, and other correspondences
- ¹⁵ Kimura (1995) (1999) (2000) (2003) (2004)
- ¹⁶ For the three stages of capital construction monitoring, see *Ekonomicheskaiia zhizn'*, March 14, 1928.
- ¹⁷ RGAE, fond7783, op.3, d.1,18 : fond1576, op.6, d.19.60 : fond8145, op.1a, d.15, 16, 38, and others.
- ¹⁸ GARF, fond374, op.8,d. 441, d.452, 495, 942, 1079, 1088 and others : Kimura (2006)
- ¹⁹ From the sociological viewpoint, the incidence rate of pathological phenomena caused by a stress may indicate the degree of pressure.
- ²⁰ In 1927, the party members totaled 1,144,000, of which 27,600 were party apparatchiki and 98,500 were party members working in administrative organizations (Soviet) (*Kommunisty v sostave apparata gosuchrezhdanii i obshchestvennykh organizatsii*, M., 1929, p.10,18 cf. Roney Don K., *Transition to technocracy*, Ithaca and London, 1989, p.162 : *Ekonomicheskaiia zhizn'*, October 26, 1928), while the party apparatchiki in the party central committee, including candidates (118), accounted for 44% in 1928-29 (*Kak lomali NEP. stenogrammy plenumov TsK VKP(b)*, 1928-1929gg., T.1 5., M., 2000).
- ²¹ The economic organizations' staff numbered a little over 200,000 in October 1929, of which 13.7% were party members

- (Kadry gosudarstvennogo i kooperativnogo apparata SSSR. Gosplan SSSR. M., 1930, pp.198-201).
- ²² The members of labor unions reached 9,300,000 in July 1926 (Trud v SSSR 1924-26 gg., Diagrammy, M., 1926, p.1). On January 1, 1927, industrial workers (Census industry) numbered 2,500,000, of which 10.3% were party members (V.K.P(b) v tsifrakh, vyp. IXM., 1929, p.44). In 1928, the labor union members totaled 11,060,000, of which party members accounted for 6.7% (Sorenson, Jay B., *The Life and Death of Soviet Trade Unionism 1917-1928*, New York, 1969, p.198).
- ²³ The members of Komsomol numbered approximately 1,360,000 in May 1925, nearly half the number of young workers. (Komsomol'skaia pravda, July 29, 1925). cf. Carr. (1958), v.1, part, p.545. At the end of 1928, there were over 2 million members, of which about 10% were party members (Matsui, Yasuhiro, *Soviet political order and the Youth Organization*(in Japanese), Kyushu University Press, 1999, p.142).
- ²⁴ See Carr (1958-59) (1971).
- ²⁵ The ratio of capital investment to national income was nearly 24% in 1927/28 (Kontrol'nye tsifry narodnogo khoziaistva SSSR na 1928/1929 god, M., 1929, p.171).
- ²⁶ op.cit., p.216: Vestnik Finansov, 1928, No p.9
- ²⁷ The distribution of under-age employees in factories was 5.7% on January 1, 1927, which decreased to 4.7% by January 1, 1928 (Trud v SSSR, Spravochnik 1926-1930, M., 1930, p.10).
- ²⁸ See Fitzpatrick (1979): Kimura (2005)
- ²⁹ Voprosy Truda, 1929 No. 8, p.50: Statistika truda, 1928 No. 1-2, p.18-21; 1929. No. 2-3, p.20, 29; No.4, p.9-10
- ³⁰ Kimura (2005). This was feasible due to the existence of numerous concealed unemployed persons. Another reason was that many people registered themselves in employment offices as unemployed beforehand, so that they could use their connections for seeking employment.
- ³¹ Rashin.A.G., Sostav fabrichno-zavodskogo proletariata SSSR. M., 1930, pp.76-84.
- ³² On January 1, 1927, there were 1,375,000 under-age persons with neither jobs nor education, accounting for 55% of the total juvenile (14-16 years old) population. The unemployment rate of youths aged from eighteen to twenty-two was 19.8% (Komsomol'skaia pravda, May 16, 1928).
- ³³ The employment offices had approximately 10,000 unemployed specialists registered with them (Ekonomicheskaya zhizn', May 10, 1928).
- ³⁴ For information on the attack on the old specialists, see Shearer (1996).
- ³⁵ At that time, Ordzhonikidze, acknowledging the clash between old and young specialists, promised to employ young specialists (Pravda, March 28, 1928). On the other hand, one of the leaders of Komsomol has admitted feeling alienated: "Trade unions, People's Commissariat of Labor, and managers are unwilling to negotiate with us without the party central committee. We await help from the party central committee" (Komsomol'skaia pravda, October 27, 1928). Komsomol also supported the government bill, which had a higher growth

rate than the Gosplan and VSNKh plans, in adopting an industrial plan (Komsomol'skaia pravda, March 26, November 26, 1928).

³⁶ Kimura (2005)

³⁷ Ekonomicheskaiia zhizn', November 3, 1928 : Trud, November 3, 1928.

Collective agreement was subordinated to industrial planning, and lost significance.

³⁸ Taniuchi Y., A Note on the Ural-Siberian Method, Soviet Studies, Vol. 33, No. 4 (Oct. 1981)

³⁹ Davies (1998)

⁴⁰ For example, Stalin's speech at the organization bureau of the party central committee in April 1925 illustrates such thinking : "The Komsomol activist should persuade peasants that there is no help but socialism with concrete facts" (Stalin, I.V., Sochneniia, Vol.7, p.83)

⁴¹ For the theory of industrialization under the condition of market equilibrium asserted by Bukharin and others, see Cohen (1973), chap.6.

⁴² These young workers became the main shock-workers and supported the Stalin regime from below in the 1930s. See Kuromiya (1988)

Glossary of Russian Terms and Abbreviations Used in Text

Gosplan	State Planning Commission
Komsomol	Communist League of Youth
Narkomtorg	People's Commissariat of External and Internal Trade
Narkomtrud	People's Commissariat of Labor

OGPU	United State Political Administration
Rabkrin	People's Commissariat of Workers' and Peasants' Inspection
Tsentrosoiuz	All-Union Central Union of Consumers' Society
TsSU	Central Statistical Board
VSNKh	Supreme Council of the National Economy
VTsSPS	All-Union Central Trade Union Council

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Ekonomicheskaiia zhizn'
Torgovo - promyshlennaia gazeta
Trud
Komsomol'skaia Pravda
Pravda
Izvestiia

2. Periodicals

Ekonomicheskii biulleten' kon'iunkturnovo instituta (from 1928, Nos. 5-6 were renamed Biulleten' kon'iunkturnovo Instituta)
Statistika truda
Voprosy Truda
Vestnik Truda
Vestnik Finansov
Promyshlennost' SSSR (the annual reports of Vesenkha)

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