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USSR

State Industry During the Transition Period



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INTRODUCTION

Organisational problems have always been at the centre of attention in our society as far as Soviet industry is concerned.

Practical experience always has helped and does help in finding, testing and selecting the most rational and efficient forms and methods of economic management.

A study of the experience accumulated by industrial management organisations during the transitional period and also by production amalgamations operating in this country between 1917 and 1932, deserves special attention.

Historical parallels being only of relative value, many common factors can be observed in the way amalgamations in the transitional period and present-day production amalgamations solve production and economic problems. Moreover, it was specifically the amalgamations in the first five-year-plan period that served as a basis for *narkomats* (People's Commissariats) being organised to take charge of the different branches of industry.

A study of economic management in the 1920s is not only of historical significance. In recent years, much has been written in bourgeois literature about the economic reform in the USSR and the other socialist countries. Bourgeois critics try to prove, for example, that the idea of production amalgamations has been borrowed from the capitalist world. In fact, this idea appeared immediately after the Great October Socialist Revolution. Amalgamations in some form or another were operating in the country for a period of almost fifteen years.

The authors of this book set themselves the task of showing how the socialist system of industrial management took shape along with the building of the socialist economy. Socialism had largely been built in the USSR by the end of the Second Five-Year plan, and the fulfilment of this task brought the transitional period to a close.

During the First Five-Year Plan, the foundations of the material and technical base of socialism were laid. The branch system of industrial management took shape and the transition from the system of economic councils to that of branch People's Commissariats was also accomplished during this period.

This book is based on a study of Lenin's works, of CPSU and Government economic decisions, analysis of monographs, journals and newspapers of the 1920s, and a study of documents in the Central State Archive of the USSR National Economy and in the Central State Archive of the October Revolution. The authors were consequently able to analyse how the socialist system of industrial management took shape, what were the main organisational forms and methods of management and regulation at the different stages during the building of socialism, and what place was held by production amalgamations in industrial management during the transitional period.

From the formation of the Supreme Economic Council until its abolition at the end of the First Five-Year Plan period, three main stages can be distinguished in the development of the socialist system of industrial management.

Stage 1—from November 1917 to August 1921. During this period, the organisational structure of socialist industry took shape and management methods were developed. The difficulties arising from the Civil War and foreign intervention exerted a significant influence on how these tasks were solved.

Stage 2 covers the period from August 1921 to December 1929. During this time following the decisions of the Tenth CPSU Congress a reorganisation was begun of the system and methods of industrial management, in conformity with the goals and tasks of the New Economic Policy, and trusts and syndicates became widespread in industry.

Stage 3 begins with the December 5, 1929 Resolution of the CPSU Central Committee "On the Reorganisation of Industrial Management". In accordance with this, the system and methods of industrial management were reorganised in conformity with the goals and tasks of industrialisation of the national economy. This period ended on January 5, 1932, when the Supreme Economic Council was abolished and the transition to branch People's Commissariats was accomplished, which meant that a branch system of industrial management had taken shape.

Chapter I

The Formation of the Organisational Structure of the Management of State Industry (1917-1921)

1. The Formation of the Supreme Economic Council and Its Central Economic Apparatus

After the Great October Socialist Revolution, the working class in Russia, under the leadership of the Communist Party, set about organising the national economy on new, socialist principles. In his work *The Immediate Tasks of the Soviet Government* Lenin wrote: "This is the most difficult task, because it is a matter of organising in a new way the most deep-rooted, the economic, foundations of life of scores of millions of people. And it is the most gratifying task, because only *after it* has been fulfilled (in the principal and main outlines) will it be possible to say that Russia *has become* not only a Soviet, but also a socialist, republic."¹

The socialist economy is based on public ownership of the means of production, which emerged when private ownership of the means of production was abolished, that is, bourgeois property was nationalised. This results from the very essence of the socialist revolution, for only the elimination of private ownership and the transformation of the land, factories, plants, banks, railways and so on into national property can put an end to the domination of the bourgeoisie. In their *Manifesto of the Communist Party* Karl Marx and Frederick Engels, the founders of scientific communism, put forward the argument that, after seizing power, "the proletariat will use its

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 242-43.

political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, *i.e.*, of the proletariat organised as the ruling class; and to increase the total of productive forces as rapidly as possible".¹

Under the domination of monopolies, centralisation of the means of production and socialisation of labour reaches a level when, as Marx expressed it, they "become incompatible with their capitalist integument".² A situation arises when bourgeois society is not capable of making full use of the enormous potential opportunities inherent in the rapidly developing productive forces. Capitalist production relations cease to correspond to the level of development of productive forces. The productive forces can only be liberated from the "capitalist integument" by putting the basic means of production at the disposal of the whole society.

On the eve of the Great October Socialist Revolution in Russia, all the necessary conditions for socialisation of the basic means of production were present. The high degree of monopolisation of industry, trade and banking, and the intensive formation of state-monopoly capital during the First World War testified to the fact that all the conditions existed in the country for nationalising bourgeois property. The increasing degree of organisation of the working-class movement under the leadership of the Leninist Party indicated that there was a political force in Russia capable of carrying out this nationalisation in the interests of all the working people. In his "The Tasks of the Proletariat in the Present Revolution" and brochure *The Impending Catastrophe and How to Combat It* and in a number of other works, Lenin stressed that the objective course of economic and social development in Russia leads the proletariat directly to the necessity of transferring the basic means of production into the hands of society.

¹ K. Marx and F. Engels, *Selected Works*, in three volumes, Vol. 1, Moscow, 1973, p. 126.

² K. Marx, *Capital*, Vol. 1, 1974, p. 715.

After the victory of the Great October Socialist Revolution in 1917, one of the major conditions for stabilising the economic life in the country was to establish state regulation of the economy, and, "if carried out in earnest, the regulation of economic activity would demand the simultaneous nationalisation of the banks and the syndicates".¹

Before setting about regulating economic activities, however, the working class in Russia had first to eliminate the pre-revolutionary state and economic apparatus. This resulted from the Marxist-Leninist doctrine of the proletarian revolution, which envisages the break-up of the old state machinery and, consequently, elimination of all its economic regulation units. With the change in the nature of the social system, the old economic apparatus, its functions and purpose enter into irreconcilable contradiction with the new social system and the principles of economic management engendered by socialist ownership of the means of production.

This is why, from the very first days of the Soviet Republic, the question arose of setting up a system of new economic management agencies with fundamentally different work methods and tasks. The sharpening class struggle, the difficult war period, economic destruction and hunger made solution of this task extremely urgent.

The creation of a central economic agency that would best be capable of ensuring realisation of all our Party's plans to establish the foundation of Soviet economy was a question of exceptional importance among the different aspects of the management problem. The rapidly changing economic and political situation in the country presented the Soviet authorities with more and more, and at the same time extremely complex, problems in organising the economy. The proletariat still lacked the experience and specialised knowledge needed to manage the national economy. Under these circumstances, it was virtually impossible to set up a final organisational

¹ V. I. Lenin, *Collected Works*, Vol. 25, p. 335.

scheme, thought out in every detail, for managing social production. This is why different variants of such a scheme emerged, often differing significantly from one another. Carefully weighing up each of the suggested projects, selecting the best and overcoming the obstinate resistance of the class enemies and internal Party opposition, the Communist Party, under Lenin's leadership, elaborated and implemented the idea of forming the Supreme Economic Council.

The Supreme Economic Council (SEC) was made the central economic authority of the Soviet Republic, responsible for all branches of the national economy. This predetermined its functions. The All-Russia Central Executive Committee and the Council of People's Commissars set up the SEC by a decree adopted on December 2, 1917, which described it as a planning, regulating, managing and supervising agency. Its main task was "organisation of the national economy and state finances".

The main task which the proletarian party set itself was to build a socialist society, so the new economic agency of the proletarian state was empowered to nationalise private property and this took the form of confiscation, requisitioning, sequestration and enforced syndication of different branches of industry and trade. It was also granted the right to carry out other measures in the spheres of production, distribution of output and organisation of state finances.

As well as planning the socialist mode of economic activity, the Supreme Economic Council was to regulate all the economic life in the country, including the private sector. In this connection, the SEC Statute adopted on December 1, 1917, pointed out that the SEC was "to work out general guidelines and a plan for regulation of the economic activities in the country", i.e., questions related to regulation of the national economy as a whole.

As the co-ordinating centre, the SEC was made responsible for co-ordinating and uniting the activities of central and regional commissariats and departments. It supervised the functioning of central and regional work-

ers' control agencies and was to co-ordinate and unite the corresponding activities of factory and professional working-class organisations. It was also established in the Statute that all existing institutions for economic regulation were subordinate to the Supreme Economic Council.

In its first year of existence, the SEC was occupied with all questions concerned with organisation of the national economy; it worked out the foundations of the Soviet Republic's economic policy, planned economic measures for individual commissariats and took an active part in preparing economic legislation for the Soviet Republic.

In the sphere of industry, the SEC prepared and put through nationalisation of industrial enterprises, supervised organisation of production in these enterprises and concerned itself with capital construction, financing, transport engineering, repair and maintenance of locomotives and rolling stock, and regulation of external commodity turnover as far as was necessitated by the state's monopoly over foreign trade. In the sphere of internal commodity turnover, it dealt with organisation of control over private capital, nationalisation of warehouses, private firms, stock-taking of inventories and regulation of prices on the home market. An important place in the work of the SEC was occupied by problems concerned with supplying the people with consumer goods, organising commodity turnover in the countryside and also by finance policy as a whole. The SEC organised production of agricultural equipment and procurement of technical raw materials, and promulgated resolutions regulating land utilisation.

The SEC was concerned with financial problems because, in supervising the nationalised industry and organising capital construction in all branches of the economy, it allocated credits and took a direct part in the work of existing financial agencies (State Bank, the People's Commissariat for Finance and other financial institutions).

All questions concerning the economy submitted to the Soviet Government for consideration were, during this period, prepared and presented by the Supreme Economic Council. This was because, at the time, there were no other planning and regulating organs apart from the SEC in the country to extend their activities to the whole economy. The Council of Workers' and Peasants' Defence was set up later. The GOELRO Commission (State Commission for the Electrification of Russia) arose under the SEC. So, during the first months of the proletarian state, the SEC was simultaneously an economic authority, regulating the whole of the economy, and an industrial management agency.

In the autumn of 1918 it had become clear that it would become increasingly difficult for the SEC to co-ordinate the diverse spheres of economic activity and so it concentrated mainly on the nationalisation of industry and organisation of its management.

The continuing nationalisation and the transfer to the state of control not only over industry, but also over other branches of the economy, gave rise to the necessity for organisation of management of these branches too. Since the existing Commissariats ensured organisation of production within their own branches, they were retained as independent economic agencies and the question of them being merged with the SEC was dropped.

By the end of the Civil War, the economic sphere of activity of the SEC was noticeably reduced. It lost the functions of procurement of agricultural produce, and an independent body for managing water transport was set up.

With the change in the military situation, the Soviet Republic was able in April 1920 to undertake direct economic construction. The Council of Workers' and Peasants' Defence was transformed into the Council of Labour and Defence, which became the central planning and regulating organ of the Soviet state. After its formation on February 22, 1921, Gosplan (State Planning Committee) began to deal with long-term planning issues.

In this way, by the end of the Civil War, the functions of the SEC as the central planning and regulating authority had changed and its actual functions covered only industry, the number of enterprises having risen from 513 in 1918 to 4,500 in 1920. By 1920 the SEC was carrying out (1) overall supervision of state and cottage industry, (2) direct management of enterprises of national significance and (3) regulation of all industry.

In the Ukraine and Byelorussia republican Economic Councils were set up.

The transformation of the SEC from a universal economic authority into the People's Commissariat for Industry was also reflected in its organisational structure.

In accordance with the December 2, 1917 Statute, the highest directing body of the SEC was the Plenary Board. This was made up of representatives from government, economic, trade-union and co-operative organisations. This composition reflected the trend towards transforming the Supreme Economic Council into a universal authority charged with general economic management.

During 1918, the principles governing the composition of the SEC Plenary Board changed several times. Since along with the central SEC economic apparatus, local economic councils were also set up, representatives of the latter were included in the Board. The Board was endowed with wide powers. It was most active from the creation of the SEC up to the middle of 1918. At the same time, the Bureau and Presidium of the Supreme Economic Council were set up in December 1917 to deal with day-to-day economic problems. This means that the structure of the SEC central economic apparatus in fact contained three directing bodies and so, in order to avoid duplication in solving economic questions, it became necessary to define their functions and interrelations.

During the discussion on this issue at the First All-Russia Congress of Economic Councils in May 1918, which adopted a new Statute of the SEC the functions of the SEC presidium were defined. These were confined

to day-to-day guidance and solution of individual concrete issues within the framework of the resolutions of the SEC Plenary Board. The Bureau was merged with the Presidium. Consequently, the new SEC Statute was based on the decision that the Plenary Board should remain the highest directing organ, while the Presidium was to carry out day-to-day guidance. By the end of 1918, however, the role and significance of the Plenary Board had noticeably decreased. Its superiority over the Presidium was virtually no more than a formality. The directing role of the Board with respect to the Presidium consisted in selecting the latter's members at the former's sittings. This meant that the SEC Presidium concentrated virtually all directing functions in its own hands and in practice became the leading agency within the SEC structure.

When the SEC central apparatus was established, particular attention was paid to the formation of its departments. At first, the wide sphere of SEC activity led to departments of a dual nature being formed: general departments were created in the SEC central apparatus to cover different branches of the economy (agriculture and consumption, trade, transport, state enterprises, banks and so on); special bodies for managing and regulating separate branches of industry—railways, metallurgy, metal processing, leather-making and others—were also established. At the same time, functional departments, such as financial, credit and supply, were set up.

Later, the reorganisation of the SEC departments went in two directions. The first of these reflected the evolution of the SEC from a general economic authority into the People's Commissariat for industry. Gradually, the SEC departments which were not connected with industry were closed down. The SEC central apparatus lost the departments of agriculture and consumption, state enterprises and banks and the trade department. By the end of 1918, the SEC economic apparatus was already adjusted to supervising industry alone.

The second direction reflected the expanding functions of the SEC in the organisation and management of industry. Branch and functional departments were set up to regulate individual branches of industry. In 1920, the SEC central apparatus had 27 departments, fifteen of which were functional and twelve production departments.

At the same time, related departments were being amalgamated. In May 1918, for example, the mining metallurgical, metal-working and engineering departments were amalgamated into a metal department. In February 1919, a transport and material department was set up on the basis of the material department and the department of supply and transportation. The internal subdivisions of departments were subdepartments and sections of a production or functional type.

Moreover, chief committees and central administrations were set up within the central economic apparatus. These were more specialised agencies for the management of branches of industry—Tsentrrotkan, Glavsakhar, Glavtorf, Glavles¹ and so on.

The chief committees and central administrations that were established were to take stock of materials and control their distribution, prepare the conditions for nationalising capitalist enterprises and regulate economic activities within their individual branches of industry.

They were primarily agencies for regulating economic activity in separate branches of industry and performed the function of direct guidance only as more and more industrial enterprises were nationalised. Consequently, at the first stage (up to June 1918) main and central boards were mostly occupied with regulation within their specific branches of industry.

At this stage, representatives of private capitalist enterprises were often members of directing bodies of these committees and central administrations, and this can be explained as follows: (1) the state sector was still

¹ For the weaving, sugar, peat and timber industries.

weak and the majority of enterprises were in private hands; and (2) the fact that certain chief committees had existed before the October Revolution as bourgeois regulation bodies had to be reckoned with. The system of chief committees that already existed had to be adapted to solving the organisational and economic tasks of the Soviet state. However, the fact that representatives of private capital were drawn into these chief committees and central administrations should not be seen as an attempt by the Soviet authorities to establish class peace with the bourgeoisie. It was a specific form of the class struggle of the proletariat in the economic sphere. In order to ensure that the chief committees and central administrations follow a proletarian line on questions of economic policy, no less than two-thirds of their directing bodies were representatives from the SEC and trade unions. Speaking in January 1918 at the Third All-Russia Congress of Soviets, Lenin stated that he attached great significance to agreements between the proletariat and unions of manufacturers on joint participation in organising the work of chief committees and central administrations. This form of co-operation ensured state control over whole branches of production. Moreover, the workers learnt from the bourgeois specialists how to manage production. "And it will be our organisational task," Lenin wrote, "to select leaders and organisers from among the people."¹ Such agreements were only possible, however, under conditions of peaceful development of the revolution. The beginning of the Civil War and increasing sabotage on the part of the bourgeoisie made it impossible for representatives of private capital to be retained in the chief committees and central administrations and, with the nationalisation of capitalist property under the Government's Decree of June 28, 1918, even the legal status of former owners changed. The legal basis for the participation of representatives of private capital in the directing organs of chief commit-

¹ V. I. Lenin, *Collected Works*, Vol. 26, p. 469.

tees and central administrations as a consequence disappeared. So, as early as the summer of 1918, the directing organs of these agencies had the following composition: one-third, representatives from the SEC, one-third, delegates from corresponding trade unions, and one-third, experts.

With the formation of the chief committees and central administrations, the question arose of their interrelationship with the corresponding SEC production departments. In the second half of 1918, the SEC central guidance apparatus was restructured: certain departments were abolished or amalgamated with chief committees, or central administrations.

In turn, the increasing scale of nationalisation created the necessity for further reorganisation of the SEC central apparatus and a change in the nature of economic links in industry. A transition took place from general regulation of industrial production to direct management of nationalised enterprises. In the SEC central apparatus, chief (central) boards for nationalised (state) enterprises were set up.

The newly organised chief boards were also called chief committees. At first glance there seems no fundamental difference between the old chief committees and the new chief boards. A. V. Venediktov, a specialist on the organisation of state industry in the USSR, wrote: "In practice, no such sharp differences existed between the functions of the original and later types of chief committees as might be assumed from the way their statutes were formulated or, in particular, on the basis of some of them being called chief (central) committees for branches of industry and the others chief (central) administrations for the management of state enterprises."¹ In our opinion, this sort of statement creates a false impression of the organisational structure of the SEC. First of all, the chief committees set up at different times did not have the same

¹ A. V. Venediktov, *The Organisation of State Industry in the USSR*, Vol. 1, Leningrad, 1957, p. 514 (in Russian).

base for activity. They also differed in the kind of activities. Chief committees and central administrations were primarily regulating organs. They dealt mainly with the nationalisation of private industry. The chief administrations for nationalised enterprises dealt with state property. In relation to industries under their jurisdiction, chief administrations were management bodies and not regulating ones, although the statutes of some of them included general guidance of industry within the given branch, private enterprises not excepted, among their responsibilities. In practice, however, chief administrations hardly fulfilled any such regulating functions at all. They immediately raised the question of nationalising private enterprises before the SEC Presidium.

The formation of chief administrations resulted in many sections and subdepartments of the SEC production departments being abolished. In those cases when a branch of industry was totally (the rubber industry) or predominantly (the textile industry) nationalised, the justification for independent existence of sections, subdepartments and even production departments themselves disappeared.

With the organisational and economic strengthening of the chief administrations, the question arose of whether the parallel existence of the new administrations and the old chief committees was expedient. Widespread nationalisation of industry meant that these administrative bodies became responsible for the same industrial enterprises. But the advantages of the new administrations over the old chief committees consisted in the fact that they were managerial authorities, while under these circumstances, the old chief committee turned into a scarcely effective body for the general regulation of industry. So, in 1919, some chief committees were amalgamated with the chief administrations. This reorganisation was extremely significant as it transformed the production components of the SEC central apparatus from agencies for the general regulation of industry into those for managing state enterprises.

At the same time as the chief administrations were set up, new chief committees of the old type were also established. This was in cases when it was impossible to form chief administrations, for example in cottage industry, which did not come under the nationalisation law. A chief administration for the cottage industry was set up to manage it.

Chief committees which arose during the first months after the October Revolution were in fact bodies for joint management by the SEC and the corresponding trade-union organisation, while later committees immediately became SEC agencies. Whereas in 1918, many of the major issues concerning the organisational and economic activities of chief committees and central administrations were not decided within the SEC, but at national trade-union conferences and congresses, in 1919-1920, decisions were taken exclusively within the SEC. The form of guiding chief committees also changed. The Plenary Board, with its numerous representatives, was replaced by a relatively small board, the composition of which was approved by the SEC Presidium on agreement with the All-Russia Union of the corresponding trade union.

Chief committees and chief administrations were concerned with the organisation of material and technical supply and financing; they distributed orders between enterprises, approved production programmes for state factories and plants and possessed considerable administrative rights. They played an important part in the organisation of industry, the mobilisation of reserves and the struggle against sabotage.

The idea is widespread among historians and economists that the system of organisation of Soviet industry during the years of the Civil War and foreign intervention was the "offspring of War Communism". But the idea of organising chief committees took root before this period. At the end of 1917, the SEC in conjunction with the All-Russia Union of Trade Unions started to organise chief committees in all major industries. The resolution on the

management of nationalised enterprises adopted by the First All-Russia Congress of Economic Councils on March 3, 1918, and the statutes which were worked out for the administration of nationalised enterprises during this period spoke of central boards for nationalised enterprises. In addition, even at the First All-Russia Congress of Economic Councils, the SEC leaders came out in support of a management system for industry in which the main links would be chief administrations for nationalised enterprises.

The period of the Civil War and foreign intervention engendered conditions which speeded up the formation of chief committees and particularly chief boards for nationalised enterprises. And in this sense, War Communism was the catalyst of the system of chief committees. The conditions in 1918-1919 left a deep imprint on this system that was taking shape and that led to exaggeration of centralised management, making it synonymous with the strictest centralisation of management. If by the system of chief committees one is to understand these negative aspects of the organisation of Soviet industry, then it might be called the outcome of War Communism. If this is to mean all the organisational links within industry during the first years of Soviet power, then there is no need to connect its emergence with the period of the Civil War and foreign intervention. If there had been no War Communism, the setting up of chief committees and chief administrations, i.e., those links which formed the core of the organisational scheme of the system of chief committees, would undoubtedly have continued, but possibly without the high degree of centralisation which is usually mentioned in connection with chief committees of 1918-1920.

The excessive development of centralisation in the management of industry resulted in the formation within it of a number of very large vertically integrated amalgamations, economically isolated from one another and only linked at the very top by the Supreme Economic Council. Industrial enterprises were to receive everything they

needed according to plans made at the central economic organs. This practice held back economic initiative at the local level, deprived enterprises of the opportunity to use local resources, and led to their isolation. All this was detrimental to the state's interests. Contemporaries accused chief committees of being unable to achieve an economic link between town and country, and without this there was no possibility of successfully tackling the reconstruction of the national economy.

Beginning in 1920, attempts were made to increase the significance of local economic bodies by somewhat limiting the trend towards overcentralisation in the activities of chief committees and chief boards. The Ninth Party Congress stressed in its resolution "On the Immediate Tasks in Economic Construction" that the essence of the organisational tasks in industry "consists in retaining and developing vertical centralism through chief committee in order to combine it with horizontal joint subordination of enterprises within economic regions, where enterprises belonging to different industries and of varying economic importance are compelled to use the same local sources of raw materials, transportation, labour force, and so on."¹

Thus, having taken shape under conditions of the Civil War and foreign intervention, economic ruin and acute shortage of commodities, the system of chief committees took the form, under the influence of objective conditions, of a strict centralisation of the management of state industry. During the Civil War and the years of foreign intervention, this strict centralisation of management of industry was justified. It gave the Soviet Republic the opportunity to distribute the material resources at its disposal more rationally, taking general national interests into account.

In their day-to-day production and economic activities, the main committees and central administrations could not get by without a ramified intermediate economic mana-

¹ *Decisions of the Party and Government on Economic Issues*, Vol. 1, Moscow, 1967, p. 165 (in Russian).

gement apparatus. In some cases, this was determined by the very nature of the chief committees' activities. Thus, the leather-industry committee which, as well as managing the industry, was also concerned with procuring the raw leather, and required a ramified network of buying-up agencies. In other cases, the appearance of intermediate links resulted from the scale of activities. In the textile industry, for example, with the increasing number of nationalised factories, the chief committee was not in a position to manage all the enterprises in the industry directly, and so regional and group amalgamations were set up.

In the oil industry, a local economic apparatus was formed under the extraordinary commissariat for this industry. However, the commissariat only proved more effective when the most pressing task of the moment was nationalisation of capitalist property and the struggle against sabotage. Once the necessity arose for organising the management and distribution of the oil products, the apparatus of district commissars alone proved insufficient. So in almost all major cities in the country, district oil committees for industry and trade began to be set up.

The system of local apparatus of chief committees developed greatly in the leather, textile, sugar and tobacco industries. The peripheral apparatus of each of these industries had specific organisational features. In the leather industry, for example, regulation of production was carried out through the gubernia (province) and district committees of the industry. The latter dealt with procurement and distribution of the raw materials, according to the chief committee's plan, supervised the production activities of enterprises and checked their warehouses, distributed the finished products, determined the quality of the raw materials procured and set prices. The management of these committees was on a collective basis.

In the textile industry, the regional and gubernia economic councils set up their textile departments, sections and district textile committees. The same organisational system existed in the sugar and tobacco industries too.

In the cottage industry primarily local bodies of the corresponding chief committee were set up. In turn, the regional economic councils and industrial bureaus established regional group administrations.

In accordance with the Statute of the regional bodies of the chief committee for the cottage industry, approved by the SEC Presidium on November 1, 1920, these bodies were granted considerable powers in organising the management and regulation of industry. They promulgated regulations which were mandatory for their own enterprises situated within the given region. Without their participation, no institution had the right to undertake any activity on the regulation of industry. The group administrations allocated credits and were headed by boards.

Thus, for the period from 1918 to 1920, a ramified economic system of chief committees and central administrations was formed within the SEC central apparatus.

2. The Role of Local Economic Councils in the Management of Industry

The formation of the SEC and of its central economic apparatus did not solve the problem of organising management of the national economy. The necessity arose for a ramified network of local economic bodies, which would extend their influence over all the economic regions of the country. The SEC economic apparatus contained, apart from the main committees and central administrations, local economic councils and economic departments of local Soviets of Workers', Soldiers' and Peasants' Deputies.

This was due to the fact that, under the complex economic and political conditions of the period, local bodies of the chief committees and central administrations were unable to solve all the specific questions of the organisation and management of local enterprises, or even to *grasp* them all, since their economic activities did not always *proceed* within the old administrative units

into which the country was divided (gubernias, uyezds, and so on). This is why local economic councils were set up and played an important role in organising the management of Soviet industry from October 1917 to the beginning of 1921.

In terms of their tasks and methods of work, the economic councils and the economic departments of the local Soviets had much in common. The local bodies of the chief committees differed from the economic councils and the economic departments of local Soviets in the nature of their activities and their organisational structure. The former were set up according to a territorial-industry principle, while the latter were purely territorially based. In contrast to the economic councils, which were virtually universal organisations, the local bodies of the chief committees were narrowly specialised. The establishment of two types of local SEC economic authority—chief committees and economic councils—resulted from the need to co-ordinate the development of separate branches of industry with the interests of the local economy. On the general plane, the main role in the organisation of state industry was assigned to the chief committees and their local bodies. The formation of these was in practice the realisation of the idea of centralising management of industrial production. This was emphasised at the First All-Russia Congress of Economic Councils which stated that the final goal of production centralisation was to eradicate all intermediate levels between the SEC and the nationalised enterprises and that the running of each industry was to be concentrated in agencies especially set up for this purpose. This policy was put into practice according to plan during all subsequent stages of socialist construction.

During the first years of the proletarian state, a broad popular initiative called diverse organisational forms of managements into being. On the local level, workers' control agencies were consolidated, economic departments of the Soviets of Workers', Soldiers' and Peasants' Deputies were set up, as were gubernia, uyezd and even town

economic councils. On July 1, 1919, there were 332 local economic councils in the country. An active role was played by trade unions which created economic departments under their committees.

The main task of the SEC was to combine all these various forms of management of the national economy. At first, however, departments of local economic councils were to be found which had no direct connection with them, for example, housing and land or postal departments. So it was necessary to standardise the organisational structure of local economic councils to correspond to the SEC central apparatus.

The problem of personnel was extremely acute and many local economic councils were understaffed. Not all those who worked in local economic councils fully understood the political and economic tasks facing socialist society. They often overestimated the rights and duties of their councils. Thus, on October 31, 1918, the SEC Presidium countermanded a decree made by the Northern Economic Council on its exclusive rights to issue permits for receiving materials and other valuables from the enterprises of the region. This was a claim by the Northern Economic Council to complete independence from the SEC central apparatus. The Ryazan gubernia authorities refused to allow carters from the Skopino and Mikhailovsk uyezds into the Egoryevsk uyezd with fuel for the enterprises of the local economic council. The SEC Presidium repeatedly pointed out to the local economic councils that this sort of action went against the national economic interests.

The SEC Presidium explained to the workers of the local economic council the essence of the principles of democratic centralism and required them to adhere strictly to state discipline.

To a certain degree, the difficulties involved in the interrelationship between the central and local economic SEC agencies were connected with the fact that Russia was still divided administratively into gubernias and uyezds. This was not in the interests of the development

of the national economy, so, in November 1918, at a sitting of the SEC Presidium, the necessity was emphasised for replacing the old administrative division of the country with a new one, based primarily on economic factors.

The Seventh All-Russia Congress of Soviets which took place in December 1919 charged the All-Russia Central Executive Committee (ARCEC) with working out and establishing a new scheme for the administrative division of the country.

The local economic agencies were set up in a situation of economic ruin and fierce class struggle. The representatives of the bourgeois and petty-bourgeois parties did all they could to hamper the establishment of the new system for managing the national economy. They were supported by the "Left Communist" group which, in subsequent years, formed the nucleus of the so-called Workers' Opposition. The bourgeoisie and its ideologists deliberately exaggerated the difficulties connected with setting up a centralised system for managing the socialist economy. They contended that private initiative was the only way to lead the economy out of its economic dead-end. They were given active support by the Mensheviks. Anarcho-syndicalists also came out against a centralised system of economic management. In January 1918, they tried to use the Petrograd Conference of Factory Committees in carrying out their idea of transferring all management functions to these committees. In some Petrograd enterprises they even attempted to force through a resolution on the necessity of struggling against local economic councils. The anarcho-syndicalists counterposed the centralised system of economic management with the factory committees and production unions. In fact, their position was intended to split the working class and thus undermine the social basis of the proletarian state. The kulaks (wealthy peasants) also came out against the economic councils.

Guided by Lenin's teachings on democratic centralism, the Soviet state pursued a consistent policy of expanding

and strengthening the system of local economic agencies. Under the difficult conditions of 1917 to 1920, this policy laid a firm foundation for the socialist system of industrial management.

The local economic councils that were set up on the initiative of the SEC Presidium were the very organisational link in the Soviet economic apparatus without which it would have been practically impossible to reconstruct the ruined economy. Local economic councils included regional, gubernia, uyezd and town councils and also the economic departments of uyezd, volost¹ and urban district executive committees of Soviets of Workers', Soldiers' and Peasants' Deputies. Some of the first local economic councils were established on the regional scale. The Statute of district, regional and local economic councils adopted by the SEC Plenary Board on December 23, 1917 stated that regional economic councils were local economic bodies, set up under the regional (district) Soviets of Workers', Soldiers' and Peasants' Deputies "with a view to organise and regulate all the economic activities of each industrial district (region) and in accordance with national and local interests" and operating under their control, i.e., regional economic councils were subordinate both to the local Soviet authorities and to the SEC central economic apparatus.

According to the Statute, the regional (district) economic council was headed by a board elected at joint conferences of factory and land committees, representatives of regional Soviets of Workers', Soldiers' and Peasants' Deputies, workers' and democratic co-operatives and the technical, administrative and commercial managements of enterprises.

The numbers on the boards and representation from different organisations were to be established by the Soviet of Workers', Soldiers' and Peasants' Deputies under which the regional economic council was set up. Within a certain area, the regional economic council was the main

¹ A territorial subdivision of the uyezd.

economic authority for regulating the economic activities of the whole region. This is why representatives of other economic agencies were included in the regional economic council, with voice but no vote. This helped strengthen the influence of workers' organisations on the economic life of the region.

The regional economic council was to determine requirements and reveal actual stocks of raw materials, fuel, semi-finished and finished products, labour force, transport and so on. It was to supply enterprises with labour, fuel, raw materials and production equipment; distribute production orders; regulate transport operations; carry out measures to increase use of the productive forces of its area, and unite, direct and regulate the activities of all subordinate workers' control agencies. Within its area, the economic council was the guiding authority for all nationalised industry.

The functions of the regional economic council also predetermined its organisational structure. Depending on the special features and the structure of the regional economy, production sections were set up: for state enterprises and banks, fuel, metal- and wood-working, chemical production, transport, construction, agriculture, foodstuffs and consumption, and so on. Each section was broken down into four functional departments: organisation of production and finance; supply and distribution; labour, statistics. Inter-sectional conferences were held (on the organisation of production, on supply and distribution, labour and statistics) in order to co-ordinate the activities of these departments. The permanent body of such a conference was the working bureau. The work of production sections, functional departments and subdepartments of inter-sectional commissions was directed by the executive committee and presidium of the economic council, which were elected at a plenary session of the regional economic council.

Regional economic councils had considerable powers. Their decisions were mandatory for all local institutions and enterprises. Only the Supreme Economic Council was

empowered to countermand the decisions of regional economic councils.

The Statute of December 23, 1917 played an important part in the formation of the system of local economic councils. This document furthered the establishment of economic agencies not only within regions, but also within smaller territorial administrative units (gubernias, uyezds and so on). Owing to the changing economic situation, however, the necessity arose for defining the functions of regional economic councils more precisely. So, in June 1918, a new Statute of SEC and its local agencies was adopted. The following changes were introduced into the new Statute: the system for setting up regional economic council bodies was changed; the limits to the council's powers and duties were defined, as were the character and forms of interrelationship with the lower components of the SEC central economic apparatus and other institutions within the given territory. Although the principle of representation was retained, the regional economic council no longer included representatives from co-operatives and the technical, administrative and commercial management of enterprises. It was now made up primarily of representatives from trade-union organisations, regional Soviets of Workers', Soldiers' and Peasants' Deputies and of gubernia economic councils. Representation was determined by regional congresses of economic councils and was approved by the regional Soviets of Workers', Soldiers' and Peasants' Deputies. While the participation of representatives from trade-union committees and regional Soviets of Workers', Soldiers' and Peasants' Deputies was included in the first Statute, that of delegates from gubernia economic councils was a point in the new Statute.

The regional economic council was granted the right to requisition, sequester and confiscate capital, movable and immovable property and other valuables of local significance.

Operating within the limits of the general resolutions, plans and directives of the SEC, the regional economic council was guided by decisions of its congresses, which

were held twice a year. These congresses were attended by representatives from regional and local economic councils, regional professional unions, large local trade-union organisations and workers' co-operatives. The congress was also empowered to decide practical economic questions for the given region within the bounds of the overall economic and financial policy of the Supreme Economic Council.

Thus the new SEC Statute adopted in June 1918 consolidated the organisational system of local economic councils.

It should be noted, however, that the regional economic councils existed as independent subdivisions of the SEC local economic apparatus only for a relatively short time and from the second half of 1918 a process of their abolition started. By the end of 1918, this process was almost completed. They were abolished for the following reasons. As mentioned above, as well as regional economic councils, local councils also included gubernia, uyezd and town economic councils. Gubernia economic councils emerged as the peripheral bodies of the regional economic councils. Over a comparatively short period, they became firmly established organisationally and began to demonstrate a noticeable economic independence. In the conditions of the fuel and raw material shortage and with the strictly centralised distribution of raw and other materials and valuables by the SEC central apparatus and the same system of financing and distributing orders, the gubernia economic councils by-passed the regional councils and established direct contacts with the SEC central apparatus. The regional economic councils thus played the part of intermediary between the gubernia councils and the SEC central economic apparatus and this often led to bureaucracy and red-tape hindering the solution of pressing economic problems. Moreover, as regulating agencies, the regional economic councils often duplicated the work of the SEC central apparatus. In Moscow, for example, there were three regulating agencies at once: the SEC, the regional and the gubernia economic councils. The existence

of three regulating authorities within a single city created artificial difficulties in the work of Moscow factories, plants and other economic units. Because of this, on October 31, 1918, the SEC Presidium adopted a resolution on the abolition of the Moscow regional council.

A special commission set up by the SEC Presidium to prepare for the convocation of the Second All-Russia Congress of economic councils supported the need to abolish regional councils. The Congress specially considered the place of these councils in the organisational structure of industrial management. In the Resolution "On the Abolition of Regional Economic Councils and Revision of the Boundaries of Existing Territorial Divisions in the Country", the Congress named the regional economic council a superfluous element that complicated the overall system of economic relations and increased the difficulties involved in the planned organisation of production.

Regional economic councils were abolished, but the need for a regional component within the organisational structure of production management remained. This question could only be solved either by setting up local divisions of chief committees and central administrations in these regions, thus forming a vertically centralised system, or by establishing new economic departments on the regional level, i.e., a transitional form had to be found which would combine existing centralism with local initiative. The production commissions and industrial bureaus of the SEC were just such bodies.

First, the SEC Urals-Siberia Production Commission was set up in November 1919. Under this Commission, specialised management bodies were established, for example, the Chemical Industry Bureau which was entrusted with the organisation and management of chemical enterprises in the region. Noting the positive results achieved by the Urals-Siberia Commission, the Ninth Party Congress stated in its resolution that "for large regions remote from the centre and distinguished by specific economic conditions, the Congress considers . . . necessary the establishment of . . . competent economic agencies on the

regional level. These regional bureaux . . . must have wide powers within the region in the direct guidance of local economic activities in order, by uniting both gubernia economic councils and district authorities, to carry out, on the basis of a plan approved in the centre, all necessary changes, transfers of raw materials and manpower".¹

In the spring of 1920, in accordance with the decisions of the Ninth Party Congress, the Siberia Division (Siberian Bureau) of the SEC was instituted. It was stressed in the SEC Statute of the Siberian Bureau that, within Siberia, it was empowered with the rights of the SEC Presidium to solve all economic and organisational problems within the limits of the SEC general resolutions and directives.

As SEC regional bureaux were formed, a general Statute of SEC regional bureaux was issued. In accordance with the Statute, the bureau was the executive organ of the SEC Presidium and had the powers of the latter within its own area on all economic issues.

Apart from the board office, the bureau had no management apparatus of its own. It acted through the local agencies of the chief committees and central administrations. The acquiring of economic experience and the evolution of the SEC into an authority for the management and regulation of industry were also reflected in the position of the regional industrial bureau.

So, in the Statute issued on June 21, 1920, it was stated that the SEC regional bureau was an agency for the management of industry. Its powers and organisational structure were made to correspond to those of the SEC central apparatus.

At the end of 1920, there were four SEC regional industrial bureaux in the country (Urals, Siberia, Ukraine and South-East Russia) and two institutions fulfilling the

same functions (the Kirghiz SEC bureau and the Central Economic Council of Turkestan). In their tasks and organisational structure, the regional industrial bureaux differed fundamentally from regional economic councils in 1918 and the SEC regional production commissions that appeared in 1919.

In accordance with the Statute of June 21, 1920, a management apparatus for solving current problems was formed under the newly created industrial bureaux. As a rule, there were several economic councils under the authority of the industrial bureau. For example, five economic councils (Ekaterinburg, Perm, Tumen, Chelyabinsk and Ufa) were subordinate to the Urals Regional Industrial Bureau and seven (Altai, Yenisei, Irkutsk, Omsk, Tomsk, Yakutsk and Novo-Nikolaevsk) to the Siberian Industrial Bureau, ten to the Ukrainian and five to the South-Eastern Bureau.

The local bodies of chief committees and SEC production departments acted as corresponding departments and sections of the industrial bureau.

To co-ordinate and regulate the economic activities of economic councils, functional commissions were set up within the industrial bureaux: these were for production, finance and accounting, general labour forces supply and prices. Each of them dealt with specific questions related to the organisation of industrial production—organising work, financing, supplying enterprises with raw materials, manpower and so on. For example, the production commission revealed the production capacities of industrial enterprises, compiled production programmes for individual enterprises, economic councils and for the industrial bureau as a whole. On the basis of these, the finance commission allocated the necessary funds. The commission for general labour force supply dealt with the distribution of manpower and the economic condition of the workers employed at state enterprises. Questions concerning food-stuffs were decided by the commission under the district commissioner of the People's Commissariat for Food. The price commission occupied a special position. Since retail

¹ *Decisions of the Party and Government* . . . , pp. 165-66 (in Russian).

prices for industrial output were set by the SEC, the work of the price commission was confined to calculating prices, collecting data on costs, and so on. In addition, the regional industrial bureaus also included functional departments, for example, administrative, inspection, and finance and accounting. Thus, at the end of the Civil War, the industrial bureau occupied a prominent position in the organisational structure of industrial management in the Soviet country.

In addition to the regional economic councils, gubernia economic organs started to take shape in diverse forms during the formation of the local economic apparatus as early as the end of November 1917. These were economic departments under the gubernia executive committees of the Soviets of Workers', Soldiers' and Peasants' Deputies. In some gubernias, the gubernia workers' control council became the main economic authority. This diversity of the forms of management was a characteristic feature of the initial stage in the formation of the economic apparatus in the country.

However, as the SEC became stronger organisationally, this diversity was gradually eradicated. The economic departments under gubernia executive committees, gubernia workers' control councils and other gubernia economic agencies were transformed into gubernia economic councils.

Up to the middle of 1918, it was local Soviets, trade-union organisations and factory committees that took the initiative in setting up economic councils. In subsequent years, this initiative was taken over by the SEC central economic apparatus. Most frequently, gubernia economic councils were set up at gubernia congresses of representatives from local Soviets, trade unions and factory committees or at town conferences of delegates from these organisations.

Initially, the tasks of the gubernia economic councils were not clearly defined. For example, the Tver gubernia economic council considered its main task as running the workers' control system, while other gubernia economic

councils saw it as economic organisation of the municipality. For this reason, the SEC Presidium, with the participation of representatives from trade-union committees, undertook considerable work to define the place and role of gubernia economic councils in the organisational structure of the economic apparatus. Several statutes of gubernia economic councils reflecting the corresponding stage in the development of these bodies were prepared and issued. For example, in the Statute of district, regional and local economic councils of December 23, 1917, and also in the resolution of the First All-Russia Congress of Economic Councils, it was stated that gubernia economic councils were to be set up on the initiative of gubernia Soviets of Workers', Soldiers' and Peasants' Deputies, according to the same principle as regional economic councils. However, as the regional councils became weaker and were then abolished, particularly by the end of 1918, the position of gubernia economic councils changed fundamentally.

The Statute on gubernia economic councils adopted by the Second All-Russia Congress of Economic Councils stated that they constituted SEC executive bodies and were to deal with "regulation and organisation of the economy in the gubernia" within the bounds of the general directives and resolutions of the SEC and All-Russia Congress of Economic Councils.

The gubernia economic council was empowered to propose the nationalisation of enterprises to the SEC, carry out requisitioning and confiscation of raw materials, semi-finished and finished goods and also production equipment of a purely local significance. It was obliged, at the SEC instruction, to compile production programmes for subordinate enterprises and carry out operational supervision of their activities.

The gubernia economic council was empowered to promulgate mandatory decisions within the powers conceded to them.

The highest guiding body of the gubernia economic council was its plenary board which was made up of

representatives from gubernia and town Soviets of Working People's Deputies, local trade-union organisations, production departments of gubernia economic councils, large nationalised enterprises or their amalgamations within the gubernia and workers' and citizens' co-operatives. The executive body of the plenary board was its presidium and both of these bodies had a six-month term of office.

By the autumn of 1919, due to the intensive development of the economic apparatus and the expansion of the socialist sector, a new Statute of gubernia economic councils was elaborated in which it was stressed that these bodies were the central economic authorities within the gubernia and were bound to supervise not only state, but also private enterprises.

The new Statute reduced the number of members of the plenary board of gubernia economic councils and extended its term of office to one year.

The country's economic life continually introduced corrections into the organisational principles for the management and regulation of the economy. At the beginning of 1920, the Third All-Russia Congress of Economic Councils adopted a decision to transfer the local apparatus of chief committees and central administrations and that of the SEC production departments to the jurisdiction of the gubernia economic councils and the plenary board was abolished. Urgent decisions on the gubernia economic activity were made by a monthly congress of gubernia economic councils.

As the Supreme Economic Council was transformed into the People's Commissariat for Industry, the gubernia economic councils took over primarily management and regulation of industry within their respective gubernias.

The lowest links in the economic apparatus were uyezd economic councils, the majority of which were set up in the second half of 1918. Originally on the initiative of local trade-union committees economic departments and economic commissions were set up under uyezd executive committees. Later these departments began to be transformed

into uyezd economic councils and in practice formed the lower economic apparatus of gubernia economic councils.

Uyezd economic councils were usually set up at congresses of the executive committees of local Soviets and trade-union bodies. At the beginning, their highest body was the plenary board, but from the autumn of 1918 it became the presidium. In its practical activities the presidium relied on the functional and production departments, subdepartments and sections, the number and composition of which varied from three to 14 depending on the specific features and the level of development within a particular uyezd.

The organisational structure of the uyezd economic council reflected the specific features of the uyezd economy. The majority of the economic councils, particularly at the beginning, came up against considerable organisational difficulties. The report of the Kasimov uyezd council presidium of the Ryazan gubernia to the SEC provincial department is evidence of this. "The difficulties in organising the economic council," the report stressed, "were numerous. There were neither instructions, nor previous practice, nor experience, nor sufficient knowledge of all that had to be done in building new life." This sometimes resulted in the uyezd economic council dealing with the same problems as the zemstvo (district council) did before the revolution, and so they comprised a great variety of subdepartments, such as an agricultural department, a municipal department with subdepartments for housing and land, town economy, the department for public works, the supervision department, and others. The staffs of some uyezd economic councils were consequently large: whereas the average managerial staff of the uyezd economic council was between forty and sixty, in individual cases it reached over 200.

In addition to the uyezd councils, there were also district economic councils. In some cases these were fairly large, embracing several neighbouring uyezd councils. Sometimes the district economic council dealt with only the industrially developed part of the uyezd.

District economic councils, too, had a varied organisational structure. Some of them included large departments for industry and trade, while others had numerous fragmented departments, which frequently duplicated each other (leather and fur) or lacked the necessary production base (metal, electrical engineering and so on.) This was due to the fact that many departments fulfilled distribution rather than production functions.

By decision of the Second All-Russia Congress of Economic Councils the uyezd economic councils were turned into economic departments of the uyezd executive committees, which were merged with the executive authorities of the gubernia economic councils. Local economic councils were gradually reorganised.

The local economic agencies set up at the beginning of the revolution helped with accounting and supervision of the production and distribution of output, facilitated nationalisation of capitalist property, furthered the advance of the local economy, drew local resources into reconstruction of the economy and invigorated local initiative.

3. Production Amalgamations

A special place in the overall scheme for organising the management of state industry was occupied by production amalgamations. The SEC report to the Eighth All-Russia Congress of Soviets noted that these amalgamations were to absorb all the activities of subordinate enterprises and merge with the chief committee, thereby forming a unified production organism, that this form of management of industrial enterprises was progressive and would stand in the forefront in the organisation of economic construction and reconstruction of the ruined national economy.

In capitalist society, in contrast to socialist, the appearance of different types of production amalgamations is an extremely contradictory process. Capitalism creates the organisational form corresponding to the current stage in

the socialisation of production, but the nature of ownership determines the efficiency with which the objective possibilities of these amalgamations are used. The formation of capitalist firms, trusts and concerns to a considerable extent takes place spontaneously through the destructive mechanism of competition, dooming hundreds of thousands of independent enterprises to closure and exploitation. Private property remains the obstacle to optimal organisation of production amalgamations.

Once public ownership of the means of production is established, particularly during the first stage of the proletarian state, the question of setting up production amalgamations acquires simultaneously a socio-economic aspect. The question of enforced unification of enterprises was raised by the Communists on the eve of the proletarian revolution as an effective means of improving society's control over the activities of private capital. Lenin wrote: "...Compulsory 'unionisation' is an indispensable precondition for any kind of effective control and for all economy of national labour."¹ In connection with the nationalisation of bourgeois property and organisation of Soviet industry, the question arose of uniting enterprises. The work of the hundreds and thousands of plants and factories which had become state property could not be managed directly from the centre. Regional administrations were in no position to ensure skilled guidance of the industry under their jurisdiction and, as the number of nationalised enterprises increased, they became increasingly remote from production. So the need arose for specialised economic management agencies and this need was met by the main administrations of nationalised enterprises in a specific industry, by group amalgamations and trusts.

The state took over not only large and medium enterprises, but also small ones. Many of these had very primitive and obsolete equipment and, although these enterprises were often of no great value to the state, nonetheless, they had to be included in the overall system of organisation of

¹ V. I. Lenin, *Collected Works*, Vol. 25, p. 343.

Soviet industry. Moreover, small enterprises lacked skilled labour. With the shortage of raw materials and fuel, it became necessary to select the most viable enterprises from among the small ones and concentrate production within these. The unification of enterprises and their amalgamation into trusts facilitated the solution of this task.

The question of the formation of trusts in industry was discussed at the Second All-Russia Congress of Economic Councils. The Congress stressed the need to speed up the rate at which trusts were being formed in industry. With the shortage of raw materials, fuel and skilled labour, a policy of concentrating production at the best enterprises had to be pursued. And all this was to mean the creation of different forms of production amalgamation. After the Second Congress of Economic Councils the SEC did a lot of work on setting up trusts. The first production amalgamations began to appear at the end of 1917, but the majority were set up in 1919: out of 166 amalgamations, 132 or 79.5 per cent were formed in 1919. In early 1920, 179 production amalgamations had been set up in the country, embracing about 400 enterprises, fifty per cent of which were in the textile industry.

The formation of production amalgamations took two directions. First, territorial production amalgamations were set up, including district amalgamations in the sugar, starch and syrup, wine and spirit, chemical and certain other industries, and also group amalgamations in the textile and timber-working industries. Second, specialised production combines were created which included approximately homogeneous enterprises. Although the proximity of enterprises to each other was taken into account, it was a far from essential condition for their amalgamation. This type of amalgamation included those in the electrical engineering, metal-working and a number of other industries.

In either case, when the amalgamations were formed, the existing production links of the individual enterprises were taken into account. This is the only way to explain why, in the first years of Soviet power, some traditional industrial zones were retained. With the appearance of the SEC, it

became clear that industrial zones had outlived their usefulness and so, in the Urals, for example, where remote mountainous zones hampered the advance of productive forces, they were mostly abolished and those that remained were adjusted to the new conditions. The SEC decided the fate of the Maltsevo industrial zone district somewhat differently. This territory held deposits of marsh iron ore and lime and there were iron-smelting, engineering, cement, glass, timber-working and chemical plants. The whole territory was connected by a narrow-gauge railway, telegraph and telephone communications. The individual enterprises complemented each other in production terms and used local raw materials and fuel. The Maltsevo plants were quite viable and operational under the most unfavourable conditions. A unilateral removal of enterprises from the jurisdiction of the zone authorities would have had a deliterious effect on the economic activity of the other plants: the zone was a single whole in the administrative and economic sense. The Supreme Economic Council took this situation into account and only in 1920 were the old forms of management of the Maltsevo enterprises reorganised. The industrial zone was abolished but the plants belonging to it were transferred to the jurisdiction of corresponding chief committees.

The first major production amalgamation in the metal-working industry was the trust called the State Amalgamation of Engineering Plants (SAEP), which was organised in accordance with the resolution of the SEC Presidium of June 29, 1918. Originally it was intended to unite only those plants that were concerned with manufacturing rolling stock, but later the enterprises of this trust also fulfilled other SEC orders which, under certain circumstances, could not have been given to other plants. As a result, SAEP trust began to draw in not only plants related to its main production line, but also other enterprises, including ones of a subsidiary nature. In 1919-1920 the trust included 16 enterprises.

At the start, the SAEP management was concentrated in the hands of a board headed by a presidium. In 1920, the

management of the trust was reorganised and the presidium previously at the head of the Chief Board of the SAEP was replaced by a collective board. This had a chairman who had wide powers and was personally responsible for the work of the amalgamation.

The example of the SAEP helped speed up the formation of trusts of other plants in the metal-working industry, and in October 1919 a trust of Moscow state engineering plants was organised. This was composed of nine enterprises of large- and medium-scale engineering and metal-working plants within the Moscow gubernia, and one from the Voronezh gubernia. At the end of 1919, an amalgamation was set up of state iron-smelting plants in the Tula, Kaluga and Ryazan gubernias which had 12 of the region's enterprises under its jurisdiction.

Apart from engineering plant amalgamations, major production units were organised in heavy industry, such as the Electric Trust amalgamating electrical engineering plants; an amalgamation uniting eight copper smelting and rolling enterprises; a chief committee for the aircraft industry; the auto plant trust. Production amalgamations also took shape in the chemical industry and the timber industry.

The combining of enterprises in the textile industry was a rapid process. The presence of a large number of small enterprises situated in a small number of traditional textile areas, the striving to make the best use of insufficient stocks of raw materials and the strong production links between enterprises carrying out different operations in a single production cycle (spinning, weaving, dyeing)—all this made imperative the uniting of textile enterprises after their nationalisation. However, the way in which amalgamations were organised was not the same in all branches of the textile industry. In the cotton industry, for example, enterprises were amalgamated by grouping together related factories so as to ensure the whole production cycle, while in the cloth and wool industry, amalgamation involved specialised enterprises. In certain cases, factories producing fine and coarse cloth were singled out.

The basic form of amalgamation in the textile industry was the group. 446, or 90.7 per cent, of the 553 nationalised textile enterprises belonged to such groups, although only 46 group amalgamations were set up, headed by a board.

To co-ordinate the activities of the group amalgamations, the Chief Administration for the Textile Industry held nation-wide conferences and congresses of representatives from group amalgamations. The first such conference was held on March 6, 1919 to discuss supply, financing and organisation of relations between group boards and other economic management agencies (economic councils, district textile boards, and so on). The conference made important decisions on the organisation of material and technical supply to cotton enterprises. It recommended to the Chief Administration for the Textile Industry that it take stock of all the Turkestan cotton and remaining raw materials in factory stores. It was proposed to extend the powers of group amalgamations in the distribution of raw materials, and in particular, the question was raised of their representatives participating in the distribution of cotton among enterprises.

Taking account of the difficult situation as regards fuel, the participants in the conference passed a decision to raise the question before the Chief Administration for Peat Supplies of giving group amalgamations the right to procure peat on their own. The conference recommended that the group boards be financed strictly on an estimate basis. The sum advanced on the commodity was not to exceed 75 per cent of its value. The estimate was to be considered as a contract between the state and the group amalgamation, according to which the state guaranteed the amalgamations money and they, in turn, were obliged to fulfil the production plan approved for them. An extension of the powers of group boards was envisaged in manouvring technical personnel and materials within the group.

Apart from nation-wide conferences, there were also meetings and congresses of representatives from group amalgamations within the individual gubernias.

These conferences, congresses and meetings, however, could not become centres from which the activities of group boards could be co-ordinated. In order to unite the activities of group boards and get a closer view of the needs of production, the Chief Board of nationalised textile enterprises established, at the beginning of 1920, a Council of representatives from group amalgamations which was convened at regular intervals. At its first sitting in February 1920, it decided to hold meetings of commissioners from group amalgamations not less than once every three months. All the amalgamations were subordinate to the Chief Board for the respective branch of industry, except for the largest, such as the SAEP, which were directly subordinate to the SEC Presidium.

Apart from the production amalgamations enumerated above, by the end of the Civil War totally different forms of amalgamations of industrial enterprises were beginning to be formed. Enterprises which were called shock (priority) enterprises were amalgamated into a special group. These were primarily enterprises serving transport and fulfilling military orders. Priority enterprises were given precedence in the supply of raw materials, fuel, materials, manpower and foodstuffs. They also had the priority right for freight transfers by rail. The Party and trade unions paid particular attention to these enterprises.

The measures taken by the SEC on amalgamating priority enterprises were reflected in the organisational plan for state industry. In June 1920, a group of metal-working plants serving rail transport needs was singled out. A special apparatus under a Commissioner of the SEC Metal Department was set up to run the priority enterprises in the metal-working industry, and in November 1920, the SEC approved a Statute of the special SEC Commissioner for the priority group of plants. This special Commissioner was charged with ensuring that the priority plants fulfilled output orders and with creating the necessary conditions for them to increase their productivity of labour to the maximum. He bore full responsibility for the work of plants subordinate to him and was the assistant of the head

of the SEC Metal Department. Representatives of the Commissioner apparatus took part in the work of the Council for the Metal Industry supply.

In the textile industry, a somewhat different form of management of priority enterprises took shape. In accordance with the resolution of the SEC Presidium of August 26, 1920, in some places, for example in Ivanovo-Voznesensk, committees for managing priority textile factories were set up.

Alongside priority enterprises, model enterprises were also established. The resolution adopted by the SEC Presidium on September 9, 1920, picked out twenty model enterprises, and their number soon rose to 27. Model enterprises were ensured all necessary equipment, manpower, specialists, raw materials, fuel and semi-finished products. They were run by the most experienced managers and staffed with the best engineers and technicians. Model enterprises, according to the SEC ordinance, were to become schools where Russian industry would be taught the appropriate organisation of production. While remaining under the jurisdiction of the chief committees and the SEC production departments, model enterprises were also supervised by a special commission set up under the SEC Central Production Commission. All relations of model enterprises with chief committees and SEC production departments took place through this commission.

Although neither the priority enterprises nor the model ones were singled out from existing production amalgamations, they nonetheless differed from usual factories and plants in organisational terms.

* * *

In the formation of the socialist system for managing the national economy, an important place belonged to the All-Russia congress of economic councils. The convocation and work of these congresses, particularly in 1918, largely predetermined the course of organisational and economic construction in the country. The first congress was held in Moscow on May 25, 1918.

Two congresses were held in 1918 but from 1919 onwards the congress was convoked once a year, while the last and fourth was held in May 1921. The congress was convoked twice in 1918 because this was a period of active organisational and economic activity in the history of the proletarian state and the formation of a fundamentally new system for managing the national economy was under way. Under these conditions, the main task of the congresses was to develop general principles for managing socialist production on a broad democratic basis, work out a scheme for organising socialist production and to mark out the main trends in the activities of the SEC and its local bodies. Also taking part in the work of the congresses were representatives of the central Government and economic authorities (Central Executive Committee, SEC and Commissariats) and delegates from local economic councils, trade unions, co-operative centres and individual large enterprises or amalgamations.

254 delegates from 78 gubernias in Soviet Russia, 104 of whom had voting rights, attended the First All-Russia Congress. At the Second Congress in December 1918, there were 216 delegates, including 112 with voting rights. The decreased number of delegates at the Second Congress was due to the fact that it took place at a critical time for the proletarian state, when Soviet power held sway in the central regions of the country only, since a large part of it had been seized by White Guards and interventionists. All this contributed to narrowing the representation base of the Second Congress of Economic Councils. As the country was liberated by the Red Army, economic councils were restored, and agencies for managing the national economy were created, resulting in the Third Congress of economic councils in January 1920 being attended by 504 delegates, 249 with voting rights. The active participation of representatives from local economic agencies in the work of the Third Congress made it possible to analyse more thoroughly the experience that had been accumulated and to take account of the specific features of economic development in individual regions of the country. The

Fourth Congress in May 1921 was the largest, being attended by 593 delegates, including 450 with voting rights.

The nature of the representation changed fundamentally from congress to congress: whereas at the First Congress, the participants mainly represented the SEC and its local agencies, subsequent congresses were held on a broader basis. Considerable changes took place in the management of the Soviet economy in the interval between the First and Second Congresses: the SEC central apparatus and its local agencies were formed, chief committees and central administrations set up, and so on.

All these changes were reflected in the SEC Statute adopted at the Second Congress of Economic Councils, which stated that representatives of SEC production departments, local economic councils, economic departments of local Soviets, chief administrations of nationalised enterprises, all-Russia amalgamations of agricultural, consumer and production co-operatives should participate in the work of subsequent congresses, with full voting rights. However, the changing economic situation after the Second Congress of Economic Councils introduced certain changes into its composition. We have already mentioned above that the SEC was transformed from a general economic management body into the People's Commissariat for Industry, its functions were limited, the relations between the SEC and the other economic authorities changed, consumer and agricultural co-operatives left the sphere of SEC influence, and territorial and particularly uyezd economic councils were transformed into municipal bodies. A large number of representatives from major industrial enterprises attended the Third Congress of economic councils and, out of the 249 delegates with voting rights, 73 represented factory collectives. The trade unions greatly influenced the work of the congresses. Any interested institution or organisation could participate in the congresses, with voice but no vote, and so among the delegates there were representatives from various commissariats, executive committees of local Soviets and even committees of the poor.

Changes took place in the work of the all-Russia congresses of economic councils from 1918 to 1919. Whereas the First and Second Congresses had tried to establish themselves as the highest economic authority, determining major directions of national economic policy, subsequent congresses were already advisory in nature. Their decisions, as a rule, related to the SEC system, and had no mandatory force for the other Commissariats.

The First Congress was held immediately after the peace treaty was signed in Brest. The position of the Soviet Republic was consolidated and a real possibility arose of setting about implementing the plan for building socialism formulated by Lenin in his work "The Immediate Tasks of the Soviet Government" and other documents. In this connection, the First Congress considered such cardinal questions as organisation of planned regulation of the national economy, nationalisation of capitalist property and organisation of the management of state industry. This Congress dealt not so much with elaborating specific schemes for management, as with determining the main directions of the proletarian state's economic policy in this respect. The participants in the Congress were set the task of working out a broad programme, on the basis of which the SEC could become a managerial authority for the whole economy. The issues considered were, therefore, of a primarily general economic character, as evidenced by resolutions, such as "Economic Position and Economic Policy", "Basic Aspects of Finance Policy" and "On Commodity Turnover". In connection with the nationalisation of industry, the question arose of working out the principles for managing state enterprises. The Congress therefore elaborated and approved a Resolution on the Management of Nationalised Enterprises. Owing to the formation of the SEC central apparatus, and gubernia, uyezd and other economic councils, the Congress reviewed the legal status of individual components in this system and adopted the Statute of Local Economic Councils.

Under the conditions of the Civil War and the deteriorating internal political situation within the country, the

attention of the Second Congress of Economic Councils was focused on issues ensuring consolidation of the achievements of the October Revolution, particularly the management of social production. The organisation of amalgamations (groups, trusts, organisation of workers' and state control in industry) was considered, and the Congress adopted a Statute of the Management of Large Amalgamated Nationalised Enterprises under the SEC and a new Statute of Gubernia Economic Councils.

The Civil War and foreign intervention had an extremely destructive effect on the country's economy. In 1920, industry was producing only an eighth of the output produced at the beginning of the First World War. One of the main tasks of that period was to restore industry, and this task was at the centre of attention at the Third Congress of Economic Councils. Dealing with questions related to the restoration of industry, the Congress devoted its main attention to such issues as the further improvement in the organisation of production and advance of the productive forces in industry. A special resolution "On Management of Economic Activities" was adopted, which stressed that "centralisation of the management of social production is a requisite and condition for socialist construction". This resolution confirmed the necessity for further formation of trusts in industry and centralisation of management. Practical recommendations on this problem were set out in "Instructions on the Management of Industry". A significant place in the work of the Congress was occupied by questions relating to the development of cottage industry and organisation of its management.

The Fourth Congress of Economic Councils was held during the transition to NEP (New Economic Policy). An important place in the overall plan for restoring the national economy was assigned to the development of industry. The principles governing organisation of the supply of raw and other materials to enterprises were reformulated, the necessity for rejecting strict centralisation in deciding these issues was underlined, as was that of the role played by local economic councils in the procurement of raw mate-

rials and so on. A study of the activities of all-Russia congresses of economic councils testifies to the fact that all the questions which they discussed were suggested by the conditions of the time.

Lenin himself played an enormous role in organising the work of the all-Russia congresses. At the First, Second and Third congresses of economic councils, he made speeches; he took part in the work of the conciliation commission of the First Congress discussing the draft Statute of the management of nationalised enterprises.

The all-Russia congresses played an important part in the formation of the socialist system of economic management. Each of them represented the completion of one, and the beginning of another stage in the development of the management system. The congresses summed up the results of the previous activities of economic councils, noted shortcomings and worked out a programme for the next period. The history of all-Russia congresses of economic councils mirrors the evolution in the functions of the economic councils. By the end of their activities, the congresses had transferred their main attention from elaborating national economic development programmes to solving questions concerning the organisation of industry.

The Management of State Industry from 1917 to 1921

1. Nationalisation of Capitalist Property —the Basis for the State Sector in Industry

After the victory of the Great October Socialist Revolution, the Soviet Government set about nationalising bourgeois and landlord property. It was not enough just to declare the transfer of this property to the state; nationalisation had to be accomplished in practice, i.e., management of enterprises had to be organised, necessary raw materials, fuel, skilled workers and engineers supplied.

Nationalisation took place in conditions of intense class struggle. The policy of the Soviet state in the sphere of nationalisation consisted in making use of all available means to take material resources, money hoards and other valuables out of the hands of the bourgeoisie. The class essence of nationalisation consisted in strengthening the economic base of the dictatorship of the proletariat.

The proletarian state considered nationalisation as both a political and an economic act. The enemies of Soviet power within the country and bourgeois "specialists" on Russian affairs declared that only the acute political situation in the country, particularly during the Civil War and the period of foreign intervention, had compelled the proletarian state to nationalise the major means of production. In their opinion, the nationalisation of bourgeois and landlord property was not a necessary condition for building a socialist society, but simply a side-effect of the revolution. Such assertions contradict the Marxist-Leninist theory of the socialist revolution. Lenin frequently stressed

that the abolition of private ownership of land, factories, plants, banks, railways and so on and their transformation into the property of the whole people was a necessary condition for eliminating the domination of the bourgeoisie. As he wrote: "if carried out in earnest, the regulation of the economic activity would demand the simultaneous nationalisation of the banks and the syndicates".¹

So there was sharp theoretical discussion of one of the main issues of the theory and practice of the socialist revolution and this later developed into an open political struggle. The discussion on the nature of socialist nationalisation which arose in the middle of 1918 broke out with new vigour during consideration of the basic problems of the New Economic Policy. L. Trotsky, for example, considered that nationalisation was a measure not of economic expediency, but of political necessity. He was supported by one of the leaders of the inner-Party opposition, L. Kamenev, who declared at the Ninth All-Russia Congress of Soviets that purely political motives lay behind nationalisation, while purely economic motives were only in the background. In opposing nationalisation, the Trotskyites and other unexposed enemies of the Party and the socialist state were in fact opposing the policy of building a socialist economy.

Trotsky and Kamenev were actively supported by bourgeois "specialists" on Soviet affairs who, even to the present day, continue to assert that nationalisation of the basic means of production in Russia took place spontaneously, exclusively as a punitive measure and was brought about by exclusively political considerations. To counterpose the "purely political aspects of nationalisation to the purely economic aspects" is to split the political and economic aspects of nationalisation, to misinterpret the events that were taking place in the country and deliberately to distort the essence of socialist nationalisation.

After the victory of the Great October Socialist Revolution, it became entrenched through consolidation of the

¹ V. I. Lenin, *Collected Works*, Vol. 25, p. 335.

socio-economic position of the dictatorship of the proletariat, of the socialist mode of production, and this, in turn, required the elimination of private property and the establishment of public property.

The necessity for nationalising capitalist property is engendered by the objective requirements of the development of large-scale industry, which had to be planned and regulated on a centralised basis. The socialist revolution eliminates the main contradiction of capitalism—that between the social character of production and the private form of appropriation. Thus, the proletarian revolution and socialist socialisation of the means of production are economically expedient.

The nationalisation of enterprises was a powerful means of disrupting economic sabotage on the part of the bourgeoisie and facilitated the development of production in the interests of the working people. The nationalisation of enterprises was inseparably linked to the nationalisation of banks, land and other private property, since, if these measures had not been carried out in aggregate, it would have been impossible to ensure the proletarian state's control over the economy.

Correctly assessing the importance of the nationalisation of capitalist property, the proletarian state devoted considerable attention to the organisational side of this process. It was necessary not only to take the property out of the hands of the bourgeoisie, but also to organise social production according to a single nation-wide plan. The time taken to carry out the nationalisation was also of great significance: this had to be done in as short a time as possible, as any delay carried the risk of dangerous socio-economic consequences.

The rate of nationalisation was to correspond to the level of the organisational work, since a gap between the state's legislative steps towards nationalisation and the degree of preparedness in organisational terms could lead to the very idea of the socialisation of capitalist property falling into discredit. So, in the spring of 1918, when such a gap appeared, Lenin wrote that in the sphere of the

economic construction of socialism "our work of organising proletarian accounting and control has obviously ... *fallen behind* the work of *directly* 'expropriating the expropriators'. If we now concentrate all our efforts on the organisation of accounting and control ... we shall *completely* win our 'campaign' against capital."¹

Guided by Lenin's recommendations, the SEC did much to raise the level of organisational work on the nationalisation of bourgeois property. It acted decisively against spontaneous nationalisation, since unauthorised nationalisation, confiscation, sequestration and other measures hampered the establishment of revolutionary law and order and normalisation of the country's economic life.

The planned approach to the nationalisation of capitalist property meant ascertaining its economic expediency, establishing a certain order of priority and conducting careful preparation for the socialisation of the means of production and commodity stocks.

At the end of 1917 and the beginning of 1918, either individual enterprises were nationalised, or groups of enterprises in large-scale monopolised industry, the technical staff of which was to be used as the SEC regulating agency. A significant number of enterprises, where former owners were engaged in sabotage, were nationalised during this period. According to V. P. Milyutin, one of the SEC officials, it was for this reason that almost 70 per cent of enterprises were nationalised during the first few months of the proletarian state. However, from the spring of 1918 onwards, it was not individual plants and factories that were nationalised, but whole groups of enterprises or branches of production. Thus, in May 1918, a Government's decree was signed on the nationalisation of the sugar industry and that of the Baku oil enterprises was begun.

Two factors were taken into account when it was decided which group of enterprises or branches of industry

had to be nationalised at any given moment: the importance of these enterprises or industries for the state and how ready they were for socialisation. So, the first to be nationalised were the metallurgical, metal-working, engineering, chemical, oil and textile industries. Moreover, individual enterprises which were unique or were of particular value to the state were also nationalised. The preparation of individual branches of industry for socialisation was of great significance.

Even before the October Revolution, the necessary material prerequisites for the socialisation of production had already taken shape in the oil, sugar, engineering, rubber and a number of other industries, in which large monopolies with well-organised management and supply and sales bodies had emerged. Moreover, in order to establish more favourable conditions for nationalising an industry, the SEC carried out a preliminary unification of enterprises.

This is the basis on which discussions were held with the major capitalist Meshchersky and representatives of the Stakheyev financial group on the organisation of engineering and metallurgical trusts with the participation of private capital. Milyutin stated that the Meshchersky project was considered by the SEC only as a means of creating a reliable basis in engineering and metallurgy that would later permit all the enterprises in these industries to be nationalised.

One of the major factors in solving problems involved in the nationalisation of bourgeois property was regularisation of the actual process by which the basic means of production were socialised. At the end of 1917 and the beginning of 1918, both central and local administrative and economic organs were occupied with the nationalisation of capitalist enterprises. Apart from the RSFSR Council of People's Commissars and the SEC which were legally empowered to do this, bourgeois property was also socialised by local, territorial and gubernia Soviets, regional, gubernia and uyezd economic councils and even by individual gubernia congresses of committees of the poor. In distant regions of the country (the Urals, Central Asia)

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 246.

central and local Soviet organs were extremely active. The SEC Presidium was strongly opposed to spontaneous acts of nationalisation on the local level, since local authorities did not always realise the degree of responsibility they were assuming in doing this. Nationalised enterprises had to be supplied with raw materials, fuel, manpower, finances and orders, and these questions could not be solved locally. Local authorities turned to the central economic agencies for help, but with the difficult economic conditions of that period, the SEC did not have enough resources at its disposal to satisfy all requirements fully.

The procedure, the necessary time and responsibility involved in carrying out nationalisation were constantly under consideration at sittings of Government and the SEC Presidium, the main responsibility for nationalisation being borne by the latter. This meant that no agency or institution had the right to nationalise capitalist enterprises without sanction from the SEC. They could only suggest the necessity for nationalisation to Government and SEC. The policy of increasing centralisation of the nationalisation of industry was confirmed by the resolution of the First All-Russia Congress of Economic Councils, in which it was stated that the nationalisation process was to be deprived of its spontaneous nature and was to be carried out by the SEC or the Government with SEC approval.

The SEC's struggle for strict observance of law carrying out nationalisation conferred on the latter an essential planned nature and accustomed those working in Soviet economic bodies to observe legality and state discipline.

Nationalisation of capitalist enterprises was preceded by careful preparations and only in individual cases was it a surprise act. Motives for the latter were: flight of the owners of the enterprise, overt sabotage on their part or participation in counter-revolutionary plots or armed struggle against Soviet power, or a catastrophic state of affairs within the enterprise. On the whole, however, nationalisation was carried out in an organised and planned way.

As a rule, preparations for nationalisation were made by the SEC in three ways. First, the attitude of the workers' collective in the enterprise towards nationalisation was sounded in order to mobilise its efforts towards a successful solution to this question. Second, thorough research was carried out into the technical and financial position of the enterprise marked for nationalisation. And third, new managerial bodies were set up which took over from the old boards of nationalised enterprises.

The SEC made the preparations for and carried out nationalisation in close contact with trade-union and workers' collectives. Special conferences and meetings with representatives of plants that were being nationalised were held for this purpose and the matter was discussed at workers' meetings. In May 1918, in Moscow, for example, a conference was held of representatives from metal-working enterprises, at which issues relating to the nationalisation of large plants in Sormovo, Kolomna, Bryansk, Zlatoust, Beloretsk and other towns were discussed. On May 17, 1918, Lenin sent the participants in this conference a special letter in which he gave his support to the idea of nationalising large-scale metal-working industry without delay, but stressed that the idea would receive support in the Council of People's Commissars "if the conference exerts every effort to secure planned and systematic organisation of work and increased productivity".¹ The basic idea of Lenin's letter was that relations of comradely co-operation and mutual assistance should be established between enterprises and that workers from enterprises with a more efficient organisation of production or who had more experience in running large-scale production should be sent to enterprises where the organisation of labour was on a lower level.² Lenin's proposals were adopted by the conference, and in their resolution the delegates of the conference came out for undelayed nationalisation of plants and the establishment of joint management.

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 388.

² See V. I. Lenin, *Collected Works*, Vol. 27, p. 388-89.

The implementation of Lenin's recommendations made it possible to nationalise the engineering plants of the Sormovo-Kolomna group within a month. These plants formed the basis for the Sormovo-Kolomna amalgamation of engineering plants.

However, the significance of Lenin's letter went far beyond this single branch of industry. The idea it contained lay at the basis of the SEC's later practice in the nationalisation of industry.

Subsequent conferences were held once the socialisation of capitalist property was in full swing in the country and it was not individual plants and factories that were being nationalised, but whole industries. As a result, there were changes in the participants and the questions they discussed. In addition to representatives from plants and trade unions, delegates from corresponding SEC agencies, economic commissariats and so on also took part in the conferences. Having justified the necessity for nationalisation, the conferences concentrated on thoroughly studying the state of the given industry, establishing the prospects for its development and organisation of production. In July 1918, for example, the SEC convened a conference of representatives from rubber industry plants, in which the heads of the SEC chemical department and representatives from various agencies and institutions took part. This conference discussed the organisation of production: management and supply of the plants with raw materials, petrol, chemicals and other products. Such conferences preceded the actual nationalisation of wood-working, glass, brick, cement, pottery and other works. Similar meetings were held on a local level before an industry was nationalised. These conferences were of considerable significance for developing a rational management system of nationalised industries, for raising the productivity of labour and strengthening labour discipline.

At first, preliminary analysis of the activity of enterprises was mainly carried out by local Soviets and economic agencies, but from the spring of 1918 onwards, this work was entrusted to SEC production departments, chief

committees and central administrations. Commissions were set up to do the checking and these were made up of experienced engineers, economists, accountants and also representatives from local economic councils. The commission was to determine the extent to which the nationalised enterprise was supplied with raw materials, fuel, equipment and tools, manpower; the degree of wear of machinery and the financial state, establish the potential and actual capacity of the works and map out ways of restoring production.

Along with this work, provisional and governmental boards were formed that were responsible for taking over accounts and property from the old boards and for organising production at nationalised enterprises. The transfer of accounts and property of an enterprise at the moment of its actual nationalisation was officially recorded in appropriate documents. The SEC and regional economic councils developed different document forms and issued instructions on how the transfer of the accounts and property of enterprises being nationalised should be carried out. The main document testifying to the transfer of the nationalised enterprise to the Soviet state was the transfer act, before which an inventory was taken of the property being transferred. The instructions of the Moscow regional economic council issued in July 1918 stated that the representatives of economic councils should not confine themselves only to taking an inventory, but were also obliged to check it against the entries in the accounts of the previous owner.

The formal transfer of accounts was to take place in the presence of the former owner or members of the old board, but the owners of enterprises and their managers usually hid from Soviet authorities. So the SEC issued instructions which obliged the commissions whenever possible to take over from the former owners or managers, and, in their absence, the operation was to take place in the presence of representatives from the appropriate chief committees and witnesses.

The nationalisation of bourgeois property took the form

of confiscation, requisitioning and sequestration. A special decree was issued by the Soviet Government abolishing the right to inherit private property and that of owners that had fled was declared state property.

Of all the measures, confiscation was of particular significance. It was compulsory and uncompensated transfer of the property of the bourgeoisie to the Soviet state. Confiscation undermined the economic position of the Russian bourgeoisie and limited its possibilities for offering material aid to the counter-revolutionaries and, what is more, it liberated the working class and the toiling peasantry from paying compensation for nationalised property. The Soviet Government used this measure primarily during the first months after the October Revolution. The basic motives for confiscation were: refusal of the former owners to comply with the decrees on the institution of workers' control and to continue production, conflicts with workers, flight of the owners and so on.

Requisitioning was also widespread. In contrast to confiscation, this involved payment of compensation for the nationalised property. Requisitioning took place under those circumstances when it was necessary to redistribute raw materials, fuel, semi-finished goods and other valuable materials among private enterprises under state control or between private and state enterprises. This measure was also used to stop speculation in raw materials and finished products. Requisitioning was also necessary for a more rational location of industrial enterprises, for example, when an industrial enterprise was transferred from one gubernia to another. In these cases the SEC requisitioned a plant and housed the evacuated enterprise in its building. Requisitioning was always dictated by economic considerations.

In accordance with a Central Executive Committee's decree of December 2, 1917, the SEC was empowered to confiscate and requisition. During the first months of the proletarian state, apart from the SEC, the All-Russia special commission for combatting counter-revolution, sabotage and speculation, the People's Commissariat for Food-

stuffs and revolutionary tribunals and courts also dealt with these issues.

Local authorities and primarily regional and gubernia economic councils confiscated and requisitioned various valuable materials at the local level. These authorities were obliged to inform the appropriate SEC departments of their actions, which were not to contradict state measures on the organisation of production, supply and the distribution of output.

Each act of confiscation or requisitioning was officially recorded in an appropriate document. It will be remembered that confiscation and requisitioning of capitalist property was carried out in difficult economic conditions. Economic difficulties and the acute shortage of the raw and other materials necessary for continuing operation compelled the industrial enterprises to take care of their own supplies, and their actions were sometimes supported by local economic councils. These measures usually concerned fire-wood, oil, cotton and other products that were in very short supply at the time. To put an end to such activities, the SEC carried out explanatory work at institutions, factories and plants to show the harm caused by unauthorised actions and turned to the Government and the Council of Workers' and Peasants' Defence for help. It also took concrete organisational measures compelling enterprises to cease these activities. For example, illegally requisitioned goods were detracted from the raw and other materials, which otherwise were to be supplied to the given enterprise, and this meant that the enterprise gained nothing by requisitioning things itself. In addition, enterprises engaged in unauthorised requisitioning were temporarily deprived of their reserve stocks of raw materials, but the SEC only used this sanction in extreme circumstances.

Some of the SEC departments and the chief committees took more sharp measures against unauthorised requisitioning and confiscation. In July 1918, for example, the cotton section of the Chief Committee for the Textile Industries obliged all enterprises that had acquired cotton

by illegal requisitioning to inform it on everything concerning this material (transfer acts, weight, and so on) and to pay to the Committee's account 59,000 rubles for each carload of cotton. The SEC Presidium warned the factory committees that for a second offence, the enterprises might be deprived of state supplies.

At the same time, special sections and bureaus were set up under the SEC and local economic councils to deal with requisitioning and evaluating the requisitioned property. The Government's decree of April 16, 1920 played an important role in establishing a standard approach to the requisitioning of property. Each act of requisitioning or confiscation was officially recorded by an appropriate document which stated the reasons for the action. Requisitioned property was evaluated at fixed prices and, if the owner did not agree with the evaluation, a special commission was set up of representatives from the requisitioning body, Worker and Peasant Inspectorate and an expert appointed by the local authorities.

An important preparatory measure for the nationalisation of capitalist property was the sequestration of factories and plants. From the legal point of view, sequestration is a temporary limitation or suspension of the owner's right to his property and is based on a corresponding act promulgated by the state. In this case, the owner formally retained his property right, but the state either took the management of the enterprise out of his hands and set up an administrative board, or controlled the activities of the old board via its representatives who exercised broad powers. The most common reasons for sequestration were: sabotage on the part of the old owners, their inability to maintain production under the new economic conditions, flight of the owner, indebtedness of the enterprise to the Treasury, unique nature of production, and conflict between the old administration and the workers that could have a negative effect on production.

Originally, the right to sequester was enjoyed only by the SEC Presidium, but after the First All-Russia Congress of Economic Councils it was granted to local authorities,

from March 1918, chief committees also sequestered in the name of the SEC.

The bourgeoisie and its allies put up fierce resistance to nationalisation and, counting on overthrowing Soviet power by force, they rejected even the idea of any possible co-operation with the Soviets. This was their basic political position. The owners of enterprises refused to recognise the decrees of the Soviet authorities on nationalisation and would not comply with the orders of workers' control bodies and local economic councils. In defiance they curtailed production, closed down enterprises and used all possible means to transfer their capital abroad or to the centres of counter-revolutionary movement. However, the political situation in the country gradually became more stable and Soviet power was consolidated both in the centre and in the provinces. Having no strength to oppose the Soviet Government's measures on the nationalisation of private property, the Russian bourgeoisie started a campaign of lies and intimidation of the working class, thus trying to undermine the progress of nationalisation.

Taking part in this campaign were former big capitalists, leaders of bourgeois organisations, representatives of the bourgeois and petty-bourgeois parties. On May 19, 1918, for example, a talk with the capitalist Meshchersky was published in the press, in which he came out sharply against nationalisation and on May 30, the Sormovo division of the Engineering and Technical Trade Union adopted a resolution declaring their opposition to "nationalisation without compensation". In June of the same year, sugar owners also came out against nationalisation. They sent a memorandum to the SEC saying that, not having the necessary experience and the means, the Soviet state could not restore the sugar industry. All those who were united against nationalisation asserted that it would lead to the collapse of traditional economic links, to closure of plants and factories, hunger among the workers, to a difficult situation in the country as regards foodstuffs and finance, and that the Soviet state could not restore a single

enterprise without drawing in private or foreign capital.

The enemies of nationalisation did not confine themselves to intimidating the proletariat; they took practical measures to slow down and, when possible, undermine nationalisation. To this end, the bourgeois businessmen held talks with the leading Soviet authorities on setting up trusts (the projects proposed by Meshchersky and the Stakheyev financial group), re-sold their shares to the foreign bourgeoisie and transferred capital abroad.

In connection with the Government's decree of June 28, 1918 "On the Nationalisation of Large-scale Industry", the Moscow Committee for Trade and Industry formed a consultative commission including representatives from the union of amalgamated industry, the society of manufacturers and factory owners of the Moscow industrial area, the All-Russia Union of the Cotton Industry, the All-Russia Society for the Linen Industry, the Society of Manufacturers in the Silk Industry, the Society of Owners of Dyeing and Finishing Enterprises. The commission was created in order to establish common policy for solving complex problems. Under each of the societies mentioned, standing subcommissions were set up which gave consultations on all private problems to former owners or to the administration of nationalised enterprises.

A few days after the decree of June 28, 1918 was issued, a special commission was set up under the Council of Unions of Representatives from Industry and Trade to deal with questions relating to the nationalisation of industrial and trade enterprises. This commission sent the SEC a memorandum demanding that the owner himself evaluate property to be socialised. The owners understood that times were changing and so some of them no longer opposed workers' control and inspection on the part of economic councils, but upheld with all their might the thesis that "industrialists must manage industry".

In spite of all the economic and political difficulties, and the persistent opposition from the bourgeoisie and its class allies, the SEC successfully put through the nationalisation of industry. By the end of 1918 a significant proportion of

large-scale industry had already been nationalised. Whereas the First All-Russia Congress of Economic Councils had talked of 304 nationalised enterprises, at the Second All-Russia Congress of Economic Councils, there was already mention of 1,125 enterprises, i.e., in half a year, the number of nationalised plants and factories almost quadrupled. This justified the Congress's statement that the nationalisation of industry had almost been completed.

After the Second All-Russia Congress of Economic Councils nationalisation continued to expand. The Eighth Congress of the Communist Party (1919) noted in the programme it adopted: "To continue steadily and complete the expropriation of the bourgeoisie which is already under way and in the main accomplished, and also conversion of the means of production and circulation into the property of the Soviet Republic, i.e., the property of all the working people."¹ In 1919-1920, not only large enterprises were nationalised, but also a significant proportion of medium ones. On November 1, 1920, of the 6,907 enterprises registered by the SEC, 4,547 were nationalised, meaning that 65.7 per cent of the most important enterprises in which 88 per cent of all workers were employed had been transferred into the hands of the state. All the largest factories and plants had become state property. In certain branches of industry, the proportion of nationalised enterprises was very high; for example, printing was 100 per cent nationalised, the prospecting and mining industry, 95.5 per cent, and the chemical industry, 93.5 per cent.

During the nationalisation of bourgeois property, the Soviet Government took decisive measures to eliminate the country's economic dependence on foreign capital. At the end of the 19th century, as a result of the policy of the tsarist government, foreign capital seized the key positions

¹ *The CPSU in the Resolutions and Decisions of its Congresses, Conferences and Plenary Sessions of its Central Committee*, Vol. 2, p. 50 (in Russian).

in the Russian economy. On the eve of the First World War, about 30 per cent of all share capital in industry belonged to foreign capital and in such industries as electrical engineering, electricity generation and electrical transport, 82.9 per cent of the total share capital belonged to foreign capitalists (German, 46.3 per cent, Belgian, 22.6 per cent and about 12 per cent to those of other nationalities). After the Great October Socialist Revolution, foreign capital came under Soviet law, and the introduction of workers' control, the prohibition of transactions with securities and the payment of interest and dividends on them, the registration of shares and other measures by the proletarian state brought the activities of foreign capitalists under control. Its flow abroad was virtually cut off.

The foreign bourgeoisie waged a persistent struggle to retain their economic position in Russia. They desperately resisted the introduction of workers' control and demanded that their governments take decisive measures to protect their "property rights", actively supported the internal counter-revolution, set up unions of shareholders who had been deprived of their property in Russia and so on.

In the interests of their bourgeoisie, the governments of many states tried to bring pressure to bear on the Soviet Republic over the foreign property issue. At the end of 1917 and the beginning of 1918, at the time of the talks between the Soviet Government delegation and the representatives of the German Command, one of the main issues was that of the nationalisation of property belonging to foreign citizens. An active diplomatic correspondence was exchanged on this issue between foreign embassies, the People's Commissariat for Foreign Affairs (PCFA) and the SEC Presidium, and in February 1918, a number of diplomatic missions in Petrograd sent notes to the PCFA protesting against the Soviet Government's decision to annul the tsarist Government's and the Provisional Governments' debts and to nationalise bourgeois property. These notes stressed that the accredited ambas-

sadors and ministers in Petrograd "consider all the decrees of the Workers' and Peasants' Government annulling state debts, on the confiscation of property and so on, insofar as they concern the interests of foreign citizens, as null and void". Further, they declared that their governments retain the right at any time they consider convenient, to demand compensation for all losses incurred from the implementation of the said decrees of the Soviet Government.

When the Soviet Government's decree on the nationalisation of the oil industry was issued on July 8, 1918, a number of European diplomatic missions undertook a joint *démarche*. They declared that the decree caused considerable damage to foreign shareholders and that the governments of their countries, therefore reserved the right to demand compensation for losses. Kaiser's Germany took a similar position at the time of the peace talks at Brest-Litovsk, during which the German delegation actively tried to secure a postponement of the nationalisation of property belonging to German citizens, and when the Soviet Government rejected these demands, the German embassy sent a note of protest to the PCFA. Making use of the difficult economic and military position of the Soviet Republic, on August 27, 1918, the Kaiser's Government imposed on the Soviet people another agreement in addition to the Brest-Litovsk Peace Treaty. This agreement envisaged the payment of corresponding compensation to German citizens for losses suffered as a result of the nationalisation of their property. In all, Soviet Russia was to pay Germany 6,000 million marks by March 31, 1920, a sum that greatly exceeded the actual value of German property in Russia. In accordance with this agreement, at the beginning of 1918, the Soviet Government paid the first contribution to Germany in gold. This temporary concession to the Kaiser's Government was an attempt by the Soviet Government to obtain a peaceful breathing space and to gain time in the struggle to preserve the socialist state. Later, however, the Soviet Government forced Germany to recognise that all the decrees on na-

tionalisation applied equally to foreign property, including German.

Even after the conclusion of this agreement, however, the German Consulate General constantly opposed the nationalisation of firms and their branches which were either wholly or partially running on German capital, regardless of the fact that these branches in fact belonged to Russian owners, i.e., the German Government widely interpreted the Soviet-German Agreement of August 27, 1918 as covering Russian citizens who were German by nationality. The clauses of the Brest Treaty were interpreted so freely that any citizen with a German surname could count on the protection of the Kaiser's Government, which gave German citizens certificates of immunity. On November 2, 1918, however, the SEC Presidium announced that these certificates had no legal force and could not, therefore, serve as a barrier to nationalisation.

On November 13, 1918, after the November revolution in Germany when the Kaiser's regime was overthrown, the Soviet Government annulled the Brest Peace Treaty and thus deprived the German diplomats of any legal basis for their intervention in the internal affairs of the Soviet state. In these conditions, the so-called neutral countries stepped up their activities and among these Sweden, Norway and Denmark proved particularly active in the defence of "property rights". In spite of the absence of diplomatic relations with many capitalist countries, the SEC and its agencies received a stream of letters in the name of non-existent embassies about protection of the property of foreign citizens. Even the Danish Red Cross took an active part in this campaign. At the same time, foreign diplomatic missions attempted to influence the course of the nationalisation of capitalist property by bringing pressure to bear on individual SEC officials. But the SEC Presidium, together with the Economic Law Department of the PCFA, consistently championed the interests of the proletarian state.

The SEC's position on the nationalisation of foreign property was based on the following principles:

the nature of the socialist revolution requires that all private property, regardless of the nationality of its owner, be transferred into the hands of the state;

socialisation is to be carried out in strict accordance with the legislation of the RSFSR and the international commitments of the Soviet Government;

nationalisation of capitalist property is to be carried out without compensation;¹

until the completion of nationalisation, the appropriate Soviet economic authorities are to exercise constant control over the activities of foreign capitalists.

In acting against capitalist property in general, the Soviet state did not distinguish between the domestic Russian and the foreign bourgeoisie. Soviet laws had equal force over them and the SEC policy on nationalisation of the property of the foreign bourgeoisie did not contradict international and civil law. Explaining the essence of this policy, the Law Department of the PCFA in its letter to the Juridical Department of the SEC explained directly that international law creates no obstacle to the nationalisation of the real estate of foreigners, insofar as this is carried out according to the legislation of the country in which the real estate is situated. In order to put an end to the different interpretations of the rights of the Soviet state, on December 27, 1918, the Economic Law Department of the PCFA prepared an explanatory circular for the SEC "On the Rights and Obligations of Foreigners", which stated with extreme clarity that Soviet legislation on the nationalisation of plants, factories and church property, without corresponding compensation to the former owners, was equally applicable to foreigners. The same document stressed that the decree on the unpaid municipalisation of urban real estate was equally applicable to foreign citizens. The only exception was German citizens who, according to the August 27, 1918 agreement, recei-

¹ The agreement of the Soviet Government to pay compensation to German citizens for nationalisation of their property resulted not from a principled approach to this question, but from the military and political situation in the country at the beginning of 1918.

ved the right to compensation. As far as the procedure for transferring the goods and other property of foreigners was concerned, the document stated that confiscation and requisitioning of goods and other property could only be carried out if the foreigners broke the criminal law or if this property was of particular value to the state. Soviet laws were equally applicable to the export of goods and other property abroad.

In strict accordance with the law, the SEC required that all interested sides, and primarily foreign diplomatic missions, exactly observe the Soviet Law. These missions, however, and above all the German, freely interpreted the international obligations of the Soviet state. The German diplomats did all they could to prove that the clauses of the Brest Treaty and the additional economic agreement resulting from this applied not only to German citizens, but also to the inhabitants of Kurland, Lapland, Estland and Lithuania.¹ In each concrete instance, the SEC demanded documentary evidence of German citizenship, and so, when in October 1918, the German Consulate General tried to take the Kostroma division of the Lenta association, with head office in Riga, into its protection, and thus prevent the uncompensated transfer of its property to the state, the SEC Presidium rejected that demand as not complying with the conditions of the additional Soviet-German agreement of August 27, 1918.

Among the enterprises belonging to foreigners there were about 800 plants, factories and technical offices producing an output essential for restoration of the economy and strengthening the defence of the country. All these were registered and transferred under the control of a special workers' control commission by a SEC resolution of December 19, 1917. After a thorough checking of these enterprises, they were all declared state property.

For the alienation of output and other property from

¹ After diplomatic relations were established with bourgeois Latvia, in accordance with Clause 13 of the Peace Treaty, the question of return of the property of Latvian citizens was decided.

foreign citizens, in July 1919 an inter-ministerial commission was set up, which included representatives from the SEC, the People's Commissariat for Foodstuffs and State Control. The commission was authorised to take stock, evaluate and store goods to be nationalised in the warehouses of foreign owners and to distribute these goods to the appropriate interested organisations. This commission dealt with the claims of foreign citizens on the requisitioning and confiscation of their property. The nationalisation or confiscation of the property of foreign citizens brought up the most diverse questions, including that of compensation. While the procedure for compensation to German citizens was determined by the additional Soviet-German agreement of August 27, 1918, in all other cases, this question was studied by the authorities that carried out the requisitioning. In order to work out a common approach to this issue, the SEC and the PCFA elaborated and, on April 12, 1919, approved joint instructions on the procedure for alienation of goods belonging to foreign citizens. In principle, these instructions repeated the basic points of the SEC circular of December 27, 1918 and noted that, on demand of the inter-ministerial commission, the owner of alienated property was obliged, within three days, to hand over to the commission all accounts and other documents, otherwise he would be deprived of all rights to approach the commission with claims for compensation.

For exercising control over commodity stocks, particularly those in warehouses belonging to foreigners, in accordance with the decision of the SEC Presidium of October 28, 1918, all such warehouses were registered. To improve control over the movement of commodities, the SEC transferred foreign goods into its own warehouses. In this case there was no change in the ownership of the goods, but all the owners' commodity transactions were under the control of the appropriate SEC bodies. The foreign bourgeoisie expressed extreme displeasure at these measures, and diplomatic missions made protests over them. In reply, however, the Economic Law Department of the PCFA

declared that "questions relating to the transfer of commodities for purposes of improved control come within the jurisdictions of the SEC".

In this way, in spite of the desperate resistance of the Russian and the foreign bourgeoisie and its class allies, the Soviet state accomplished the nationalisation of bourgeois property according to plan.

As a result of the socialisation, mainly of large-scale industry, a state (socialist) sector formed in Soviet Russia. During the Civil War, the scale of socialisation expanded and the SEC decision of November 29, 1920, permitted the nationalisation of medium and even small enterprises. In fact, the publication of this decision meant that only some small and cottage-industry enterprises remained unnationalised. At the beginning of 1921, nationalisation of industry was already complete and a total of 4,900 enterprises had become state property.

The Supreme Economic Council not only nationalised industry, it also carried out the socialisation of water transport, trade enterprises, commodity stocks in warehouses and the like.

As a result of the tremendous work carried out by the SEC and its local agencies, the problem of nationalisation was removed from the order of the day. Whereas at the two first all-Russia congresses of economic councils, the question of nationalisation was heatedly and widely discussed, at the Third and, in particular the Fourth congresses of economic councils, attention was centred to improving the functioning of state industry.

2. Organisation of the Management of Nationalised Enterprises

In his work "The Immediate Tasks of the Soviet Government" Lenin wrote that, after gaining power, the main task of the proletariat became "the positive or constructive work of setting up an extremely intricate and delicate system of new organisational relationships extending to the planned production and distribution of the goods

required for the existence of tens of millions of people".¹ In practical terms, this was reflected in the fact that, even during the nationalisation of bourgeois property, completely new agencies for managing social production were started to be formed and that fundamentally new methods of control were developed.

The consolidation of the dictatorship of the proletariat and the socialisation of the basic means of production in industry led to fundamental changes in the very nature of the relations between managerial bodies and working-people collectives. Before the October Revolution, all the efforts of the boards of capitalist enterprises were designed to make maximum profits, and these were then pocketed by the entrepreneur. This is why the relations between the management and the workers were antagonistic. With the victory of the revolution, the animosity of the workers towards and their mistrust of the old factory owners came into sharp relief.

After nationalisation, new guiding bodies began to take shape, drawing in representatives of workers' organisations (trade unions, factory committees and so on) on a broad basis. The antagonism in the relations between the factory management and the workers disappeared, but this process was only finally completed when capitalist property had been fully nationalised. The creation of a new economic apparatus was the concern of the SEC, regional and gubernia economic councils, trade unions, factory committees, individual commissariats and so on.

In the absence of precise instructions from the higher Soviet and economic authorities and of the necessary experience, different approaches to the solution of this problem were made at the local level. In some cases the nationalised enterprises were put under the control of factory committees and workers' commissions, and workers' boards were set up. Workers' boards were formed on two conditions: the workers' collective had to agree to accept responsibility for the management of the enterprises, and

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 241.

at elections to these boards, more than half the workers in the enterprise had to participate.

As a rule, provisional boards were formed in the beginning, based on the workers' control commissions, workers' management bodies, factory committees and workers' trade unions. If a workers' management was already functioning at the enterprise when it was nationalised, this became the provisional board. The provisional board managed the enterprise until a governmental board was formed. The SEC and the All-Russia Central Trade Unions Council (ARCTUC) aimed at having the members of the provisional boards elected from workers members of trade Unions.

The formation of governmental boards was guided by SEC Interim Instructions of March 3, 1918 and, after the First All-Russia Congress of Economic Councils, by the Statute of the Management of Nationalised Enterprises. According to this, a factory board was set up in each plant, factory and mine becoming the property of the Soviet Republic. Two-thirds of the members of this board were appointed by the SEC (if the enterprise came under the direct jurisdiction of the Central Board for nationalised enterprises) or by a corresponding regional economic council, while one-third was elected by workers from the trade-union organisation of the enterprise. The Statute envisaged that not less than a third of the board should be engineering and commercial personnel.

In sequestered and former state enterprises, governmental boards were usually set up. One variety of workers' management—business councils—were formed at the state-owned plants in the Urals.

At a number of enterprises, however, the essence of socialist nationalisation was misunderstood, with the result that the transfer of management into the hands of the workers' collective was taken as the right to dispose freely of the property and output of the enterprise. As a result, at individual enterprises the workers divided the output (fabrics, sugar, soap or tobacco) among themselves. These actions were encouraged by the former owners of the enterprises and anti-Soviet employees, who were simply

counting on this increasing the economic difficulties even further and turning the working class against Soviet power. Sometimes factory collectives refused to take orders from the SEC or its local agencies.

There were even more serious violations at enterprises, the owners and administrators of which formally agreed to fulfill the orders of the Soviet Government, but who in fact used all opportunities to sabotage them. The Soviet Government appointed special commissioners or set up extraordinary commissions to such enterprises. This is how extraordinary commissars appeared.

The extraordinary commissars were most active in the first half of 1918, but when a large number of enterprises were transferred to the state, the commissars' activities were markedly curtailed.

The extraordinary commissars played an important role in the organisation of Soviet industry, as evidenced by the SEC Resolution on the extraordinary commissariat at Sormovo plants, approved by the SEC Presidium on May 20, 1918. The extraordinary commissar was appointed by the SEC and was obliged "to exercise local control of the Sormovo plants, help increase productivity of labour and improve supply of necessary materials to the plants". He was to act as mediator on all points of contention, and was empowered to dismiss from a plant any person who did not carry out his orders. To solve specific tasks involved in the organisation of production, the necessary auxiliary bodies were set up under the extraordinary commissar. These were councils on the supply of materials, monetary resources, on questions concerning the technical equipment of the plant, raising labour productivity, establishing the necessary labour discipline, rate fixing and payment for labour, improving the workers' skills, and elaborating regulations to maintain order at the factory. There were also export commissions and other councils which were necessary for solving specific problems.

Sometimes extraordinary commissars or commissions were appointed in connection with the sequestration of a particular enterprise, as was the case, for example, with

the Revel and Taganrog plants of the former Russo-Baltic Joint-Stock Company. Their appointment was also frequently due to the fact that enterprises to be nationalised were often situated far from the country's administrative and economic centres. This reason, for example, was behind the SEC Presidium's appointment on May 24, 1918, of an extraordinary commissar to the management of the Ekibastuss mines of the Kirghiz Mining Joint-Stock Company, of the Ridder Company and the South Urals mining zone. Such appointments were also made if the necessity arose for an extensive inspection of enterprises or for a check on their financial position, as was the case, for example, with the Maltsevo plants. Sometimes commissars were not appointed, but elected by the workers and office employees of the enterprise, with their subsequent ratification by the SEC. Thus, it was written in the decree of the Kaluga economic council of February 23, 1918, on the nationalisation of the Myshega iron-smelting works that "for the running of the enterprise in the interests of the state, the following persons, elected by the workers and office employees, are confirmed as a commissar, an assistant commissar for commerce and an assistant commissar for factory internal order with the right to sign business papers, monetary obligations and bills of exchange, to accept orders, receive money and carry out any transactions and acts as are necessary for the plant". Sometimes councils made up of representatives of the workers of the enterprise, trade unions and local Soviets, economic councils and other interested organisations were set up under the commissars.

The rights and duties of the extraordinary commissars were not regulated by state legislation, but were defined in accordance with specific situations at enterprises. It is difficult to exaggerate the role of the commissars played in solving actual tasks involved in the organisation of the new, socialist industrial management system, but a few defects of their activities must be mentioned. For example, they solved nearly all the problems, including economic ones, by army methods, and this is the aspect of their

activities which was pointed out by the Trotskyites; when they deliberately pushed the Party onto the path of organising an army-type economy. However, the Communist Party led by Lenin rejected the Trotskyite proposals, since they contradicted the Marxist-Leninist theory of the building of socialism. Army methods for managing the economy were only possible and acceptable during the critical periods, i.e., during the war years, when all resources were subordinated to a single task—armed defence of state sovereignty, while during a peaceful period, army methods contradict the socialist principles of management, and primarily the Leninist principle of democratic centralism. During the first years of the proletarian state, however, and particularly in the extremely difficult economic and internal political situation during the Civil War, the appointment of extraordinary commissars was an absolutely necessary measure. In fact, it was a reaction by the proletariat to the increasingly fierce class struggle during the nationalisation of capitalist property and was a practical step taken by the Soviet Government to overcome economic dislocation and organise socialist economy.

The question of a single system of management for nationalised industry was widely discussed both at the top and at the local level from the very establishment of Soviet power. The Central Council of Factory Committees in Petrograd made an attempt to develop a single scheme for the management of state industry, but under the rapidly changing economic and political conditions in the country, and with the lack of experience in the organisation of social production, it had no success in working out such a scheme in any detail.

An important role in the organisation of industry and the working out of a pattern for factory management was played by the Congress of representatives from nationalised and former state plants in the Urals, which was held on January 7 to 16, 1918. This Congress adopted a Provisional Statute of the organisation of management of nationalised enterprises which declared the Council of

Commissioners to be the highest managerial body. This was composed of 20 to 60 persons, depending on the scale of production. The executive body of an enterprise was to be its board with three to fifteen members. No less than two-thirds of members of the factory management were elected from among organised workers. The next stage in the management structure was the Council of Commissioners from the all enterprises of a zone, which consisted of from 25 to 50 persons. For running industry on a day-to-day basis, a zonal board and inspection commission were set up. The highest regional regulation and control authority was the Regional Council of Commissioners from all the enterprises of the region, with 75 to a hundred members. Day-to-day work was carried out by the Regional Board.

The management structure proposed by the Congress reflected the current state of affairs in the Urals industry, with its division into mining zones. Although it was not a universal scheme, it did, however, have undoubted advantages: all the management bodies were elected from the bottom up and decisive influence was exerted by workers' representatives in the enterprises.

This issue was further examined at the Third Regional Congress of Soviets of Workers' and Soldiers' Deputies of the Urals which took place between January 24 and 29, 1918. Its resolution entitled "On the Management of Industry in the Urals" stressed that all nationalised and former state enterprises of the Urals should be amalgamated into a regional trust. The management of individual plants was to be carried out by business councils of 3 to 12 persons, depending on the scale and nature of production. The business council consisted of financial and accounting, technical and demilitarisation, procurement and supply, and labour departments and it managed the enterprise according to the regional plan for the development of production.

Taking account of the division of the Urals industry into zones, the resolution noted that the management of production within a zone should be accomplished by con-

ferences convoked periodically. These were to elect executive commissions (committees) of three persons to manage the zone. The delegates to the conferences and the members of the executive committees were to be elected on the same basis as the members of the business council of the enterprise. The conferences and plenary sessions of the executive commissions took decisions on principal questions, adopted instructions and other documents. The zonal board (executive commission) was subordinate to the commissariat for production, which was part of the regional economic council.

This management structure in many respects duplicated the one proposed by the Central Council of the Factory Committees in Petrograd, although in individual instances the former had a more detailed definition of the set-up and of the duties of members of business councils and of heads of economic zones. However, in spite of this advantage, this management structure for state industry was of local significance, since it primarily reflected the specific nature and structure of industry in the Urals.

The trade union of metal workers did a considerable amount of work on a management structure. In February 1918, it held an all-Russia conference of representatives of factory committees and trade unions that took part in the management of enterprises. The conference adopted a Statute for the bureau concerned with problems of enterprise management. The bureau was intended to work out a single form of management for industrial enterprises, to consider questions related to the introduction of work and wage rates, to regulate the relations between the control agencies and the management apparatus at factories and plants.

The bureau dealt with fundamental questions of organisation and management, but it must be stressed that this was again an attempt to solve the problem of the organisation of enterprise management within the limits of a single branch of industry. The problem of establishing a single system for managing industrial enterprises remained unresolved and the task consisted in solving this

problem by combined efforts of the central and local authorities.

Analysis of the measures taken during that period to organise industrial management reveals two clear trends. One of these was connected with the creation of a strictly centralised management system, while the other contained elements of syndicalism. The difference in the approach to the problem of the management of nationalised enterprises was felt with particular force at the First All-Russia Congress of Economic Councils. G. D. Veinberg, a member of the SEC Presidium and a leading figure in the trade-union movement, announced, on behalf of the SEC, that it was necessary "to state once and for all that we are not syndicalists, that any enterprise is state property and the workers of the enterprise do not have the right to demand that they alone should manage it; to do otherwise would not be in the national interests". The SEC Presidium insisted on strict subordination of the lower economic management bodies to the higher agencies and, since the factory management is the lowest link in the management system, it was bound to be guided in its activities by orders from and to be responsible before the agency above it.

The attempts of the SEC Presidium to establish and consolidate a centralised system of management for nationalised industry evoked fierce objections from the "Left Communists" who took a clearly syndicalist attitude on this issue. They put forward two proposals: the workers' collective should manage the enterprise, and in the relations between the factory management and the higher managerial agency, the latter, in their opinion, should provide the enterprise with raw materials, fuel, bank-notes and finance. Its functions in relation to the industrial enterprise should be confined to this. This position did not receive the support of the congress' delegates, however.

The Statute adopted by the Congress consolidated the victory of the proponents of centralised management and Lenin himself took a direct part in formulating the final

text of this Statute. In accordance with the Statute, at every factory, plant and mine a factory and works management was to be set up. The procedure for their formation was set out: two-thirds of the management were to be appointed by the SEC or regional economic councils and one-third elected by the workers of the enterprise, who had to be members of the trade union. The Statute envisaged that the SEC or the regional economic council would be able to allow all-Russia or regional professional unions to put forward half the overall number of candidates to the board of the plant or factory.

This ensured that professionally organised, skilled workers had the overriding influence on the management of production. For enterprises combining several production units (factories or plants, for example), two factory management bodies were formed, besides which, each production unit had its own board, subordinate to the chief board of the whole enterprise (amalgamation). Members of factory and chief boards were elected for a term of six months. According to the Statute, they were to work out plans for the development of production, supply, expansion and re-equipment of the enterprise, to draw up financial estimates, collect data on the production cost and wage rates, elaborate factory internal regulations, appoint heads of the engineering and commercial sections, exercise control over their activities and look after the living conditions of the factory and office workers of their enterprise. The plans, estimates and reports on their activities had to be submitted by factory managements to the SEC, economic councils, or depending on which of the two the enterprise was subordinated to.

At a combined enterprise, the functions of the chief board were somewhat different. The centre of gravity shifted to the boards of individual production units and in this case, the chief board dealt with analysis of the papers characterising the work of the individual factories, workshops and other production units, and guided their activities. In accordance with the organisational structure for the management of nationalised industry adopted by

the Third All-Russia Congress of Economic Councils, the managements of plants and chief boards of combined enterprises were subordinate to the regional board of nationalised enterprises which were included in the regional economic council. The regional boards were made up of candidates elected at conferences of representatives of factory management bodies and regional professional organisations. The composition of this board was approved by the presidium of the regional economic council and included one representative from the SEC and one from the regional professional union. The regional board supervised the factory management board. On the basis of the estimates and plans of enterprises, it compiled a summary estimate and production development plan in the region, took stock of finished output, accepted orders, distributed goods according to orders from the central economic authorities, provided enterprises under its jurisdiction with means of production and approved the composition of factory managements. The regional board was empowered to appoint its own representatives to lower factory management bodies and also to countermand any of their decisions.

Central branch boards for nationalised enterprises were set up to supervise the regional boards. These were elected at all-Russia conferences which were attended by representatives of factory managements and all-Russia trade unions. The regional boards had to delegate one representative each to the central boards, the duties of which included issues that were also considered by regional boards, but on a different scale. The central boards supervised nationalised industry on an all-Russia scale. In addition, they resolved questions that could not be considered by regional boards (for example, a change in the composition of the enterprise, if its individual production units were situated in different regions, the formation of inter-regional production amalgamations and so on).

The highest authority for managing nationalised industry was the SEC with its numerous general and production departments, and the central boards for nationa-

lised enterprises were subordinate to it. If an industry or certain enterprises were directly subordinate to the SEC, the regional link in the management structure was absent, the central board having the rights of the regional board, and the SEC, those of the central board.

Thus, during the nationalisation of industrial enterprises, a system for the management of nationalised industry was elaborated with the direct participation of Lenin and leading SEC officials. The Statute of the management of nationalised enterprises adopted at the First All-Russia Congress of Economic Councils formed the basis for further improvements in the management of state industry. Such fundamental principles as democratic centralism, the combination of vertical management with a system of economic bodies on the local level, and of planning and administrative functions at each level of the management chain, and the close organisational ties between individual economic management bodies became the point of departure for all subsequent legislative acts in this sphere. With minor changes, this system for state industry management remained up to the beginning of the New Economic Policy.

One of the basic problems of management, which was discussed extensively within the Party, was that of collective or one-man management and responsibility, which applied equally to all levels in the organisational structure of industry management (enterprises, amalgamations, chief committees and so on).

Initially, the main form of management was the collective board, which was made up of representatives from the different economic management bodies and the trade unions. Since separate branches of industry were closely interwoven, economically, many management agencies had multiple boards. The personnel included representatives from various chief committees, central administrations, trade unions and factory committees. During the initial period when the socialist economic apparatus was being established, the collective form met the requirements of the time. The board played an important role in drawing

workers into management and, to a certain extent, compensated for the new managers' lack of specialised knowledge and experience.

At the end of 1918, however, negative aspects of the collective form of management began to make their appearance: a lack of personal responsibility, substitution of efficient guidance by numerous discussions, and so on. Speaking at the Second All-Russia Congress of Economic Councils, Lenin noted that "the executive part of our work, associated as it is with collective discussion, at times impedes the execution", and therefore, he stressed, "transition from collective execution to personal responsibility is the urgent problem of the day".¹

After Lenin's report, the Congress adopted a resolution that emphasised the personal responsibility of the members of managing boards for the matters entrusted to them and for the work of those enterprises and agencies which they headed. The Congress also noted that persons with experience and specialised knowledge should be drawn into the work of the managing boards (factory managements, amalgamations and chief committees).

After the Second All-Russia Congress of Economic Councils the system of management of enterprises and amalgamations was improved by reducing the number of board members. Those for factories and plants were to consist of three to five persons, those for groups of enterprises—of five to nine, and those of central boards, from seven to eleven.

Even though a consistent transition was taking place in the economic apparatus from the collective system of management to one-man management, the issue still came under discussion.

The Ninth Party Congress (1920) played a major role in reviewing the management principles and it noted in its resolution that "the main task in the organisation of management is to establish a competent, firm and active

management, in both single industrial enterprises and whole branches of industry".¹

The Congress recognised the necessity of establishing one-man management in workshops and of going over to one-man management in factory managements, by cutting down the size of the boards and by establishing transitional forms (if the director was a worker, then his assistant in the technical matters was an engineer; if the head of the enterprise was an engineer, then he had to have a commissar or a couple of assistants from among the workers). When considering the relationship between collective and one-man management in the organisation of management, the Ninth Party Congress stressed that the actual implementation of the principle of clear responsibility of a person for the work entrusted to him was a necessary condition for improving organisation of the national economy. "Collective management, insofar as it has a place in the discussion process, must, of course, make way for one-man management in the execution process. The degree of efficiency of each organisation should be measured by the extent to which duties, functions and responsibility are clearly delegated within it".²

The decisions of the Congress speeded up the transition from the collective system to one-man management of enterprises. By the end of 1920, 2,183 of the SEC 2,483 enterprises were managed on a one-man basis and 300 on a collective basis.

In dealing with the organisation of management of industry and the advance of productive forces, the proletarian state came up against an extremely complex problem in connection with making use of old engineers. Widespread anti-Soviet sabotage by bourgeois engineers in the first few months after the victory of the October Revolution evoked in response a wave of mistrust of engineering and technical personnel and commercial em-

¹ V. I. Lenin, *Collected Works*, Vol. 28, p. 378.

¹ *Decisions of the Party and Government on Economic Issues (1917-1967)*, Vol. 1, Moscow, 1967, p. 166 (in Russian).

² *Ibid.*, p. 167.

employees among the working class. This mood among the workers was encouraged by "Left Communists", the "Workers' Opposition" and various groups of anarchists. As a result, at certain enterprises old engineers were dismissed from work and this often had a detrimental effect on the organisation of production. In this connection Lenin stressed on a number of occasions the necessity for making use of bourgeois experts in the interests of building socialism. In his work "The Immediate Tasks of the Soviet Government" Lenin wrote: "Without the guidance of experts in the various fields of knowledge, technology and experience, the transition to socialism will be impossible, because socialism calls for a conscious mass advance to greater productivity of labour compared with capitalism, and on the basis achieved by capitalism."¹

At the Second All-Russia Congress of Economic Councils, Lenin emphasised that there was a need "to secure experts ... efficient bourgeois co-operators, who must work for you in no worse manner than they did for the Kolupayevs and Razuvayevs. Time to abandon the old prejudices and enlist all the experts we need in our work. ... The pledge of success lies in this attitude."² The workers' own experience convinced them that Lenin's words were right. For example, the workers of the Sormovo-Kolomna group of engineering works resolved at their congress to set up a management without the participation of bourgeois experts. After some time, however, the board came to the conclusion that, without experts, it could not organise production. On agreement with the Central Committee of the Trade Union of Metal Workers, engineers were included on the board and given the same rights as the other members.

The Statute of the management of large amalgamations and nationalised enterprises adopted at the Second All-Russia Congress of Economic Councils emphasised that there should be no less than two experts with technical

and commercial knowledge on the central board of a production amalgamation. It was stressed in the Communist Party Programme adopted at the Eighth Party Congress (1919) that "bourgeois experts must be surrounded with a comradely atmosphere of common labour, hand in hand with the masses of ordinary workers, led by conscientious Communists, and thus mutual understanding and a rapprochement between physical and mental workers who were split by capitalism must be encouraged".¹

At the same time, concrete measures were taken to train the more conscientious workers to be heads of industrial enterprises. On February 8, 1920, at the permanent industrial exhibition of the SEC, workers from twenty major plants were enrolled in the first courses in the world to study the techniques of administrative and technical management of industrial enterprises.² This SEC initiative was supported by the Ninth Party Congress (1920), which noted in a resolution: "To organise courses on industrial management at individual large enterprises or groups of enterprises, so that the most capable workers, possibly without break from work, could study the necessary elements of management from the experience of their enterprises; to appoint workers who have undergone this training as assistants to heads of workshops or to directors of plants."³

Following the nationalisation of industry, the question arose of appointing workers' control bodies at enterprises. Under private ownership, when each enterprise was a scene of fierce class struggle, workers' control was a powerful revolutionary means in the hands of the proletariat in its struggle against the bourgeoisie. Workers' control commissions exercised control over not only the activities of the old boards, but also the new organisation of production.

With the take-over of industrial enterprises by the

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 248.

² V. I. Lenin, *Collected Works*, Vol. 28, p. 380.

¹ *Decisions of the Party and Government on Economic Issues*. Vol. 1, p. 135.

² *Ibid.*, p. 135.

³ *Ibid.*, p. 168.

state, the situation changed radically. Representatives of workers' collectives and trade unions were drawn into the management of nationalised industry on a broad scale. In this way, workers' control and production management acquired a common basis and the previous antagonism between the board and the workers' control bodies made way for relations based on class solidarity. At the same time, the need arose of delimiting the functions of management and control. Plans were developed by the People's Commissariat for State Control, the SEC Presidium and the ARCTUC, and their discussion showed that the most realistic was the plan developed by the ARCTUC, which proposed delimiting the functions of management and control. Production management was to be carried out by the appropriate economic authorities of the Soviet state, while a control apparatus was created by the trade unions. In practice, this meant that all workers' control was brought under the jurisdiction of the ARCTUC. The lowest component in this system was the economic control commission, which was set up at every enterprise.

During the discussion of this issue at the Second All-Russia Congress of Economic Councils, it was noted that workers' control was considered as a preparatory stage for the broad masses taking a direct part in the management of production organisation. "The only correct solution to the problem of the organisation of workers' control," stated the Congress resolution, "will be to transfer it into the hands of the trade unions. The current apparatus of state control not only must not act independently in organising control over production, but must gradually be replaced by a control apparatus of workers' organisations; the control functions of chief committees, central administrations and SEC departments must be handed over to the appropriate trade unions."

At the same time, workers' control was used extensively by the SEC and its functional and branch agencies. The SEC control agencies carried out inspections and checks on the economic activities of individual enterpri-

ses and departments, and the data they collected was subjected by the SEC to thorough analysis and the necessary measures were taken on the basis of its conclusions.

3. Finance and Credit Problems in the Regulation of State Industry

In the plan for building a socialist society and creating a socialist economy, a special place is held by measures designed to subordinate the monetary, credit and finance system as a whole to the needs of this task.

One of the reasons for the defeat of the Paris Commune was its delay and inconsistency in solving financial problems. The leaders of the Paris Commune took no concrete measures to nationalise the Bank of France and subordinate it to the workers' government. In the words of Frederick Engels, "This was a serious political mistake".¹ Lenin attached particular significance to the lesson taught by the Commune's experience. In his article "On Compromises" he wrote that the Bolsheviks "have learnt something since 1871; they would not fail to seize the banks".²

Immediately after the October Revolution, decrees were adopted on the nationalisation of state and private banks, and the foundations were laid for establishing a financial system to correspond to the interests of the proletarian state and to include organisation of financing and crediting of the nationalised enterprises. The solution of this problem took two directions at the same time: first, an organisational structure for the financial bodies in industry was formed, and, second, the forms and methods for financing it were worked out.

This work had to be carried out in difficult economic conditions. Trying to retain its capital at all costs, the bourgeoisie began issuing fictitious bonds to dummies.

¹ K. Marx, and F. Engels, *Selected Works*, Vol. II, Moscow, 1969, p. 186.

² V. I. Lenin, *Collected Works*, Vol. 25, p. 308.

They were counting here on the proletarian state paying off all debts, including those to individuals, and thus on receiving compensation for the loss of nationalised property. A wide-spread campaign for issuing fictitious bonds led to a rise in credit debts. For example, in the Urals alone, by the end of 1917, bank loans consisted of 99.25 million rubles, of which 29 million rubles belonged to fifteen private individuals. The issue of bonds was carried out by-passing existing laws and the shares were transferred to dummy figures, among whom were many foreigners. There was a specific political goal behind this: to make the imperialist states more interested in "Russian affairs", to concentrate foreign currency in their hands and make the already difficult position of the proletarian state even worse.

The workers' control commissions took definite measures to protect state interests, but they could not always deal independently with the organisation of financial control. A series of decrees were promulgated for regulating financial matters and protecting state interests. These prevented the formation of fictitious debts, facilitated the struggle against abuses and simplified solution of the financial problems involved in nationalisation.⁴

In the course of nationalisation the problem had to be solved of how to overcome the unprofitability of industrial enterprises, a result of the rapid fall in the rate of exchange of the ruble. On November 1, 1917, there were 22,400 million rubles' worth of bank-notes in circulation,

⁴ See the Government's Decrees "On Halting Payment on Coupons and Dividends" which prohibited all transactions with securities, and "On the Registration of Shares, Bonds and Other Securities", which introduced compulsory registration of the shares of RSFSR citizens and foreigners; the Central Executive Committee's Decree of May 20, 1918, which prohibited uncompensated transfer of property valued at over 10,000 rubles; the Government's Decree of May 28, 1918 "On the Registration of Trade and Industrial Enterprises within a Three Months' Term" that set out the procedure for this registration. The responsibility of both the old and the new owner of all securities was established.

i.e., 14 times more than on July 1, 1914, and the ruble was supported in gold only to a tenth of its former level. On November 1, 1918, the amount of money in circulation had risen to 43,200 million rubles and the gold support for the ruble was only one per cent of the July 1, 1914 level. The upset in money circulation and the price rises thus caused on raw and other materials, the sabotage campaign launched by the bourgeoisie, speculation and so on all put those enterprises which had supply contracts signed before October 1, 1917, in particular, in a very difficult financial position. The board of the finance and auditing department of the SEC adopted a resolution on November 27, 1918 "On ways to reduce losses arising in nationalised enterprises in connection with low contract prices". Enterprises were instructed to take no independent actions to make good their losses, but simply to make reports indicating their customers and to present them to the SEC Financial Department which would make the final decision.

An important stage in the preparations for nationalisation of capitalist enterprises was the compilation of the transfer balance sheet. Former owners of enterprises strove to misrepresent the actual balance, so the resolution of the SEC Presidium of November 16, 1918 obliged factory managements to make a thorough re-evaluation of the property and to introduce into the balance report a sum calculated at current prices at the moment when the balance sheet was compiled.

During the nationalisation of industry, the state, striving to ensure continuity of production, gave considerable financial assistance to a number of enterprises. By decision of SEC and the People's Commissariat for State Control, advances were made to these enterprises against future estimates. In 1918 alone, the state spent 3,300 million rubles to this end.

In the course of solving concrete finance and credit tasks it was necessary to develop a system of financial relations between industry and the State Budget authorities, to initiate finance operations between nationalised en-

terprises and institutions and to solve the problem of "a single fund" put forward by Lenin.

With the emergence of public property, a real possibility arose of combining the monetary resources of enterprises into a "single fund" of the Soviet state. This made it easier to direct financial resources where they were most required, facilitated their rational distribution among branches of industry and individual enterprises, and allowed maximal control over their use. The May 2, 1918 Resolution of the Council of People's Commissars "On maintaining a single fund" stressed that "all monetary resources (cash, interest, bonds and securities), which are not at Soviet institutions or owned by officials, must be deposited at the People's Bank or the State Treasury". Thus, foundations were laid for a "single fund".

Major difficulties arose, however, in the implementation of this Resolution. Economic practice showed that each enterprise strove to retain a part of the output and monetary resources for itself. When discussing this issue, the SEC Presidium emphasised that, in the prevailing economic situation, it was practically impossible to combine the monetary resources of all enterprises and institutions within its system. First of all, the necessary conditions had to be prepared for solving the problem of the "single fund" and so, on September 3, 1918, a Government's Decree was issued "On the procedure for keeping the sums of government institutions and nationalised enterprises" which stressed the need to keep monetary resources in the current account of the People's Bank. The SEC, in conjunction with the People's Commissariat for Finance, drew up instructions which indicated cases in which enterprises or institutions were permitted to keep part of their monetary resources.

On August 25, 1920, the SEC Presidium circulated an order to its subordinate economic and managerial agencies to inform the gubernia departments of funds borrowed from January 1, 1918 to July 1, 1920, to cover non-credit outlays, indicating how much was spent on what, from where and on whose demand the loan was

made. The task of setting up a "single fund" was facilitated to a considerable extent, by the transfer of the republic's all institutions and enterprises onto budget financing. With transactions made by written order and smooth control over production and the distribution of output, the enterprises could no longer accumulate in their coffers any significant cash sums and could not use part of the finished product as an exchange fund.

The concentration of the monetary resources of nationalised enterprises in a "single fund" of the Soviet state inevitably necessitated centralised financing and crediting of these enterprises. Speaking at the First All-Russia Congress of Economic Councils on May 18, 1918, Lenin stressed: "The centralisation of finance and the concentration of our forces are essential; unless these principles are applied in practice we shall be unable to carry out the economic reforms..."¹

At the end of 1917 and during the first half of 1918, not only private, but also nationalised enterprises existed primarily on bank loans (in many cases only irregularly), advances against orders and partially on their own circulating assets. The absence of constant sources of finance put industry in a difficult position and many enterprises were on the brink of bankruptcy. This was all aggravated by the fact that the enterprises' monetary requirements had inevitably increased: worn-out equipment had to be replaced, and wage arrears eliminated. The prices of raw materials and fuel had also risen. The shortage of their own resources, the irregular nature of credits, the disruption of market links and other circumstances ruled out the possibility of the enterprise itself solving its financial problems. The sabotage carried out by the bourgeoisie made the situation even more complex.

In these conditions, the state introduced a new procedure for financing—a system of estimated expenditure. In connection with this, the necessity arose for developing the basic principles for financing according to estimates, for

¹ V. I. Lenin, *Collected Works*, Vol. 27, p. 384.

establishing the procedure for approving estimates, and for organising control over the use of the sum allocated to the estimate.

On April 26, 1918, the SEC Plenary Board discussed the methods of financing industry and determined that enterprises should submit detailed quarterly estimates of their incomes and outlays to the appropriate production department or Chief Committee of the SEC, and that these estimates should be approved of by the estimate commission. The enterprise was entitled to change the designation of credits within the estimate amount and to make unforeseen outlays, but in an amount not exceeding 10 per cent of the planned resources. The SEC Plenary Board to a certain degree generalised the little experience of estimate financing that had been accumulated at the enterprises of Petrograd, the Urals and elsewhere.

The first experience of compiling estimates showed that their approval was a very long process. This evoked justified censure on the local level. In order to improve the financial position of enterprises, from April 1918 the SEC began to pay advance on future estimates. The Government's Decree of May 17, 1918 intended financing on future estimates to all nationalised and sequestered enterprises. It laid down, however, that the sum advanced should not exceed the estimated need for funds for a two-month period. Enterprises' requests for preliminary advances were considered by the SEC Finance Commission. For the introduction of this system, the Government allotted the SEC a special monetary fund of 200 million rubles. The SEC Presidium permitted money to be paid out of this fund if the enterprise in need could not, for some reason or another, get its estimates through the estimate commission on time.

At the end of 1918, advances made on future estimates were markedly reduced and in 1919-1920 were already playing only a subsidiary role. This was due to the improved organisation of budget financing, in which an important part was played notably by the Government's Decree of June 3, 1918 "On the Compilation of Estimates

of State Incomes and Outlays for November-December 1918" establishing the procedure for drawing up and approving estimates.

In accordance with this procedure, the estimate was considered preliminarily at special meetings in each department, attended by representatives of the SEC, the People's Commissariat for Finance (PCF) and State Control. It was then handed on to the SEC Central Estimate Commission. Once signed by the SEC Chairman, it was passed on to the Council of People's Commissars for consideration, where, if it had been favourably assessed by the PCF and State Control, it was confirmed. The SEC Presidium studied the estimate only if there was a difference of opinion between the SEC Estimate Commission and the SEC chairman. Broad discussion of the draft estimates of individual enterprises and departments ensured that due account be taken of the expediency of planned outlays. However, the time taken in drawing up and approving estimates had not been cut down.

In the development of a common approach to the drawing-up of estimates, the Government's Decree of July 11, 1918, was of considerable significance. This ordered the size of budget allocations to be calculated according to the balance method. The SEC instructions of November 25, 1918 "On the procedure for compiling estimates for nationalised enterprises" proposed a transition from summary calculation of allocations by balancing incomes and outlays of enterprises to a break-down of the overall sum of estimates into separate items of expenditure.

At the beginning of 1919, a next step was made towards developing techniques for drawing up estimates: the estimate was broken down into separate items of outlays by production components: raw materials, wages, fuel, maintenance and so on. This geared budget financing to production needs and strengthened control over the expenditure of funds released on estimate.

The execution of the estimate by items, and primarily the receiving of credit, was carried out through the finance and accounting department of the SEC. Here accounts

were kept of credits already granted. Outlays not envisaged by the estimate could only be made with the permission of the Council of People's Commissars. Later, however, the practice for granting credits changed, and the Government's Decree of March 4, 1919 extended the group of credits authorities, including large production amalgamations within it. The main credit authority on all SEC estimates was the SEC Presidium. For enterprises which had been transferred to SEC departments or chief committees, the credit authorities were these departments and chief committees. For all other enterprises, gubernia economic councils were the credit authorities.

In order to improve financial discipline, on May 24, 1919 the Council of People's Commissars issued a decree "On the Rules for Estimates" which stressed that credits were to be used strictly for specific purposes. "If credit granted on any item of the estimate is exhausted," states the decree, "the use of credit in this section shall be suspended." This principle naturally regulated the use of credit resources for particular purposes. Enterprises and even SEC production departments frequently demanded credits to be granted in bulk, without being broken down into items. The SEC Presidium, however, pursued a policy of strict regulation of the monetary outlays of enterprises.

Being the credit authority, the SEC established control over the use of credits. The Decree of May 11, 1918 set out the procedure for granting credits. A month's grace was granted for receiving estimate allocations. If this grace was not availed its credits were transferred to the latter half-year. This practice helped strengthen financial discipline.

Budget financing played the principal role in the financing of industry during the Civil War and foreign intervention, as evidenced by the Government's Decrees of March 4, 1919 and May 17, 1920 "On the Financing of State Enterprises". The former stated that the only source of monetary resources for all state enterprises were allocations from credits according to the scheme of state revenues and expenditure of the RSFSR.

At the same time as new methods of financing and granting credits to state industry were being worked out, a financial apparatus for this industry was also created within the SEC. Thus, in accordance with the Government's Resolution of December 20, 1918, a Conference on the financing of industry set up within the SEC, was empowered to finance state orders of a non-military nature, amend orders, agreements and contracts on supplies to industrial enterprises, appoint representatives with full control rights to the boards of enterprises it financed and so on.

The resolutions of the Conference were ratified by the Economic Policy Committee, but on questions of principle or in cases of disagreement between the Conference and the Economic Policy Committee, the final decision lay with the SEC Presidium. Subsequent economic practice showed that the Conference on financing matters virtually duplicated the work of the Economic Policy Committee on financial issues. So, in February 1918, a special SEC financial authority was set up—the Central Accounting and Loans Committee¹ and in March 1918, the Conference on Financing was abolished. All financial questions were now decided by the Estimates and Advances commissions.

The Estimates Commission was set up in March 1918, under the Finance and Accounts Department of the SEC. It dealt with the financing of enterprises and institutions within the SEC system and considered the estimates of its departments and Chief Committees and their local economic agencies. The SEC Advances Commission, set up in April 1918, considered preliminary demands for advances and loans to nationalised enterprises, collected information necessary to make competent decisions from all institutions and organisations involved, and passed on this information to the SEC Presidium, the Estimates

¹ The Decree of the Accounting and Loans Committee stressed that "the financing of enterprises may only be carried out by the Central Accounting and Loans Committee" and, at the same time, it stated that "the Central Accounting and Loans Committee must be governed in its decisions by the general SEC instructions".

Commission and the Accounting and Loans Committee.

Financial subdepartments and sections were set up under the SEC chief committees and committees to deal with day-to-day financial questions. With the formation of regional, gubernia and uyezd economic councils, financial departments were also organised within them.

In August 1918, a Financial and Economic Department was established within the SEC to co-ordinate the activities of all the components in the financial apparatus of state industry. Its functions included: preliminarily working out general aspects of the SEC financial and economic policy, studying the estimates of all the SEC subdivisions, preliminarily studying individual issues relating to the practical organisation of the financing and crediting of industry, compiling a general report on the financial and economic activities of the SEC. The SEC Financial and Economic Department was directed by a board. All the financial bodies of the industry were directly subordinate to the SEC Presidium which took decisions on the financing of industry.

Thus, agencies for managing industry were created, and the necessary financial apparatus set up simultaneously, and this put on a new plane the problem of organising financial relations between enterprises and other economic agencies. The old forms of meeting monetary liabilities—payment in cash, free cheque circulation, bills of exchange—did not facilitate the introduction of the necessary order in the organisation of the republic's finances and meant virtual lack of control.

With the widening scale of nationalisation, a form of monetary settlements became necessary which would to a greater extent correspond to the specific features of the economy. This form was cashless settlement. The SEC Resolution of August 30, 1918 "On the Procedure for Effecting Settlement Between Nationalised Enterprises and Soviet Institutions" stated that settlements between all Soviet institutions and organisations for manufactured and received output should be effected by accounting records, without the use of bank-notes. The Government's

Decree of January 23, 1919 extended the system of cashless settlements to all enterprises. Payment in cash could only be made in sums not exceeding 5,000 rubles. In the middle of 1919 this system became dominant.

At the same time as the financing and crediting of industry was being organised, taxation issues were also tackled. It must be said at this point that this problem has not yet been solved fully enough by Soviet scholars of economic history. Taxes are usually considered as a weapon in the struggle against capitalist ownership. No doubt, this was the main aspect of the taxation policy of the proletarian state. The state, being the owner of the means of production, must concentrate in its hands the surplus product which is created at nationalised enterprises.

Initially, local authorities introduced permanent, one-time and extraordinary taxes at their own discretion, and these were levied on both nationalised and unnationalised enterprises. Since this sort of taxation assumed a wide scale, on July 7, 1918, the SEC issued an order prohibiting the levy of extraordinary taxes on nationalised enterprises. While opposing local taxes and any extraordinary taxation, however, the SEC considered that funds were essential for forming a state budget and maintaining the industrial management apparatus. So, at the end of 1919, centralised taxation was introduced through the price system, and the existing practice of deductions made in favour of chief committees was abolished in February 1920.

During the Civil War and foreign intervention, the proletarian state strictly centralised the distribution of material resources. However, with the constantly growing emissions of bank-notes, the planning of money circulation was only formal. In essence, the planning indirectly involved the distribution of material resources which would be obtained with these devalued notes, as was also reflected in the planning of the socialised sector. The planning of production and commodity turnover was replaced by distribution of products in kind. For this reason, the market commodity turnover was not planned either.

The distribution of material resources was planned independently of the financing of enterprises, amalgamations and even whole industries.

For each enterprise or amalgamation, along with a production programme, an estimate of necessary outlays was determined with detailed clarification of each item. The financing of industrial enterprises was according to the production plan, regardless of whether it was fulfilled or not.

In the absence of cost-accounting, this financing principle did not stimulate enterprises to achieve profitability. All the finished output went into the state fund, with subsequent transfer of its overall value from the accounts of the producer to those of the consumer. This practice was a result of the wide-spread conversion to so-called naturalisation of economic relations, i.e., to settlements in kind. The use of money was virtually confined to the private market. The policy of payment in kind and virtual replacement of trade with distribution of products gave rise to the idea of abolishing money, eliminating money circulation and introducing a new accounting unit. It is natural that, under the circumstances, a draft was prepared for the Decree "On the working unit of account".

The processes taking place during the period of War Communism in the economy of the country showed that the policy of eliminating commodity-money relations and the monetary system had limited application and did not correspond to the new conditions of development of the economy, to the tasks of restoring the national economy or strengthening the alliance of the working class and the peasantry. This is why the decree on the working unit of account was not adopted.

Lenin wrote: "...owing to the war problems ... and ... to the desperate position in which the Republic found itself ... owing to these circumstances, and a number of others, we made the mistake of deciding to go over directly to communist production and distribution."¹

¹ V. I. Lenin, *Collected Works*, Vol. 33, p. 62.

The transition to the New Economic Policy (NEP) was connected with the wide-spread use of commodity-money relations and, consequently, with a review of the existing finance and credit ties, in state industry. This transition, however, was to a considerable extent prepared for by the experience of organising financial links in industry and other links in the national economy and within industry itself during the first four years of existence of the proletarian state.

4. The Organisation of Material and Technical Supply

As the management of nationalised enterprises was organised, one important task was to supply these enterprises with fuel, raw and auxiliary materials, machine-tools, hand tools, and so on. The seizure of the major areas producing raw materials and fossil fuels by the enemy, the wear-and-tear of equipment, the cut-back in the number of workers employed in the mining industries, the fall in the productivity of labour, the extremely low capacity of the railways and a number of other factors made the organisation of material and technical supply of industrial enterprises enormously difficult. Moreover, the sphere of supply became an arena for persistent class struggle. The former owners of enterprises and bourgeois experts strove by every possible means to leave enterprises without raw materials and fuel and to put machine-tools and equipment out of operation.

Between 1918 and 1920, a policy of centralising material and technical supply was consistently pursued. The SEC report to the Second All-Russia Congress of Economic Councils emphasised that all supplies of raw materials, half-finished and finished products to plants and factories for industrial purposes should be in the hands of the SEC. Up to the end of May 1918, however, problems of material and technical supply were in the main decided at the local level. Beginning from the second half

of 1918 and till the end of the Civil War and period of foreign intervention, material and technical supply was fully centralised and concentrated in the production departments, chief committees and central administrations of the SEC. With the acute shortage of raw materials and fuel, only on the basis of strictly centralised distribution of available resources was it possible to ensure that military orders would be fulfilled and to create the necessary conditions for normal operation of other industrial enterprises and so on.

The system of material and technical supply of industry was made up in the following way. First, supply agencies were set up under the SEC production departments and chief committees and also under major amalgamations. Second, supply agencies were established under the local economic councils and SEC regional bureaus. Their functions differed in scale, however. While production departments, chief committees and amalgamations regulated the organisation of material and technical supply within their own industry, local economic councils had to provide raw materials, fuel, etc., to all industrial enterprises within their respective areas, regardless of the industry to which they belonged or the type of production. Consequently, in the first case specialised supply agencies took shape, while in the second, supply bodies of a general nature. This made a significant imprint on the organisational structure and actual work of each particular supply apparatus.

The activities of the SEC supply apparatus developed and improved under the influence of and depending on changes in the organisational structure of the SEC itself. Initially, all questions concerning the organisation of material and technical supply were decided in the SEC production departments. In certain cases they were immediately entrusted with organising material and technical supply (in the metal and fuel departments, for example), while in the others, the concentration of the output of a particular industry in the production departments acted objectively to turn them into supply and dis-

tribution centres. For example, whereas at the beginning of its existence, the SEC Chemical Department only occasionally dealt with problems of supply, in the spring of 1919, following the nationalisation of this industry, the Chemical Department was transformed into an agency with the output of the whole industry at its disposal. So, a section for accounts and control was set up within the department for regulating and distributing the output of the chemical industry.

When the chief committees were formed, supply functions were allotted to them. For this purpose, supply departments and subdepartments were set up within them, along with transport, storage and raw materials departments and subdepartments. A parallel network of supply agencies was established within the framework of local economic councils.

The formation of two systems of material and technical supply, operating in parallel, necessitated the establishment of a single co-ordinating centre. The Utilisation Commission which existed within the SEC only partly fulfilled this function, since it was a planning and distribution agency. The SEC production departments, chief committees, SEC regional bureaus, district and gubernia economic councils, within the limits of their resources, independently regulated material and technical supply, provided the problems did not extend beyond the individual industry or economic area. When the necessity arose for a chief committee or economic council to step over this boundary, narrow departmental interests and parochial tendencies immediately came to the surface. All this made it more difficult to pursue a common policy in material and technical supply and had a detrimental effect on the provision of raw materials, fuel and other materials to enterprises. By the decision of the SEC Presidium of September 6, 1920, the SEC Council for Supply and Distribution became the co-ordinating centre. This body was to organise the supply of raw and other materials, and fuel to all branches of industry and perform distribution and co-ordination functions. The Council con-

sisted of fifteen representatives from various departments, its day-to-day work being carried out by a bureau of four persons.

In its practical activities, the Council relied on the supply and distribution departments set up under the SEC regional industrial bureaus and gubernia economic councils. These bodies were charged with the organisation of material and technical supply within the area of activity of the SEC regional industrial bureau. They took stock of materials, finished industrial products and factory equipment in the region and controlled their movements within the region, took account of the requirements of plants and factories under the jurisdiction of the SEC regional industrial bureau for raw and other materials, and machine-tools, and co-ordinated supply plans with the production programmes of industrial enterprises. They also studied and approved of orders for raw materials and equipment from industrial enterprises, supervised the use of allocated supplies and drew up regional plans for supply and distribution. After these plans were approved in the SEC regional industrial bureau, they had to be finally ratified in the SEC Council for Supply and Distribution. Regional supply and distribution departments included representatives of regional production commissions, while the directing collectives of the latter included commissioners from the former.

For the organisation of material and technical supply, gubernia conferences on supply were set up within gubernia economic councils. These were made up of representatives from enterprises of local and republican significance situated within the given gubernia. The main task of these conferences was to organise the supply of raw and other materials and equipment to the enterprises of the gubernia, taking account of local conditions and the state of affairs in these enterprises.

At the beginning of 1921 the system of material and technical supply was further reorganised: specialisation by branches was introduced. The distribution of consumer goods was dealt with by the People's Commissariat for

Foodstuffs, while articles intended for industrial consumption were distributed by the SEC Council for Supply and Distribution. The existence of these two specialised supply centres necessitated centralised co-ordination of their activities, and so, by the Government's decision of March 17, 1921, a general Planning Commission was established under the Council of Labour and Defence (CLD). In turn, the SEC Council for Supply and Distribution was transformed into the SEC Supply Department.

The major precondition for ensuring material and technical supply of industry in the difficult conditions of the Civil War and foreign intervention was the strictest possible accounting and control. Guided by Lenin's instruction on the role of accounting and control in the building of socialism, the SEC supply apparatus, from the very first days of its existence carried out considerable work to take stocks of metals, raw materials for the light industry, timber, and so on.

Determined efforts were made to combat unauthorised requisitioning and confiscation of raw materials and fuel by local Soviets and economic councils and, at the same time, the SEC exercised strict control so that raw and other materials did not fall into private hands, let alone transferred abroad. To this end an inspection apparatus was set up and several orders were issued to this effect.

In order to exercise the strictest accounting and centralisation of distribution of fuel and raw material resources and factory equipment, the SEC took all warehouses under its control. In February 1919, a Transport and Material Department was set up within the SEC economic apparatus and local transport and material departments established under gubernia economic council to co-ordinate this work. These departments were in charge of all stores and warehouses, the transportation of freight and so on.

Material and technical supply was closely linked with the procurement of raw materials. The exhaustion of old stocks and a sharp decrease in the extraction of raw materials made the raw material problem considerably more

acute, and it was not by chance that the procurement of raw materials interested Lenin constantly.

Factory committees relied on their own efforts in procurements. In 1918, for example, factories obtained 25 to 30 per cent of the flax harvest independently, with the help of their commissioners. However, this practice contradicted the Soviet Government's policy of centralising the management of industry. Under these conditions, the main task of the SEC was to create a specialised procurement apparatus and to put it to work. In practice, however, this problem was solved against the background of constant devaluations of money, sabotage by private procurement agents and a rapidly changing military situation. Moreover, the staff of the SEC procurement apparatus, as a rule, had no experience of this work. So, at first, the SEC relied on a number of private firms.

For example, the agreement of July 9, 1918 between the Central Textile Board and the Russian Wool Association is well known. The SEC granted this Association a 300-million ruble credit to carry on economic operations. Private firms, behind the screen of talk about "a desire to work for the national industry", in fact tried to bind the Soviet Government with agreements profitable for themselves. Under the pretence of financing procurement of agricultural produce, they transferred money to those areas of the country seized by the counter-revolutionaries. In February 1919, the Russian Wool Association transferred 2.3 million rubles to areas which were in the hands of the White Guards, and only 150,000 rubles to those under Soviet Government's control. So as early as the first half of 1919, the Soviet Government began to avoid co-operating with private firms and work actively to nationalise these firms. The Russian Wool Association was also nationalised that year.

In setting up its own procurement apparatus, the SEC strove to bring it as close as possible to sources of raw materials, particularly those of leather, textiles and tobacco. The Chief Administration for the Leather Industry created a ramified network of buying-up stations in all guber-

nias and uyezds and these were situated in markets, bazaars and other places where the agricultural population was traditionally concentrated. The SEC often sent its own representatives to procurement areas. In the autumn of 1919, the Central Textile Board called on all workers' collectives, factory and group boards "to select the best and most experienced persons from their ranks and send them out after raw materials".

The procurement apparatus of producers' and consumers' co-operatives was used, its share in agricultural raw material procurements being about 20 per cent. The procurement of furs was concentrated entirely in Centrosoyus (Central Union of Consumer Societies).

State control over the procurement of agricultural raw materials and other products of animal or vegetable origin was of great practical significance. The dependence of state industry on private capital decreased and the prohibition on private trading put an end to speculation. A virtual state monopoly was introduced in the country, and this made possible the concentration of raw materials in the hands of state procurement agencies and their distribution among the separate branches of the economy in a planned way.

One important aspect of the state's efforts to procure agricultural raw materials was the policy of fixed prices. In August 1918, prices were fixed on flax, leather and oil seeds. With money falling in value every day, this did not stimulate procurements, and so agricultural produce was obtained on the basis of commodity exchange. The SEC, in conjunction with the People's Commissariat for Foodstuff, allocated a commodity exchange fund for this purpose.

However, the beginning of the Civil War, the state's limited material resources, the infancy of the procurement apparatus and a number of other factors made it impossible to make procurements on the basis of commodity exchange. From 1919 onwards, procurement was based on the requisition principle. The CEC Resolution "On the Procurement of Raw Materials" adopted at the

beginning of 1920, stressed that raw materials should be procured at fixed prices, on the principle of surplus appropriation, and that this should apply to the procurement of all sorts of raw materials. In order to stimulate the expansion of procurements, bonuses were introduced which were made either in kind or in cash.

One important task in ensuring regular supplies of materials and machinery was to establish new principles for the distribution of raw and other materials fuel and factory equipment. The establishment of state ownership of the means of production created the necessary conditions for a planned distribution of material resources. In the difficult conditions of the Civil War and foreign intervention, and the very limited material resources, however, the Soviet Government could not organise planned distribution of resources, and so a so-called permit system was introduced.

This system was specific in that not a single governmental or economic subdivision could obtain raw or other materials or monetary resources unless it had permission from the corresponding SEC production department, chief committee or central administration. On July 2, 1918, for example, the Central Textile Board (CTB) adopted a resolution on the transfer to its Supply Department of all stocks of cotton in the territory of the RSFSR and, at the same time, instructed all organisations that they should only hand over cotton by order of the CTB Supply Department. Similar orders were issued by other chief committees and central administrations. Gradually, however, the permit system began to give way to planned supply. At the end of 1919, almost all industries had gone over to planning supply.

The first plans were extremely primitive and, in most cases, merely determined the procedure for the allocation of raw materials and fuel; established the degree to which the stated requirements were satisfied; pointed out concrete forms of relations between supply agencies and consumers. Such plans were drawn up every quarter and ratified at consumers' congresses and conferences.

An essential condition for the supply plans to be approved and the necessary funds allocated was a production programme. In addition, account was taken of the importance of the industry and of the individual enterprise for the economy as a whole. Enterprises working on defence, serving railway transportation or supplying cities with water and electricity, key plants and factories were singled out into a special group. In 1920, considering the special significance of the Petrograd, Moscow and Ivanovo Voznesensk industries, the SEC put them into a special supply group. Frequently the functioning of individual enterprises was directly dependent on the ability of the factory collective to discover and obtain the fuel and material resources required.

The metal industry was of extremely great significance for the economy of the young proletarian state and so, right from the very first days of its existence, the SEC devoted particular attention to the organisation of metal supply. During the first few months after the Great October Socialist Revolution, before the SEC economic apparatus had set up its own distribution network for metal supply, the technical apparatus of the Chief Administration for Accounting and Distribution of Metal (Ramesko) was used, along the former Prodasmets and Krovlya metal syndicates. A state monopoly on metal was introduced. To put the distribution of metal under control, on July 17, 1918, a subdepartment for accounting, distribution and sale of heavy ores and metal (Prodamet) was set up on the basis of the metal-working industry section, the SEC Metal Department and Ramesko. Prodasmets was entrusted with all functions connected with the organisation of metal supply, and a local apparatus consisting of commissions, departments or sections on accounting, storage and distribution of metal was created for the fulfilment of these tasks.

The most industrially developed regions were isolated into independent metal supply areas and here, depending on local conditions, district metal administrations or agencies were set up which, within the district they con-

trolled, directly managed stocks of metal products of all nationalised enterprises. An important role in the organisation of metal supply was played by the SEC Resolution of November 13, 1918, which noted that all metal and metal products in warehouses were to become the property of the Soviet Republic. On the basis of this resolution, Prodasmets sealed numerous warehouses and took stock of 70 to 80 per cent of all stocks of metal. These measures made Prodasmets virtually the only distributor of metal and metal products in the country. At the same time, the first steps were taken towards developing methods for a planned distribution of metal.

Whereas, at the beginning, Prodasmets allocated metal according to the permit system, by the autumn of 1918, distribution was according to plan. In November 1918, the SEC Presidium ratified the first plan for metal supply, for a three-month period. The second plan was approved on February 17, 1919. The next plans were drawn up with a break-down into two periods: from April to June and from July to December. Metal supply plans were drawn up on the basis of metal requirements stated in orders which were compiled in accordance with production programmes worked out by gubernia economic councils. The SEC introduced strict distribution quotas for metal, which, along with metal products, was allocated at fixed prices.

Although Prodasmets was the main centre for the distribution of metal, in the second half of 1919 the significance of local economic councils in metal supply increased. This was because, as a result of nationalisation, the number of state enterprises had risen and the scale of supply operations had expanded. In these conditions, Prodasmets was not always able to fulfill its duties and, at the end of 1919, local economic councils were distributing about 60 per cent of all metal. Prodasmets concentrated its activities on supplying enterprises and large amalgamations.

The extension of the activities of local economic councils in metal supply led, at the beginning of 1920, to the

Interdepartmental Commission on Distribution of Metal being set up under the SEC Council for Supply and Distribution. This body regulated the economic relations between local economic councils and Prodasmets on questions of metal supply.

After the October Revolution, one of the major problems was that of fuel. The Soviet Government solved this problem in the following way: first, all available fuel stocks were registered; second, measures were taken to increase the extraction and production of fuels; and, third, available fuel was distributed according to strict quotas.

In order to solve all these problems, a Fuel Department was set up within the SEC economic apparatus and specialised chief committees were also established. These simultaneously served as bodies for regulating industrial production.

The temporary loss of the oil and coal-mining regions meant that timber played an increased role as fuel. In the Government's Decree of July 19, 1918, the Chief Committee for the Timber Industry was called "the highest authority regulating and organising the forestry and timber-processing industry within the RSFSR". Urgent measures were taken to increase the supplies of firewood. A "Board of Three" was established, whose personnel were exempt from military service. Armed detachments were used to guard firewood and timber in timber-producing areas. Directly subordinate to the "Board of Three", these detachments fought actively against all who hid firewood and timber from the distribution authorities of the Soviet Government. Any anti-Soviet sabotage was nipped in the bud.

The SEC Presidium's instructions explained that "if gubernia forestry committees (as gubernia authorities) prove incapable of procuring timber independently, the blocks of forest must be handed over for development by workers' collectives from the railways, industrial enterprises, co-operative organisations and also persons who might be of assistance in this matter. All procurement

workers, regardless of the agency to which they belong, must work under the control of the local forestry board".

In spite of the measures taken by the Soviet Government to overcome the fuel shortage, this remained an extremely acute problem, and so the centralisation of the management and regulation of the fuel industry was even further increased. In December 1918, the SEC Presidium took a decision to concentrate the distribution of fuel in the hands of a single authority—the Chief Administration for Fuel (CAF). At the same time, gubernia fuel departments were set up, with the necessary functional and branch subdepartments.

With the formation of the CAF, the branch fuel chief committees began to deal with more general questions of the organisation of production management, and their rights in the sphere of fuel distribution were limited. In the spring of 1919, a special commission was set up within the SEC to deal with the fuel problem, which was always at the centre of attention of the Soviet Government.

An important task in the young Soviet state was to supply industry with the necessary equipment. The proletarian state inherited a dislocated economy and underdeveloped engineering from tsarist Russia. Moreover, during the First World War, the import of machinery fell sharply and ceased altogether after the October Revolution. Sabotage by the former owners of enterprises and the barbarous behaviour of the White Guards led to the destruction of machine-tools, machines and other equipment.

The SEC undertook a truly gigantic work to create at least a small stock of necessary equipment. First, machine-tools and engines that still survived from the pre-revolutionary period were taken over by the SEC. Second, the equipment of enterprises which had been evacuated during the First World War was sought out and returned where it belonged. Third, for lack of raw materials and fuel, some enterprises stopped production and this helped form a certain reserve of equipment. Finally,

some machine-tools and engines were still in private hands.

In 1918, an industrial census was taken from which the SEC obtained the information it needed about the existing equipment.

During the first years of the Soviet state, industrial enterprises were supplied with the necessary equipment mainly through distribution and redistribution of existing equipment. A definite role was played in solving this problem by the evacuation of equipment from areas of military operations. The SEC production commission developed a plan for such redistribution, and equipment was allocated in the first instance to key enterprises.

All these measures could not, of course, fully solve the problem of supplying industrial enterprises with production equipment, but they helped make the problem somewhat less acute and organise the work of industry in the difficult conditions of the Civil War and foreign intervention.

The task providing the necessary materials and machinery was complicated still further by the poor condition of approach routes and the low capacity of the railways. Water transport was also disrupted and was short of fuel, while motor transport did not suffice. It was not always possible to transport even that raw materials and fuel which had been procured.

The SEC devoted considerable attention to transport. Rolling stock and railway repairs and production of new engines and wagons were started. Enterprises fulfilling orders from the People's Commissariat for Communications were in the priority group.

Taking account of the difficulties experienced by transport and its special role in the rehabilitation of the economy, the Soviet Government centralised the management and regulation of all traffic to the maximum. A special authority was set up within the SEC to deal with transportation problems. As a result, a considerable proportion of freight was dispatched on the orders of Chief Committees directly from Moscow.

In February 1920, by decision of the SEC Presidium, an Administration of State Transport Enterprises, given the status of an independent chief committee, was set up to manage transport enterprises. Moreover, special dispatch offices were established.

During the Civil War, railway transport was under the People's Commissariat for Communications, while motor transport and cartage were controlled by the SEC. In the spring of 1919, in order to co-ordinate the operations of all subdepartments dealing with transportation, a Supreme Transport Conference on Railway Transportation was set up on the initiative of the SEC with the participation of representatives from the Revolutionary Military Council of the Republic, the SEC, the People's Commissariat for Communications and the People's Commissariat for Foodstuffs (PCF). This body discussed transportation policy, issued instructions on the drawing-up of transport plans, supervised the extraordinary commission in charge of rolling-stock repairs. At the same time, a central commission was set up to deal with water transport.

A Central Auto-Section was set up within the SEC to organise motor transportation and supervise all the motor operations, and local departments were organised under gubernia economic councils. The sections received all the materials and equipment they required according to estimates that had been duly compiled and approved. Moscow was an exception, since the motor transport was supplied with fuel and lubricants by the Moscow City Soviet.

Thus, during the years of the Civil War and foreign intervention, a strictly centralised system for managing and regulating material and technical supply took shape. At the same time, concrete measures were taken to increase the role played by local economic agencies in solving supply problems. At the end of 1920, the Eighth All-Russia Congress of Soviets took the decision to institute a fund for material and technical supply under local economic councils. The Congress noted in its decision that it

was necessary to give the gubernia economic councils the opportunity to display a greater degree of initiative and independence in developing industry in order to cut down on red-tape and avoid break-downs in supplies to industrial enterprises and institutions.

In the subsequent period, particularly during the years of the New Economic Policy, local economic authorities received even greater independence in supplying enterprises with the necessary raw and other materials and equipment.

The Transition to NEP and the Change in the System of Management for State Industry [1921—1930]

1. The Change in the Organisational Structure of Industry Management

After the Civil War came to an end, there was a real possibility for the proletarian state to go over to peaceful economic construction. The four-year war had resulted in enormous material losses and serious disruption of economic links throughout the whole national economy. The gross product for all industry in 1921 was only 31 per cent of the 1913 level, while the output of large-scale industry was only 21 per cent, freight turnover of the railways, 22 per cent, the gross product in agriculture, 60 per cent. Also, coal-mining had dropped from 29.2 million tons to 8.7 million tons, i.e., to less than a third; the pig iron smelting from 4.2 million tons to 190,000 tons, i.e., to a twenty-third of the former level; oil extraction from 10.3 million to 3.9 million tons, i.e., by nearly two-thirds.¹

While, in 1913 metal-cutting machine-tools in Russian industry numbered 1,800, in 1921 virtually all these machine-tools had been put out of operation. The majority of factories and plants had either been destroyed or stood idle. The number of workers had halved, most of them being compelled to get by on handicraft work or casual jobs. People were "compelled . . . to flee from starvation. The workers have simply abandoned their facto-

¹ *The National Economy of the USSR, 1922-1972*, Moscow, 1972, p. 50; *History of the CPSU*, Vol. 4, Book 1, 1970, p. 11 (both in Russian).

ries; they have had to settle down in the country and have ceased to be workers".¹ Describing the economic situation in the country at the Tenth Party Congress, Lenin noted that "Russia emerged from the war in a state that can almost be likened to that of a man beaten to within an inch of his life; the beating had gone on for several years, and it's a mercy she can hobble about on crutches! That is the situation we are in!"²

The Soviet state was faced with the task of restoring the ruined economy as fast as possible and setting about the direct building of socialism. However, this was impossible on the basis of the economic policy that had been pursued during the years of War Communism, and its further retention would have undermined the political alliance of the working class and the toiling peasantry.

The Tenth Party Congress held in March 1921 defined the basic ways of solving these problems. The Congress took place at a time when the economy was in a state of ruin and this evoked dissatisfaction not only among a large proportion of the peasantry, but also among the workers. The peasants were dissatisfied with War Communism policy and demanded that the requisitioning of foodstuffs be abolished. Some of the workers left for the villages, became dispersed and declassed.

The military and political form of alliance between the working class and peasantry of the War Communism period had become obsolete. This policy had been necessitated by the objective economic and political conditions of development of the young Soviet state. In setting about the peaceful building of socialism, the economic relations between large-scale socialist industry and the small-commodity village producers had to be changed fundamentally to make them correspond to the economic tasks of building socialism.

In this connection, the resolution adopted by the Tenth Party Congress after Lenin's report stated that "in order

¹ V. I. Lenin, *Collected Works*, Vol. 32, p. 199.

² *Ibid.*, p. 224.

that the economy might be run correctly and smoothly, with the peasant having the right to dispose of his own economic resources more freely, to strengthen the peasant economy and increase its productivity and also in order to establish exactly the obligations to be imposed on the peasant, requisitioning as a method of state procurement of foodstuffs, raw materials and fodder is to be replaced by tax in-kind."¹ Another important aspect of the new policy was that the peasants were allowed to trade locally once they had paid their taxes.² In this way, a form of alliance between the working class and the peasantry was found which ensured the consolidation of the dictatorship of the proletariat in a small-commodity peasant country and the restoration of agriculture and large-scale industry.

Simultaneously, a fundamental change was envisaged in the existing management system and methods in industry. With the transition to the New Economic Policy (NEP), economic methods of regulating industrial production on the basis of commodity-money categories (money, prices, credit, profit and so on) acquired an important role.

State enterprises and amalgamations adopted a cost-accounting system. The economic mechanism became more flexible. This transition necessitated a fundamental reconstruction of the SEC organisational structure and its local economic agencies. Production and supplies-and-sales amalgamations (trusts and syndicates) were formed, and individual industrial enterprises were brought under the jurisdiction of the local economic councils. The change in economic conditions did not, however, affect the principal tasks facing the SEC, which still remained the central authority of industry management. Those of its organisational components which had no direct relation to the management of industry, such as the Committee for

¹ *The CPSU in the Resolutions and Decisions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 2, 1970, p. 256 (in Russian).

² See *ibid.*, p. 257.

Foreign Trade and the Chief Land Committee, were abolished. All milling and hulling enterprises were put under the jurisdiction of the People's Commissariat for Foodstuffs and the Chief Administration of the Milling Industry under the SEC was abolished. Another important measure was the elimination of many of the SEC's chief administrations that had been set up by the Ninth Party Congress.

As emphasised in the resolution of the Ninth Party Congress, "the organisational task consists in retaining and developing vertical centralism through the chief committees and combining it with horizontal joint subordination of enterprises by economic regions, where enterprises of different industries and different economic significance are compelled to draw on the same sources of raw materials, transportation facilities, labour and the like".¹ In accordance with this decision, sixteen chief administrations were organised on the basis of the 71 chief committees and central administrations that had existed under War Communism. However, because of the wide-spread formation of trusts and syndicates in industry and the introduction of cost-accounting many chief committees ceased to be effective supervisory bodies and, moreover, they continued to use the old methods, which conflicted with the new conditions. So, in February 1922, the SEC Presidium adopted a decision to cut down the number of chief administrations further still, leaving only those in charge of the metal, power generating and war industries.

The production branch principle on which the SEC central apparatus was built was replaced by one of function, the role of planning in industry was increased, and supplies and sales were dealt with by special bodies. The SEC central apparatus now consisted of functional departments and administrations, chief committees, commissions and so on. A Central Economic Administration (CEA), a Central Production Administration (CPA), a

¹ *The Decisions of the Party and the Government on Economic Issues*, Vol. 1, p. 165 (in Russian).

Central Finance and Credit Administration (CFCA) and a Centralised Supply Administration (CSA) were set up.

The policy of increasing the role of planning led to the establishment of branch planning agencies, such as one for the planning of industrial production and another for planning fuel supplies. The wide-spread application of commodity-money relations and the adoption of the cost-accounting principles by enterprises engendered the necessity for closer co-operation between the CEA and the CPA in studying production programmes, finance and credit problems and other organisational questions. At the beginning of 1923, a Central Industrial and Economic Administration was set up on the basis of these bodies. The most important issues were considered by the SEC Industrial and Economic Council. Moreover, standing commissions or conferences, such as the Commission for Large-Scale Industry, the Central Production Commission and so on, were operating within the central apparatus.

The change in the organisational structure of state industry management took place in a period of important socio-economic transformation. In December 1922, at the First All-Union Congress of Soviets, the Union of Soviet Socialist Republics (USSR) was formed from republics which enjoyed equal rights within the Union. The RSFSR Supreme Economic Council could no longer fulfill the functions of the highest managerial authority for state industry. With the formation of the USSR, all industry was divided up into all-Union, republican and local, and so the need arose for creating corresponding all-Union and republican bodies to manage industry. Moreover, to implement a single economic and technical policy throughout industry, a co-ordinating centre was needed and the Supreme Economic Council of the USSR took over this role.

The rights and duties of USSR Supreme Economic Council were defined by the Statute of the Central Executive Committee of the USSR "On the Supreme Economic Council of the USSR" of November 12, 1923,

which emphasised that the SEC was to regulate direction and management of industry. The regulation function applied to all industry (all-Union, republican, local, state, co-operative and private), while overall direction applied to republican or local industry. The SEC was to manage directly that part of industry which came under the jurisdiction of the central state authorities. Being a planning and regulating authority, the SEC issued instructions and resolutions, compiled an overall production plan and budget for all industry and presented all this material to the State Planning Committee for approval by the Council of Labour and Defence.

The tasks and functions of the SEC of the USSR also determined its organisational structure, which differed fundamentally from that of the SEC of the RSFSR. Within the all-Union SEC, a Chief Economic Administration (CEA) was set up to deal with overall direction and regulation of industry, and a Central Administration for State Industry, to manage directly industrial and trade institutions and enterprises of an all-Union significance.

In February 1924, the Presidium of the SEC of the USSR ratified the statute of these administrations. The duties of the Chief Economic Administration included dealing with questions of industrial policy, the organisation of production and sales, financing, accounting and reporting, the drawing-up of projects in the industrial sphere, overall supervision of the development of state industry (with the exception of that which came under the jurisdiction of the Central Administration for State Industry) and co-operative private enterprises, and overall guidance of republican industry. It was to draw up a single production plan (long-term and current) and the USSR budget, and to supervise the fulfilment of the approved plans; find solutions to problems concerning the building and location of new enterprises or amalgamations, and to start keeping industrial statistics, etc. The CEA apparatus was made up of functional and branch departments, for instance, in charge of industry, construction and fuel supplies.

The duties of the Central Administration for State Industry were as follows: the management of trusts and industrial and trading enterprises of all-Union significance; the implementation of the resolution of the SEC (USSR) Presidium on the opening or closure of enterprises. It also regulated and controlled the production and economic activities of industrial, trading and concession enterprises. Appropriate functional and branch departments were also set up to fulfil these functions. An important operational agency was the Directorate, which regulated the economic activities of all-Union trusts. Each branch of industry was headed by a senior (chief) director, to whom the directors of groups of trusts, grouped on a production basis, were subordinated. The director at the head of such a group bore full responsibility for production organisation in these trusts. A body of senior directors was called the directorate, and it had its own central and peripheral apparatus.

As the economy was restored, however, economic tasks arose which necessitated new components to be set up within the economic apparatus. For example, there was a shortage of the agricultural raw materials needed for successful rehabilitation and further development of industry and so, along with the Chief Cotton Committee, which was subordinate to the SEC (USSR) Presidium, in June 1924, a Standing Conference on Industrial Raw Materials was set up under the Chief Economic Administration.

Complete restoration of the national economy, and the industrialisation tasks required concentration and mobilisation of all efforts and resources towards the development of industry. To this end, in March 1925, a Special Conference on the Restoration and Expansion of Fixed Capital in State Industry (SCREFC) was created, the main task of which was to study the technical and economic position in industry and to draw up long-term plans. To co-ordinate the budgets of Union and republican industry, a Standing Budget Conference and a Commission for the Credit Plans of Industry, with sub-commissions by branches of industry (textile, metallurgy and so

on) were set up under the Industrial Planning Department. To raise labour productivity and improve the quality of output, a Special Conference on Quality and a Standing Conference on Labour Productivity were set up.

An important role was played in the development of industry and further improvement of management by the resolution of the 14th Party Conference "On the Metal Industry", by the resolution of the Third Congress of Soviets of the USSR "On the Report on the Position of the industry of the USSR" and the resolution of the 14th Party Congress based on the report of the Central Committee.

The structure of the Union SEC and republican economic councils was efficient as long as it was necessary to restore factories and plants and put hundreds of enterprises and trusts into operation on the basis of annual plans for the development of industry. In order that current and long-term tasks of socialist construction might be solved on a complex basis the organisational structure of the economic apparatus had to be changed.

On April 20, 1926, the Chairman of the Union SEC, F. E. Dzerzhinsky wrote in a memorandum to the USSR Council of People's Commissars about the fact that, along with the task of managing and improving the work of enterprises already in operation, a new task was to establish new enterprises, according to plan, and modernise existing ones, in order to provide a sufficient base for the socialist transformation of the country. This required the elaboration of long-term industrial plans for a period of many years and their close co-ordination with economic activity. Planning went beyond the bounds of directing activities of enterprises throughout the year and was organically linked to the prospects of future socialist construction. What was needed was not some agency being set up within the SEC to study planning; it was actually necessary to imbue all branches of industry with the spirit of long-term planning and to go over to drawing up long-term plans.

An independent Planning Administration was set up within the SEC of the USSR to deal with the planning of

industry. This body was based on the Industrial Planning Department and the SCREFC. The Central Administration for State Industry and the directorates, the Industrial and Economic Council and a number of other bodies were abolished. For the planning and day-to-day guidance of individual industries, chief administrations were set up and, along with the existing ones (in charge of metal, electricity, etc.), new ones were added to direct the textile and chemical industries, etc.

The new chief committees directed whole branches of industry. Branch administrations were formed within the SEC economic apparatus, but, after a certain time, due to the growing role of planning, a further reorganisation of the Union SEC took place. Apart from the Presidium, a Plenary Board was also created. At the beginning of 1927, the Planning Administration and the Chief Economic Administration were merged into a Planning and Economic Administration. This reorganisation was intended not only to ensure long-term and current planning on the scale of the industrial branch, but also to improve the organisation of day-to-day management. At the same time, foundations were laid for a further improvement in the industry management system.

The First SEC Plenary Board Session in February 1927 worked out theses on the industry management system. The main principle on which the management system was to be improved was centralisation of planning and decentralisation of day-to-day supervision over the fulfilment of these plans.

The reorganisation of the central SEC apparatus led to similar changes in the organisational structure of the Supreme Economic Councils in the Union republics, for the latter depended on the former. In December 1923, the Presidium of the SEC RSFSR approved the draft of a Statute of the SEC of a Union republic, which, after discussion among representatives from the other republics, was taken as the basis for the Statute. It was noted at the time that each republic had its own special features which had to be taken into account.

The main task of the republican economic council was to organise the management of enterprises of republican significance. The economic council was to give its own assessment of the plans and estimates for enterprises of all-Union significance situated within the republic, supervise the activities of co-operative and private industry, draw up production plans and budgets for republican industry and carry out financing and crediting of this industry. It also had to consider the question of leasing out republican enterprises on concession or for rent, deal with questions of industrial legislation, issue instructions, rules and resolutions and to exercise control over their execution. Within the limits of its competence, it could convoke congresses and conferences on questions of industry and trade.

The SEC Presidium of a Union republic was appointed by the republic's Central Executive Committee. The main bodies of the republican economic councils were the Administration for State Industry (ASI) and an Economic Administration (EA), under which an Industrial Planning Commission (IPC), the Administration for All-Union Enterprises and the Managing Department were set up. Divisions that were not envisaged in the general Statute to take account of the specific features were created in individual republican economic councils. For example, RSFSR Supreme Economic Council had a special Administration for Local Industry, since 68 per cent of the output of this Economic Council was produced by local industry. In their practical activities, the republican economic Councils made use of a ramified apparatus of local agencies.

The regional industrial bureau directed industry within the territory of a given region, and within that territory the bureau had the rights of the Presidium of a republican economic council. The organisational structure of regional industrial bureau corresponded to that of the republican SEC and the chairman of the industrial bureau was appointed by the Presidium of the SEC.

Within the autonomous republics there were central

economic councils that carried out their economic activities through the corresponding industrial bureau. Gubernia economic councils continued to play a certain role in the organisation of industry management, although their significance in this system decreased markedly with the transition to NEP.

During the Civil War, the gubernia economic council was the directing body for state industry and the regulating apparatus of small and handicraft production, and since nearly all local industry was nationalised, the functions of these councils consisted in directing that industry. With the transition to NEP, when trusts and individual large enterprises received a certain degree of economic independence, the necessity arose of adjusting their relations with gubernia economic councils appropriately.

After the formation of the USSR and the division of industry into all-Union, republican and local, on July 8, 1924, the Central Executive Committee and the Council of People's Commissars of the RSFSR adopted the Statute of the gubernia economic council, which was declared to be an agency with dual subordination: on the one hand, it was an agency of the SEC (or of the industrial bureau), and on the other, a department of the gubernia executive committee. Its board and chairman were appointed by the gubernia executive committee, but were approved by the SEC or the industrial bureau (depending on which of these it was subordinate to). The Statute stipulated that the economic council should guide trusts and independent enterprises of local industry, deal with the organisation of these trusts and submit their charters to the gubernia executive committee for approval. It also had to consider production programmes, estimates and balance sheets and submit them to the republican economic council or industrial bureau for approval. It was empowered to change production programmes and estimates, informing the appropriate higher authorities of this (economic council, industrial bureau and gubernia executive committee).

In relation to enterprises of all-Union and republican

significance, the gubernia economic council had only supervisory powers and was to render them all possible assistance. It also kept co-operatives and private enterprises within its territory under observation. The organisational structure and staffs of these enterprises were determined by the economic council itself, and were then approved by the gubernia executive committee and the SEC (industrial bureau).

Then main subdivisions of the gubernia economic council were the Economic Administration (EA), the Administration for State Industry (ASI) and the Administrative and Economic Department (AED). Depending on local conditions, departments for handicraft and concession industries were set up. An active role in the work of these economic councils was played by trade union bodies.

It will be noted, however, that the role of the gubernia economic councils in the system of industry management declined noticeably at the end of the restoration period.

In 1924 and 1925, some of the gubernia economic councils were merged with the gubernia municipal bodies. Although a certain proportion of the gubernia economic councils continued to function, they no longer played the leading role they had during the first years of the Soviet state. This was because fundamental qualitative changes had taken place in the national economy by the beginning of the industrial reconstruction period, i.e., branch specialisation was extended, division into districts was carried out and the centralisation of industry management was intensified. At the beginning of the First Five-Year Plan, with the division into regions completed and the elimination of gubernias as administrative territorial units, gubernia economic councils were also abolished. During this period the industrial bureaus also ceased to exist. These bodies were no longer in keeping with the structural changes that had taken place in industry by the beginning of industrialisation.

2. The Formation of Soviet Trusts

At the end of 1920, there was a marked tendency toward consolidation of the production amalgamations that had been set up during the Civil War and time of foreign intervention, particularly trusts in state industry.

In the socialist economy of the time, the trust was the intermediate link in the centralised management system for state industry. The trusts brought together a number of enterprises that were similar or complementary in production terms. They were set up by decrees issued by the Council of People's Commissars, the Council of Labour and Defence, the SEC and so on. Characteristic features of the trust were legal independence; economic independence within the framework of a plan adopted in accordance with existing laws; and unity of the production programme, administration, technical management, financing and material and technical supply. The trust was not a stable form of organisation: it developed and improved, adapting to changing conditions and acquiring new features.

The wide-spread formation of trusts in state industry at the beginning of the 1920s resulted from: (1) the specific conditions in which the national economy was being restored; (2) more general factors related to the nature of socialist production; (3) nationalisation of industry; (4) the impossibility of managing a large number of enterprises spread wide over the country from a single centre (chief committee, SEC production department and so on) even within a single industry; and (5) the need for concentrating production, for only large-scale industry can serve as the material base for socialism.

The idea of forming trusts in state industry took root during the nationalisation of bourgeois property, but the amalgamations that arose from 1918 to 1920 had to function in conditions of strict centralised control, budget financing and total lack of commodity-money relations. Operating in these unusual economic conditions, trusts never acquired the streamlined structure they were ex-

pected to. Even the first production amalgamations, however, had such characteristic features of trusts as legal independence, unity of the production programme, administration, technical management and sometimes material and technical supply.

The transition to NEP gave rise to important additional stimuli to trusts being formed in state industry. Amidst vast-scale economic ruin, the economy could only be restored successfully if agriculture was improved and used as a basis for expanding commodity exchange between town and country. Soon, however, commodity exchange turned into purchase and sale and so the peasants had to be given the right to sell their produce freely on the market. When petty-commodity production was predominant in the country and some state enterprises were leased out, there was freedom of enterprise and private-property relations were revitalised. The spontaneous market exerted a strong influence on the as yet weak state industry. Only large-scale and well-organised enterprises, of which there were but a few, could stand up to market pressure. The majority of enterprises fared badly or almost badly economically. To restore industry and the national economy as a whole, it became necessary to increase the scale of production, and the easiest way to do this was to form trusts. As market relations developed rapidly, the planning and regulating role of the state had to be increased, and the formation of trusts helped in this.

One more important factor should be taken into account. During the first few years of NEP, an intensive regrouping of enterprises took place and many enterprises were temporarily closed. The state spent money on maintaining them in the necessary condition. By setting up trusts which included both operating and non-operating enterprises, the state transferred outlays on the maintenance of non-operating factories and plants onto industry. This proved an advantageous measure because, first, with the state budget deficit, it helped lighten the state's financial difficulties, and, second, the trusts had an interest in reducing expenditure in their balance-sheets and so did

all they could to start these enterprises working. On the whole, these measures facilitated the fastest possible restoration of productive forces in industry and furthered the formation of more trusts in state industry.

The formation of trusts in state industry and adoption of the cost-accounting system by them deserve special attention.

Under NEP, cost-accounting was a characteristic feature of a trust. All enterprises gradually adopted this system, without, however, becoming trusts. Moreover, the Resolution of the Central Committee of the Communist Party "On the Organisation of the Management of Industry" of December 5, 1929, abolished trusts because of the strengthened cost-accounting system of enterprises. It would, therefore, mean an underestimation of the objective conditions for the formation of trusts in industry at the beginning of the 1920s if one were to connect their formation with the introduction of cost-accounting alone.

Lenin constantly stressed that large-scale industry was the only real basis for building a socialist society. Without it there could be no question of socialism in general. The formation of production amalgamations (trusts) resulted directly from the tasks put forward in Lenin's plan for building socialism. A major point of this plan was socialist industrialisation and creation of the material and technical base for socialism.

In the conditions of general economic dislocation, however, heavy industry could not be restored without concrete measures being taken to restore small-scale industry. "Our main task is to restore large-scale industry, but in order to approach this task at all seriously and systematically we must restore small industry".⁴

There is, consequently, a direct connection between the formation of trusts in industry and the measures taken by the proletarian state to increase concentration of production during the first years of NEP. The formation of trusts is a specific way of increasing the concentration of

socialist production. It is not by chance that, in the draft for the Resolution of the Political Bureau of the Central Committee of the Communist Party of May 11, 1921 "On Measures to Accomplish Concentration of Production", Lenin suggested turning "attention to the swift implementation of the plan for closing down the greatest possible number of inefficient establishments with the aim of concentrating production in a small number of better organised enterprises".⁴

With the general policy of industrial development defined it was necessary, on the basis of practical experience already accumulated, to formulate the principles for this concentration, to single out a group of enterprises functioning on state supplies, and to concentrate the main labour and material resources at these enterprises. To this end, it was planned to select the best-equipped enterprises and establish preferential conditions for financing and supplying them with material resources.

In this way, the main task connected with the transition to NEP was to sever the economic links established under War Communism and to raise the level of concentration of production. In consequence of the re-grouping of enterprises that was just beginning, small and medium-scale industry was put under the control of republican and gubernia economic councils. The SEC was then able to concentrate mainly on economic and technical policy and to strengthen its planning and regulating influence on industry. All this meant that new industrial management methods were being introduced. These methods were developed simultaneously with the preparation of the final version of the Government's Document "On Implementing the Principles of the New Economic Policy". These problems were dealt with directly by the SEC and Gosplan of the USSR.

Speaking of the need to change management methods at the beginning of NEP, Lenin frequently used the term "cost accounting" along with "commercial accounting".

⁴ V. I. Lenin, *Collected Works*, Vol. 32, p. 408.

⁴ V. I. Lenin, *Collected Works*, Vol. 42, p. 301.

With the wide-spread application of commodity-money relations and the multi-sectoral economy, giving state enterprises extensive economic initiative meant that they had to set up their own economic links on a commercial basis.

A study of economic life in the country during the first NEP years shows that all state enterprises, the production and economic activities of which had, until then, been based on estimate financing and state supply, were to adopt the principle of self-support and self-reliance. A whole series of official documents testify to this. The Resolution of the Ninth All-Russia Congress of Soviets, for example, stressed that all enterprises taken off the state-supply list were to receive the funds they needed by selling their output on the market. Implementing this resolution, on October 27, 1921, the Council of Labour and Defence adopted a Resolution "On the Free Sale of the Output of Enterprises Taken Off the State-Supply List" and, on October 15, 1922, a CLD sitting heard a report "On the Procedure for Transferring Institutions and Enterprises Financed from State Funds on to the Cost-Accounting Principle." The CLD decision of October 27, 1922 was based on an obligatory demand that all enterprises adopting the self-financing principle should cover their costs and be profitable.

This policy meant, in the conditions of the multi-sectoral economy, freedom of trade, wide-spread application of commodity-money relations and direct economic links with private capital, that self-financing, particularly at the initial stage, took the form of commercial accounting. The functioning of state enterprises practicing commercial accounting could objectively lead to a revival of capitalist economic methods. With social ownership of the means of production and with political power in the hands of the working class, however, there were wide opportunities for the state to hold back, restrict and, finally, eliminate the reviving capitalist economic methods. The means of production being in the hands of society, an objective possibility appeared of organising the entire eco-

nomy on a planned basis. At the initial stage of the transitional period commercial methods of management were applied because the planned organisation of production was not yet fully developed. Since the commercial relations arose within the framework of the socialist sector, however, these methods were given a new, socialist content. Cost-accounting as a method of socialist management was used within an economy organised on a planned basis and was directed towards fulfilling a single economic plan.

The transition to NEP did not only mean that measures were taken to increase the concentration of production and management methods were improved, but it also provided for a further improvement in the organisational forms of industrial management. So, on the basis of the CPC Document of August 9, 1921, and the CLD Resolution of August 12, 1921, the largest, technically best-equipped, most efficiently organised and conveniently located enterprises in a given industry could be merged into a special amalgamation. The formation of trusts in industry was under way.

Depending on the scale and nature of the amalgamation, its board was either part of the chief committee, or was subordinated directly to the SEC central apparatus, the type of relations between them being determined by the corresponding instructions.

For the organisation of production, enterprises were transferred to the trust along with all their equipment, raw and other materials. In order to facilitate the work of the emerging amalgamations, the state provided them with some funds. To replenish resources in short supply, the amalgamation was empowered to procure raw materials and fuel on the home market and, with permission from the SEC, on the foreign market too.

Both during the years when the plan for building socialism was being drawn up and during its implementation, Lenin constantly emphasised the need to turn to the experience of more developed countries, above all in the organisation and management of the national economy.

The very fact, however, that at the first stage of the building of socialism, organisational and economic forms were used that had arisen during the previous system (in this case, capitalism), does not determine the economic nature of these forms, which depend primarily on the ownership of the means of production inherent in them. Under capitalism, the trust as a form of organisation of production is not only a result of specifically capitalist production relations, but is also a further step in the development of the social nature of the productive forces.

The use of this form of production organisation under the socialist system confirms once more the transitional nature of capitalist mode of production. When subordinated to a totally different system of production relations, this form acquires a socialist nature. This is determined by the dictatorship of the proletariat, social ownership of the means of production, and the creation of new economic management authorities (SEC and Gosplan) which manage and regulate socialist production on a centralised basis. Moreover, trusts under a socialist system differ from those under monopoly capitalism in terms of their structure and the nature of relations within them.

The formation of trusts in state industry developed mainly during the restoration period. At the beginning of 1921, a special economic department was set up within the central apparatus of the SEC of the RSFSR to supervise this process and, in the second half of 1921, a Commission for Restoring Large-Scale Industry was created on the basis of this department incorporating ARCTUC representatives. This Commission decided in which industries trusts should be set up and which enterprises included in them; it worked out model charters for trusts and principles according to which the production and financial plans of trusts should be drawn up. The Commission took account of the fact that the newly established amalgamations (trusts) had the right to spend freely the resources they received in order to fulfil their plans, exchange part of their output for raw and other materials

and fuel they needed, buy machinery and materials with their proceeds or on their current accounts. They would also be entitled to spend 10 per cent of the wage fund to stimulate their labour force and to conclude contracts.

In forming trusts, the Commission was governed by the following principles. First, enterprises of one type were amalgamated, so that production could be concentrated at those of them that were best equipped; second, enterprises situated close to each other were amalgamated, the main aim of this type of amalgamation being to ensure the necessary supplies of raw materials, fuel and so on; third, enterprises were amalgamated according to the principle of homogeneous integration; and fourth, enterprises were amalgamated if their output was of particular value to the state (oil, metal, coal and so on). The main criterion for forming a trust, however, was the importance of the output of an individual enterprise or industry as a whole for restoring the national economy.

Although several principles governed the formation of trusts, the basic form of amalgamation included enterprises producing the same output.

In the timber and leather industries, many groups were transformed into trusts and it was usually small groups that were initially combined. Some trusts arose on the basis of a corresponding restructuring of chief committees and their local bodies which existed under War Communism. While retaining the basic organisational structure of their predecessors, however, usually these trusts adhered at first to methods of strictly centralised management, methods that were in conflict with the new economic conditions. Time was needed for the trusts to reorganise their work to comply with the changing economic conditions.

The organisation of trusts passed through several stages.

In the first NEP years, they were primarily organised according to the principle of homogeneous production. This was because the principle of industrial integration did not become wide-spread in pre-revolutionary Russia

when vertical integration (amalgamation of enterprises within a single industry) was also comparatively rare.

By the middle of 1922, trusts had been formed in almost all branches of industry. The SEC report to the Tenth Congress of Soviets showed that at the end of 1922, there were trusts in fourteen industries. The 4,144 amalgamated enterprises employed 976,600, or 88 per cent of all the workers in these industries.

Enterprises subordinate to local managerial bodies were also drawn into trusts, but their percentage here was lower. In comparison with the trusts in the leading industries, those in local industry had a low level of concentration of production and smaller numbers of workers in each of the amalgamations. To a significant degree, these trusts merely formally combined small plants and workshops which sometimes were unconnected as regards their production range and economic position. As a rule, enterprises were combined in order to centralise commercial operations. No redistribution of raw and other materials or fuel took place within these trusts owing to the fact that their enterprises were operating at low capacity.

At the first stage of the trust-formation (1921-1922), the most suitable organisational forms were sought for the trusts. The economic activities of trusts were governed by the principles of commercial accounting. Their main tasks were to restore and develop industry, raise the productivity of labour and organise rational supply. Depending on the industry to which a trust belonged, one of these tasks came to the fore, but their main economic aim was to operate at a profit.

It was difficult to count on profitability owing to the exhaustion of state resources, the limited opportunities for replenishing circulating capital and the worn-out state of equipment. This is why the first trust charters in 1921 and 1922 were aimed at helping the trusts to cover their costs and prevent them making losses, although the goal of making a profit remained primary.

In accordance with these statutes and charters, trusts were operationally independent. Their boards were given

corresponding powers: they had at their disposal all the property and output of the enterprises in the trust and were in charge of both circulating and other funds. The trust provided itself with products, fuel, raw and other materials, through the sales of its output. It sold its output for cash or on credit and carried out commodity exchange. The trust had the right to procure raw and other materials both from the state and from private individuals on the basis of free contracts, purchase and procure other necessary materials. The Yugostal Trust (Southern Steel), the largest production amalgamation (35,000 workers), was empowered by its Statute to deal on the foreign market.

The considerable independence of the trusts also applied to crediting. They had the right to receive credit from all credit institutions situated within the republic. In individual cases, they could also receive credit from abroad, but permission from the SEC Presidium was essential for this. The iron trust and the wire-drawing and bolt-and-rivet trust of Central Russia also had this right. Trusts could take orders from state, co-operative and Trade-Union organisations and also from private individuals on the basis of free contracts. The largest trusts sold their output to the state at established prices.

The Statutes of trusts defined the quantity of output that had to be sold to the state. The South Urals Trust, for example, had to produce no less than 50 per cent of its output on state orders. The statutes of certain trusts provided for a flexible system of management: if the state provided the trust with all the necessary materials, then the whole output of this trust went to the state at established prices for each given product. If the state did not supply the trust with certain materials, the latter had the right to enter the market. Finally, if the state was totally unable to supply the trust, the latter disposed of its output at its own discretion. Even so, it was obliged to sell not less than 15 per cent to the state. This practice gave the trust the right to sell its output freely, but this freedom was relative. Right from the beginning, trusts

came under the influence of the state plans, which could take the form of a work programme compiled on the basis of commissions from higher bodies. Along with the programme, monetary and materials estimates were worked out; the trust's requirements for equipment, materials, fuel and money were calculated; approximate production costs and profits were calculated. In spite of the fact that trusts had the right to enter the market, they were also supplied through state agencies. Products were then supplied not at the market price, but at the planned set price. Trusts received loans and advances on orders. Trusts were managed by boards elected for a term of one to three years.

The transition to NEP and the organisation of trusts necessitated changes in the structure of industry management. Chief committees were replaced by chief administrations which dealt with economic, financial and technical policy within each industry. Direct production management and the running of industry were concentrated in trusts. Along with self-support, trusts were financed by branch administrations and were accountable to them.

The trust form of production management thus acquired a major role in the organisational structure of industry management. The technical and industrial inspection of the People's Commissariat for Workers' and Peasants' Inspectorate, however, after investigating 30 trusts in 1921-22, revealed serious drawbacks in their work. After studying this report, the SEC Presidium noted that the rush to reorganise the management of state industry had in some cases led to the amalgamation of enterprises into trusts without sufficient study of the role and significance of the economy of the particular area. Another factor having a detrimental effect on industrial operations was the open competition between trusts, both in selling output and in procuring raw materials. Because of the existence of private capital, particularly in trade, this competition had negative consequences. The serious difficulties in organising supplies and sales in trusts posed the problem of how to make market fluctuations subject to the tasks involved in building socialism and to introduce

an element of regulation into supplies and sales. Consequently, in the interests of industry and the whole economy, it was essential to organise specialised trade amalgamations which could introduce planning principles into the circulation sphere.

It was syndicates that assumed this role.¹ At the basis of this new organisational form of industrial management lay the idea that, while retaining the independence of trusts, the state should, to the greatest possible extent, play a supervisory role in regulating both the trade links between trusts and exert an organisational influence on the market.

The appearance of this new form of management presented the problem of regulating and adjusting the relations between trusts and other economic bodies (chief committees, SEC, syndicates, banks and so on), relations which, for various reasons, up to 1923 were not subject to sufficient regulation.

The Twelfth Congress of the Soviet Communist Party adopted a policy of increasing the concentration of production and, on the basis of this, the SEC Presidium set up on February 2, 1923 a Central Commission for the Concentration of Industry, which included representatives from the SEC, People's Commissariat for Workers' and Peasants' Inspectorate and Gosplan. The review of the composition of trusts was continued.

On February 3, 1923, the SEC Presidium approved theses defining the Commission's tasks in connection with the review of the composition of trusts. The Commission was to review all large industrial enterprises from the point of view of their significance to the state, select those which should come under the jurisdiction of the state, and make production forecasts for them to correspond with the raw materials available to them and the demand for their products. It was also to select the most rationally equipped enterprises in order that they might work to

¹ See Chapter IV for a detailed description of the organisational and economic activities of the syndicates.

capacity, suspend production at enterprises that were working below capacity and, at the state's expense, close down temporarily those which, according to the long-term plan for the development of industry, were to come into operation in the near future. Some enterprises, that were not especially important to the state, could be handed over for private use, though strict account had to be taken of the interests of the national economy. The beginning of the work of this commission might be considered as the beginning of the second stage in trust-formation in industry. As a result, on April 10, 1923, a decree was issued by the Central Executive Committee and the Council of People's Commissars of the RSFSR "On State Industrial Enterprises Operating on Commercial Accounting Principles (Trusts)". This was preceded in September 1922 by the publication of a general model statute of amalgamations (trusts), which applied to trusts in all industries. This statute defined the main characteristics of trusts, the principles according to which they should work, their rights and obligations and the procedure for supply and sale of output. In comparison with the statutes of individual trusts, the general statute defined the sphere of their economic activities more precisely, but it did not cover all aspects of the production and economic activities of trusts under NEP. This was done by the April 10, 1923 decree.

The decree stated that trusts were state industrial enterprises to which the state grants independence in their production operations in accordance with the statute adopted expressly for this purpose and which operated on the commercial accounting principle with the aim of making profits. The trust was considered as a single enterprise including several production units. The decree granted the trusts greater freedom in production and sales of output at market prices established on agreement with the buyer. The trusts were not obliged to turn out their output on state orders, but in accordance with the CLD Resolution, it could be sold at below market prices plus an average profit, under contract with state authorities. If the

terms of the contract were not fulfilled, the trust could reject it.

The decree bound the trusts to give preference to state and co-operative organisations, introduced major changes into their rights to dispose of their statutory capital, and defined fixed and circulating capital. The state did not allow trusts to involve fixed capital in market operations. To recover debts from a trust, its contracting partners could only count on its circulating capital, and only in individual instances, with special permission from the SEC, were trusts allowed to cover their debts from their fixed capital. The management bodies of the trust were its board and auditing commission. The SEC had the right to relieve or appoint the board or auditing commission, to confirm estimates and production programmes for the current year. It also approved the report, revenue and expenditure balance-sheet and distribution of profits, without interfering in the day-to-day work of the trust. Although the decree established the practice of forming boards, the trend towards one-man management of trusts was already discernable. The functions of the auditing commission were also approved.

The Decree of April 10, 1923 legalised the rights and duties of central trusts, but there were an even larger number of small- and medium-size trusts under the jurisdiction of local economic councils. The functions of these were determined by the Government's Decree of July 17, 1923 "On Local Trusts", which virtually duplicated the points of the decree of April 10, 1923. The local trusts were specific in that they were subordinate both to the local gubernia executive committee (through the corresponding economic conferences) and to the SEC central agencies (through the chief committee of the industry). The Decree of July 17, 1923 drew a line between the rights of central and local authorities in relation to local trusts. The SEC handed over some of its rights in the management of these trusts to local authorities, but retained the right to issue general directives and to exercise supervision.

In contrast to central trusts, the local ones did not enjoy much independence. Their management was simple enough: there was one-man management; auditing commissions covered all the trusts in the gubernia; the trusts were financed from the local budget, and their profits were raked back into these budgets.

The 1923 decrees thus determined the structure of trusts, established a firm foundation for consolidating trusts as the main link in the system of industry management in the restoration period.

On the basis of the decrees, the revision of the composition of trusts was continued. At this stage in the formation of trusts, two clear trends made themselves felt: one towards their growth in size and towards their fragmentation. In industries with a high concentration of production, the increase in the size of trusts meant that only few, and sometimes even a single trust, was created for the whole industry. The revision of trusts was completed in the middle of 1924. Production was most highly concentrated in trusts in the timber, silicate and textile industries, and least concentrated in those of the chemical industry.

Having completed the revision of the composition of trusts, the SEC commission submitted a report to the Central Commission of Gosplan. This report emphasised the need to develop trusts even further and contained the conclusion that trusts were the most expedient organisational form for industry in the given period and that the individual enterprises (establishments) of a trust should be united by a single economic and commercial policy.

Changes took place in the status of trusts when the USSR was formed and the Supreme Economic Councils were set up in the Union and autonomous republics. All trusts were divided up into all-Union, republican and local, and it was mainly heavy-industry trusts (coal, oil, metal and so on) that were retained under the jurisdiction of the SEC of the USSR. Light- and food-industry trusts (leather, tobacco, food and so on) became republi-

can trusts, while local authorities concentrated on day-to-day management of local industry enterprises.

With the publication of the 1923 decrees on trusts and the completion of the Central Commission's work on revising the structure of trusts, an important stage in the formation of trusts in Soviet industry came to an end. Trusts were legally recognised as an organisational form of industrial management and by the beginning of 1925, the majority of active trusts already had statutes. They all functioned as independent legal units.

3. Trusts in the Period of Industry Modernisation

With the issue of the April 10, 1923 Decree, a qualitatively new stage began in the work of trusts and in the process of trust formation. On the basis of the concentration of production and the continuing increase in the capacity of enterprises, the output produced by trusts rose. This was due not only to the restoration of industry, but also to the construction of new enterprises.

A transition took place in planning to the drawing-up of a combined plan for industry, including technical, economic and financial programmes. Although the problem of the commodity shortage had not yet been solved by the end of the restoration period, the demands of the market could no longer be satisfied simply by increasing the quantity of commodities. Goods of a certain quality and range sold at suitable prices were required.

The transition to the modernisation of industry necessitated long-term planning of new construction and of the modernisation of enterprises. In the management sphere, this meant an intensification of the planning and regulating functions and role of the Union SEC in relation to all industry, and the mapping-out of co-ordinated actions in the management of Union, republican and local trusts. The centralisation of operational functions in the management sphere that had developed from 1923 to 1925 owing to many factors, proved superfluous.

Supplies and sales of the output of enterprises were strictly centralised. All production orders were concentrated in the hands of the trust, and the correspondence between trusts and enterprises delayed orders and reduced the rate of turnover of circulating funds.

Speaking at the Seventh All-Union Congress of Trade Unions (December 1926), People's Commissar of the Workers' and Peasants' Inspectorate, G. K. Ordjonikidze stated: "If we do not put an end to the flow of papers, it will drown us. We triumphed over Denikin and Wrangel, but the paper will drown us." He took as an example the annual report of one trust which consisted of thirteen volumes of 7,354 pages. "In the large volumes of the reports," he said, "everything is so mixed up and interwoven that there is no obvious way of getting over this and forming a clear picture of the enterprise."¹

The Resolutions of the Fifteenth Congress of the Communist Party emphasised in this connection that it was necessary to "continue work on developing accounting and reporting techniques that will be short, inexpensive, clear and exactly correspond to the tasks of planning and management".²

With the widespread application of market methods of regulating industry, particularly through the syndicates, the main task was to combine rationally directive management methods with market regulation methods. This increased the collective's (trust's or enterprise's) interests in the results of its own work, gave a measure of independence to individual enterprises and improved the relations between industry and trade. The May 1927 SEC Report, along with measures to improve the organisational structure of the economic apparatus, made concrete suggestions on how to improve the role and functions of trusts in the efforts to modernise the national economy.

¹ G. K. Ordjonikidze, *Articles and Speeches*, Vol. 2, 1957, pp. 9-15 (in Russian).

² *The CPSU in the Resolutions and Decisions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 4, p. 24 (in Russian).

The main problem was that of regulating the relations between trusts and their enterprises. This was the subject of sharp polemics in the press from 1925 to 1927. An important and urgent issue involved in improving management methods was the normalisation of relations between trusts and syndicates and chief committees. The managers of trusts demanded greater economic freedom and were against petty tutelage on the part of chief committees and other higher economic authorities. Concrete measures were taken to solve these problems, including changes in the organisational structure of trusts. In connection with the trusts' right to undertake new construction and major repairs using either their own labour force or on contract, they were also given the right to set up their own, independent construction administrations (bureaus), and the "Model Statute of the Construction Administration (Bureaus) of a Trust" and then the "Statute of the Model Structure for Trusts" were adopted.

This was the initial draft statute of industrial trusts. At the same time, several trusts in Moscow were inspected and a draft of a new statute was drawn up on the basis of the results obtained. In accordance with this draft, a planning department was to be set up within the trust, as a special and independent body. It was noted during the discussion of this draft in the SEC Presidium that the proposed structure was applicable to all trusts.

The basic idea behind the new draft was to raise the role and significance of the trust as a managerial authority.

In his speech at the first Plenary Session of the Union SEC, its Chairman V. V. Kuibyshev spoke of the fact that the new tasks in industry (modernisation, improving the quality of output, reducing costs) necessitated considerable changes in the relations between management bodies and individual units (trusts, enterprises) towards broadening the rights and responsibility of the latter. In the new conditions, the management system had to guarantee these units the opportunity to show initiative. The relations between all units was to be based on trust and responsibility and on strict limitation of powers.

Indicating the ways to solve these problems, the first Plenary Session of the USSR Supreme Economic Council stressed that, while remaining a legal entity, the trust was to hand over some of its powers to the enterprise. These powers were to be defined in contracts and orders, documents that stated the production task and defined the rights of both sides in their financial relations.

The adjustment of relations between trusts and other components in the SEC system was dictated by the need to improve production and economic links. The documents of the first SEC Plenary Session stressed that the trust was to remain the main link in the industrial management system. The SEC carried out the planning and directive running of trusts, by establishing, approving and checking on plan fulfilment, by assessing the work of the trust on the basis of its annual report, by supervising the work of the trust, and studying its day-to-day accounts. Day-to-day guidance of the work of the trust consisted in regulating the trust's fixed assets and appointing its board, i.e., in overall supervision. It only interfered in the organisation of the direct work of the trust if the latter's activities affected the state's interests (for example, the trust tried to overcome its financial difficulties by selling its fixed assets or selling its output to a private buyer at a profitable price, to the detriment of national interests).

Work of no less importance was carried out by the Central Control Commission of the Workers' and Peasants' Inspectorate under the leadership of Ordjonikidze. After analysing the state of affairs at enterprises and in trusts, the Commission proposed a transition to drawing up profit balance-sheets of enterprises, giving them some rights in supplies and sales, and allocating part of circulating assets to the enterprise. It proposed giving enterprises the right to grant credit and discount bills in the name of the trust, transfer part of profits into the fund for improving the employees' living conditions, simplify the relations between the SEC and Gosplan in the establishment of the output and finance plans for industry, and between the SEC and PCF on the distribution of profits.

In the new statute of state industrial trusts, the trust was defined as a state industrial enterprise, organised on the basis of a charter, as an independent economic unit with the rights of a legal entity, with indivisible capital and subordinated to a single state institution, as indicated in the charter, and operating on the commercial accounting principles in accordance with a plan.

This statute applied to all industrial trusts (all-Union, republican and local), with the exception of local ones with a capital of less than 100,000 rubles. Taking the specific features of republican and local industry into account, the Supreme Economic Councils of Union republics were given the right to supplement this statute in order to define the rights of republican and local trusts more accurately. A new point in the definition of the trust was the subordination of commercial accounting to the plan. The right to organise a trust belonged to the SEC of the USSR and those of Union republics, and their local agencies. In contrast to the previous practice, the charter of an all-Union or republican trust was approved not by the CLD or the Economic Council of the republic, but by the institution which had set up the trust. The question of the trust's capital had to be agreed with the PCF of the USSR or that of the republic in question.

A step was made towards decentralisation of day-to-day functions. Whereas previously the transfer of tools, the dismantling or sale of worn-out equipment and the disposal of useless property was decided by the SEC or CLD, according to the statute these questions could now be decided by the trusts themselves. If, for some reason, the output and finance plan had not been approved by the beginning of the economic year, the trust could work on the basis of this plan up to the time when it was approved.

Significant changes took place in the organisation of the finances of trusts. Deductions from profits to supplement the statutory capital of the trust were not taken from the overall total of profits, but from those that remained after income tax plus local surtax had been deducted: 10 per

cent of profits went into the Long-Term Credit Bank, 25 per cent into a special fund to expand the capacity of the enterprise and 20 per cent to supplement the reserve capital. Deductions into the reserve capital were intended to compensate for the enterprise's losses during a year (these figures were not fixed in the April 10, 1923 Decree).

The statute of the regulation of the management of production enterprises within the trust was particularly important. The special feature of this statute was that it made the first practical steps towards transferring the enterprises of trusts on to the self-sufficiency principle. The rights and powers of the managing director were defined by a warrant and production order. These documents established the scope and term for fulfilment of mutual obligations by trusts and enterprises more exactly, in accordance with the annual production and finance plan. Part of the profits—the difference between the returns reported and the estimates—passed into the hands of the director of the enterprise, and the range of powers was defined which the trust's board transferred to the director (the opening of current bank accounts, the right to take subsidies, the concluding of contracts and so on). All the practical relations between the trust and plant management were based on the annual plan. The statute provided for the possibility of re-organising trusts and further improving their organisational structure.

An important point in the statute was the transfer of the trusts' enterprises to the self-financing principle. The adoption of the self-financing practice was a drawn-out process. Individual trusts introduced it at their enterprises even before the new statute of trusts was issued. The Yugostal Trust, for example, began to transfer its enterprises onto the self-financing principle on October 1, 1926. Until that time its plants had received a plan at the beginning of the year and only then had they submitted their requests for the trust's board for money and materials.

A so-called intermediary form of self-financing existed. The trust's board established a direct connection between the value of the shipped output and the funds allo-

cated to the plant. These funds were not allocated as supplies but as payments for the output actually shipped. Accounts were settled at conventional calculated prices which were determined on the basis of the calculated costs minus depreciation outlays. Planned profits and depreciation outlays were put at the disposal of the trust, which allocated to the plants the funds they required to carry out capital construction and granted them credit. Later self-financing relations were improved: plants sold their own output at selling prices; the funds from the sales were concentrated on their accounts, the trust concluded a supply contract and the plant independently carried out all supply operations under this contract and independently settled accounts with the syndicate.

Extending the scope of self-sufficiency application, the trust distributed fixed and circulating funds among its enterprises.

Practical steps on transferring enterprises to the self-financing principle were also taken by the major large metallurgical trust Uralmet (Ural Metal). There were some peculiarities in the way this was done, however. The trust financed its enterprises according to the amount of shipped output, since circulating assets were replenished according to the plan for the following year and this undermined one of the basic principles of self-sufficiency—that the enterprises should operate at a profit.

In 1927 and 1928, concrete steps were taken to transfer the enterprises of trusts to the self-financing principle, but in a number of cases, the trust's board was still unprepared for directing enterprises in the new conditions. At the end of 1928, the Chief Inspectorate of the SEC of the USSR, having investigated two trusts, established that only one of these (the First Cotton Trust) had actually transferred its enterprises to self-sufficiency while the other (Electric Communications Trust) had done this only formally: the financing of enterprises was not connected with output but with the needs of the enterprise on the basis of its demands.

The formal approach to the application of self-sufficiency was also manifested in the fact that calculated prices

were not set on the basis of annual calculations, but on that of overall average group calculations. The trusts had still not fully worked out the range and quotas of supplies they required, and statistics and accounting were on a low level. It was noted at the sitting of the Presidium of the Union SEC in March 1928 that the main drawback to the existing system was that with enterprises being supervised from above, their managers were deprived of the opportunity to learn the factors governing price formation.

The transition to the self-financing principles meant not only a change in management methods, but also the enterprise being granted appropriate economic powers. The Statute of June 29, 1927, however, recognised the trust only as the legal entity. In practice this meant that the adoption by trust enterprises of the self-financing principle did not introduce any fundamental change in the enterprise's position in national turnover: it was only reflected in its economic relations with the trust and in the internal organisation of its production, supply and sales, and financial activities, and not in its legal relations with establishments outside the given area.

The enterprise was only given such powers at the next stage in the re-organisation of industry management, when the Resolution of the Communist Party's Central Committee was published on December 5, 1929. This Resolution left the trust as the directing organ of enterprises, but there were fundamental changes in its functions. It was bound to concentrate on technical guidance, search for rationalisation and modernisation, and its rights as an independent economic unit were limited. Some of the functions of the trust passed to the self-financing enterprise and others, to branch industrial amalgamations that were being set up. The trust no longer dealt with supplies and sales. This evolution of trusts was closely connected with all the qualitative and quantitative changes that had taken place in industry by the end of the 1920s.

First of all, considerable changes took place in the organisation of planning. Whereas in 1925-1926, production,

sales, finance, labour force, production costs and construction were planned, at the beginning of the 1930s it was innovation measures, research, and so on that were mainly in the planners' view.

As enterprises adopted the self-financing principles, they became more responsible for plan fulfilment, for the trust's intervention in the work of the enterprise was limited. A re-grouping of enterprises according to specialisation began, vertically integrated amalgamations being usually set up on a production basis. At the end of the First and the beginning of the Second Five-Year Plan this was the main principle governing the organisation of combines. According to the new statute, three main sectors were established within the trust: planning and production; innovation and modernisation and labour and personnel. Independent groups were also set up for checking implementation, management improvement, for services and law. The Resolution of December 5, 1929 virtually turned the trust into an intermediate link between the amalgamation and the enterprise. It lost its significance as an organisational form of industry management and some time later the trusts were abolished.

4. The Role and Place of the Enterprise Within the Trust System

During the period from October 1917 to the end of 1920, the first attempts were made to develop an organisational form for the management of nationalised industrial enterprises. But under the shortage of funds and raw materials difficulties the state could only organise production at large-scale enterprises of primary importance to the economy. These were the first enterprises to be supplied with raw materials, money and foodstuffs. All other enterprises that for some reason or other could not be supplied in this way were leased out.

It was usually dormant enterprises that were leased out. The lease contract was signed between the gubernia eco-

nomic council and the lessee, preference being given to co-operative organisations or amalgamations, though leasing to private persons was also permitted.

Under the contract, the lessee was bound to deliver part of the output to the state or to fulfil orders from state raw materials. If the lessee used his own materials, the output was sold to the state at market prices. Such contracts were concluded for a period of up to six years. In order to increase production, the state supplied raw and other materials and fuel to the lessee, who, in turn, had to recoup the value of the materials received in the form of the finished product, in an amount specified in the contract. Depending on the importance of the product and the terms of the contract, the interest charged on individual enterprises fluctuated from 3 to 12 per cent. Control over leased enterprises was exercised by the gubernia economic councils.

Enterprises that were not leased out were amalgamated into trusts. There were many reasons for this, including the presence of the private sector, particularly in the exchange sphere. All this made it inexpedient to expand the number of independent enterprises.

Amalgamated enterprises were more efficient on the market, as they could compete better with private capital. The position of the enterprises within the trust system, however, was not accurately defined. The charters of individual trusts, particularly at the first stage of trust-formation, defined the position of the enterprise in most general terms only, while its rights were set out in another document. It was noted, for example, that the enterprise was to be run by a director or manager, appointed by the board of the trust, together with trade-union bodies. The director alone was running the enterprise, but within the framework of the powers granted by the trust.

"The Statute of the Management of Establishments Within Trusts" adopted by the SEC Presidium on July 9, 1923, was a step forward in defining the status of trust enterprises. This, in fact, was the first model statute of trust enterprises.

The director of the enterprise and his assistants were appointed by the trust board for a term of from one to three years. His duties included working out drafts for the production programme of the enterprise on the basis of long-term plans and the tasks set by the trust board. This programme, along with the estimate and balance, and also requests for raw and other materials, manpower and money were submitted for consideration to the trust board. All the commercial functions of the enterprise were in the hands of the trust's board; for example, the handling of orders, contracts and deliveries, sale of output and so on. The enterprise had a certain degree of independence with regard to small orders; it could take such orders without necessarily obtaining the trust's agreement and could independently obtain the necessary raw and other materials.

The first attempt to solve the problem of the enterprise's place within the trust system was made in a special instruction issued in 1924 by the trust of the State Amalgamation of Engineering Plants providing for the introduction of certain elements of self-sufficiency at its enterprises. If the enterprise had the opportunity to obtain materials on more profitable terms, the trust's board allowed it to act independently in this. The instruction also envisaged granting the enterprise the right to make its own special accounts which would record all the expenditure and losses of the enterprise resulting from its production and economic activities.

In May 1924, the SEC Presidium issued a statute of the management of trust enterprises and developed a model warrant to be issued by the trust to the director of such an enterprise. A new feature in the definition of the relations between the trust and the enterprise was the introduction of the order system establishing the quantity and quality of output, the production time and price. According to the new statute, the enterprise received raw and other materials and fuel from the trust at calculated prices and sold the finished product at cost price. This practice made it possible to introduce self-financing principles.

The relations between the trust's board and its enterprises were always at the centre of attention. The directors of enterprises sought consistently to increase their economic independence and were supported in this by the SEC.

The Red Directors section of the Dzerzhinsky business club in Moscow was active in improving the economic relations between the trust and the enterprise. On its initiative, in 1923-1924 a discussion was held on the rights of enterprise directors. This discussion was extensively reported in the *Predpriyatiye* (Enterprise) magazine from 1923 to 1926. In the course of the discussion, several enterprise directors proposed a transition to a system of contract relations between the board of trusts and enterprises. For example, a contract should be concluded between the trust and the enterprise on the fulfilment of orders for the manufacture of a specific product. Financing, centralised supplies and sales were to be dealt with by the trust in accordance with actual requirements, on the basis of a voluntary agreement between the trust and the plant, on the principles of strict commercial accounting. It was proposed that enterprises should be permitted to procure raw materials and fuel independently and to open shops. It was even suggested that the trust be turned into a state joint-stock company. In this case the trust would be a financial and commercial amalgamation and its enterprises granted full economic independence. The enterprise would receive orders and sell its output only on the basis of a commercial contract and thus would become the main production link having all necessary economic rights. This approach, however, conflicted with Lenin's plan for building socialism and would have led to the abolition of trusts and a drop in the rate of concentration of production.

In spite of a number of shortcomings, particularly during the first stage of trust formation, the trust, as an organisational form of industry management, corresponded to the goals and tasks of NEP. The link between individual economic units was effected through the trust. Its circulating capital was indivisible and used centrally to satisfy

the requirements of any of its enterprises. In the difficult economic conditions of the first NEP years, this system had its advantages; above all it helped cut down distribution costs. If, in place of the trusts, 2,500 to 3,000 small, independent factories and plants had been in operation, additional difficulties would have arisen in the organisation of industry. As industry was restored and production expanded, economic conditions changed and the role and significance of individual enterprises increased. The question arose of extending economic independence. The Twelfth Congress of the Communist Party noted on this that "the cause of successful production or, on the contrary, failure lies in the main industrial unit, i.e., the factory or plant. A correct organisation of production at each individual enterprise and, what is more, not only on the technical but also on the commercial side, is a problem of decisive importance. While retaining overall guidance of the enterprise in its own hands and centralising those production and commercial industries and operations prepared for this, the trust should, at the same time, do everything possible to avoid suffocating centralisation, dampening initiative and incompetent intervention in the work of its factories and plants."¹

The decisions of the Congress were implemented in the economic activities of individual trusts. Some enterprises in the metal industry were granted a certain economic independence and were able to obtain the materials, equipment and tools they needed independently within the limits of the credit granted them by the trust and at prices not exceeding the stock-exchange prices. They were also allowed to sell their output freely, but for a specific sum.

Before the Statute of Trusts (July 29, 1927) was issued, only individual aspects of the relations between the boards of trusts and the managements of enterprises had been perfected. For example, the trust's board compiled its production programme on the basis of the plans drawn up at

¹ *Decisions of the Party and Government on Economic Issues*, Vol. 1, p. 355.

plants and factories. Renouncing day-to-day tutelage of enterprises, the trust concentrated on studying and approving the plans presented by the plants. It made careful study of the enterprises' reports when assessing the results of their economic activities. Personal contacts between the directors of trusts and enterprises became more and more frequent and a material incentive scheme was employed.

The questions of increasing the economic independence of enterprises were discussed at the Plenary Session of the SEC of the USSR, which proposed extending the practice of the trust's board handing over authority to the director of the enterprise, both in order to increase the number of enterprises receiving the trust's warrants and to increase the powers handed over to the enterprise.

The transition from restoration of the national economy to its modernisation necessitated, along with an extension of the economic independence of the enterprise, improvement in production planning, compilation of production and finance plans, and planning of production costs. At the same time, it was proposed to extend the rights and increase the responsibility of the enterprise for the results of its economic activities. This is why the first SEC Plenary Session pointed out the need to entrust the task of modernisation to the basic production units—the plants and factories.

In its decision, the SEC Plenary Session noted that, while retaining the trust as the only legal entity and manager of capital, it was essential to extend the authority of the plant management in order to put the directors of trust enterprises in a position to bear full responsibility for the production and financial operations of the enterprise and also in order to establish the conditions for the character of each enterprise to be clearly revealed. At the same SEC Plenary Session, the guidelines were laid down for the relations between trusts and their enterprises to be developed. It was established that the most important aspects of the activities of enterprises were that the production and finance plan, the capital construction plan, the amount of and procedure for providing the plant with

monetary and material resources, the procedure for and forms of settlement between the trust board and the enterprise for the output sold by the latter, should all be worked out by directors and considered by the trust board, with the obligatory participation of the director.

The direct management of an enterprise was in the hands of the director, who held undivided authority. The relations between the director and the trust board were defined in a special circular on the management of enterprises and the bounds of his authority were established by the trust board. The director guided the enterprise, disposed of the property entrusted to him at his own discretion, was empowered to appoint and dismiss administrative and technical personnel independently, observing Soviet law, of course. He could take measures to improve production, even if they were not provided for in the production and finance plan, but on the condition that they did not require large financial or material resources. The director was bound to report to the trust board on all such measures. He was also permitted independently to carry out minor and current repairs on equipment and install inexpensive equipment. However, the director was only allowed to launch new construction, major repairs, overhauls and re-tooling under the control of the trust board. The new decree bound the enterprise to keep independent accounts, a balance-sheet and to take stock of the materials received.

The drawing up of the balance-sheet and costing at enterprises brought close the solution to such tasks as calculating the production costs, that gave the enterprise the opportunity to determine the results of its economic activities. The enterprise was given the right to use part of its profits at its own discretion, this profit being defined as the difference between the estimated production cost and the actual cost, computed on the basis of the costing results. The amount of profit at the disposal of the enterprise's director was established by the trust board in conjunction with the director and was approved by the Council of Labour and Defence.

The director's authority was defined in a warrant issued to him by the trust board. All transactions connected with management of the enterprise were made by the director in the name of the trust and within the limits established by the trust board. The warrant gave the director the right to open current accounts in credit institutions in the name of the trust, to issue bills of exchange, to raise loans on the enterprise's output and take steps to supply the enterprise and sell its output. At first, almost every trust had its own form of warrant, but from October 1927, a model warrant was introduced. Although the warrant gave the enterprise director wide powers, in practice, however, implementation often came up against considerable difficulties. The banks frequently produced a whole series of formal excuses for refusing directors loans and credit. Not having its own account in banks, the enterprise still had to carry out its financial operations through the trust. The adoption of the new Statute of Trusts and the transfer of trust enterprises to self-financing practice led to a change in the relations between trusts and enterprises. Each year, the trust board gave each plant a commission, based on production and financial capacities and also the general state of the market, to manufacture a specific quantity of articles and semi-finished products. It also determined the range of products and fixed prices of materials.

On the basis of the production programme, the plants submitted an initial production plan to the trust within a specified period of time; drew up estimates for fuel requirements and a general estimate for production expenditure. All these estimates were approved by the trust board. Depending on the size of the production programme and quantities of materials required, the trust, in conjunction with the plant management, determined the circulating capital required, and their estimates were then approved by the trust board.

All equipment and buildings in the plant's balance-sheet were handed over to it for operation. Estimates were drawn up to obtain financial and material resources for the plants. Each plant received materials and money in

an amount that it could receive from the sale of its output at estimated production costs without depreciation charges. Material supply was tied to quarterly requests made by plants, with a break-down by months.

The value of the materials, both procured independently and supplied otherwise, was included in the final settlement with the plant. Payments were made in the form of entries in the account books at the end of each month. Outlays on major repairs and overhauls, new buildings and other expenditure not included in the production costs were paid for by the plant from special trust credits. Payments between plants of the same trust were based on production costs. The procedure for payments and all questions of dispute were regulated by the trust board. Output was sold through the commercial department of the trust. Material supply was dealt with by the trust, but the plants retained the right, if this was profitable, to obtain materials from other sources.

The relations between plants and the trust were based on orders, according to which the trust board paid the plant for the output at established costs in an agreed time. At the end of the economic year, the enterprise submitted a report showing the economic results of its activities to the trust. The final result of the enterprise's work for the year was only determined after the final balance-sheet and annual report of the trust as a whole had been approved. The enterprise could retain the profits for the year and the director had the right to spend them at his own discretion, but had to inform the trust board of how he planned to use the profits.

Thus the recognition of the enterprise's right to retain a part of its profits and have certain materials and monetary funds at its disposal, the establishment, under an order, of mutual obligations regarding the supply of necessary raw materials and sale of the finished products to the trust—all this was intended to introduce an element of self-sufficiency into the work of trust enterprises.

Modernisation and new construction changed the position of the enterprise in the trust system, and the scale and

technical level of enterprises rose. This created the necessary conditions for a subsequent change in the role and place of the enterprise in the system of industry management.

5. The Production and Economic Activities of Trusts

The transition to NEP, the introduction of self-sufficiency and the wide-spread application of commodity-money relations in all spheres of the economy called for new management methods. The resolution of the SEC Presidium of June 11, 1921 stressed the importance of such a re-organisation and noted that "a principle must be established according to which the state gives nothing to anyone in the national economy and that the worker will be provided for by his wages . . . all the supplies received by the worker shall be divided up not according to the number of workers, but by unit of output; workers shall be provided by all supply agencies through the plant management and administration, which will only receive what it needs if the obligations it made to the higher bodies are fulfilled. . . . Self-sufficiency must be placed at the basis of all economic policy."¹

Lenin noted in one of his letters that "trusts and factories have been founded on a self-supporting basis precisely in order that they themselves should be responsible . . . for their enterprises working without a deficit" and so that trusts and enterprises might be able by "mercantile methods fully to protect our interests".²

This orientation necessitated, above all, changes in the system of financing. The first step towards the introduction of a new system of financing was the transition to paid delivery of industrial output. While introducing this system, however, the state concentrated regulation and

control of financial settlements in its own hands. A decree on bank operations was issued obliging state enterprises and institutions to keep their money at the State Bank and to make payments, apart from wage payments, only through the bank system.

While transferring trusts and individual enterprises on to the self-supporting system and renouncing uncompensated appropriation of their output, the state at the same time financed the development of industry. Between May and September 1922 alone, trusts were allocated 45.9 million rubles (in gold, according to the Gosplan index). Two-thirds of this sum went on the development of the fuel, chemical, mining, electrical engineering and metallurgical industries. The trusts received money from the state budget to pay wages and obtain the materials they needed on the market.

The Statute of the RSFSR State Bank stated that credits granted to enterprises and trusts for a particular purpose were not financed according to estimates. Bank loans could only be given on the basis of their commodity stocks to be sold on the market. It was not, however, possible to pursue such a financial policy to the full, particularly at the beginning of NEP, because of the shortage of finances and, consequently, because of the limited opportunities for financial manoeuvre.

As the activities of trusts on the basis of self-sufficiency became consolidated and expanded (by the end of 1922), there was a flow of funds into the current account of individual trusts at the State Bank. The increase in labour productivity and the decrease in the manufacturing costs at trust enterprises led to a rise in their returns and their deductions to the state budget increased. In 1923-1924, industry contributed 18 per cent of state budget revenues, while in 1924-1925, this share rose to 26 per cent. It must be remembered that state revenues did not all come from deduction from self-supporting economic units, but also from state taxes on other enterprises, both in kind and in cash. It was light industry trusts that had the most funds. The Petrograd Textile Trust, for example,

¹ *Industry Under the New Economic Policy*, Moscow, 1926, p. 26 (in Russian).

² V. I. Lenin, *Collected Works*, Vol. 35, p. 546.

received 2,045,000 rubles from the State Bank in the first six months of 1923-1924, while the Engineering Trusts received only 55,000 rubles.

In 1924-1925, the financing of trusts mainly took the form of bank credits, while financing from the state budget was gradually cut. The funds received by the trusts themselves as liabilities on taxes, shares and non-industrial deliveries were also insignificant.

New funds were usually received in the form of long-term credits, and these, along with budget financing, were predominant. Among additional sources of finance was a certain speed-up in the turnover of circulating assets observed in the metal, electrical engineering, textile, timber and chemical industries. Beginning in 1926, bank credits to trusts were made through the syndicates. This was a direct consequence of the change in the role of the syndicates at the end of the reconstruction and beginning of the modernisation period.

One of the major tasks in the production and economic activities of trusts was the planned organisation of production. As noted in the resolution of the Twelfth Party Conference of the Communist Party in January 1924, "the Party must learn to co-ordinate the different elements of the state economy both among themselves and with the market. This is made easier by the fact that we... have achieved the main preconditions for planned management. These preconditions consist in establishing a stable currency, organising credit, accumulating material funds to permit manoeuvrability, or in establishing and consolidating specific forms for organising the economy (trusts and the like)."¹ Thus, as industry was restored and the monetary reform of 1922-1924 was put through, the material base for planned organisation of production was consolidated. Such indicators as the volume of production, the work-force, the productivity of labour, wages, the cost of accumulation, and prices were planned. At this stage,

¹ *Decisions of the Party and Government on Economic Issues*, Vol. 1, p. 398.

however, trusts took virtually no part in planning their own operations. Right up to 1925, the state issued specific plans to the trusts through the SEC system of chief administrations.

In 1925, the planning agencies began working out targets for development of the national economy, and a transition was made from individual plans of the various branches to the drawing-up of a single annual national economic plan. The planning of production programmes for trusts was dealt with by the chief committees, and on the basis of these plans, the production department of the trusts worked out quarterly production tasks for their enterprises. The plans provided for a growth of production, a further specialisation and a fall in the production costs. The enterprise received planned orders for the manufacture of a particular range of products.

At the beginning of the modernisation period, the procedure for drawing-up production and finance plans for trusts was as follows:

a. Trusts under the jurisdiction of the SEC of the USSR submitted production and finance plans and short memoranda to the higher organisations (chief and central administrations, and directorates);

b. Trusts under the jurisdiction of the supreme economic councils of the republics submitted identical material to the SEC, planning committees and economic councils of the Union republics. In turn, the SEC of the republic submitted summary production plans and plans for capital works to the Planning Board of the Union SEC, for each industry separately, with a break-down by local, republican and all-Union industries. Appropriate memoranda were attached to the summary plan;

c. Chief or central administrations of the SEC of the USSR, having studied and adjusted all the production and finance plans and plans for capital works, sent them to the Planning Board of the Union SEC (which became the Planning and Economic Board from 1927);

d. In turn, the USSR Supreme Economic Council submitted the summary industrial plan, with a break-down

by plans for all-Union, republican and local industries, to the CLD of the State Planning Committee (Gosplan) of the USSR for approval. At the same time, a capital construction plan and plans for individual industries were also submitted following the same procedure. After consideration of these in the production sections of the Planning Board, they were returned to the SEC Presidium for approval.

This was how production plans for trusts were drawn up and approved on the eve of the First Five-Year Plan.

This practice exerted a significant influence on the production and economic activities of trusts.

In certain trusts, this work was being improved. Production planning at the enterprises of the First State Trust of the Wool Industry, for example, took the following course. After receiving the target figures from the Chief Committee, the trust board distributed the production programme among the enterprises, allocated appropriate funds to the plant or factory for making major repairs and maintenance, and decided the amount of circulating assets required. The factory, guiding itself by the targets received and taking account of its own position, drew up production and finance plan and sent it to the trust for approval.

On the whole, however, the planning of the production and economic activities of trusts was still not on a very high level. This was so because the methodology for planning was still in its infancy, the necessary experience was lacking and there was a shortage of qualified specialists. This resulted in the system of planned indicators not being clearly established.

By the end of the reconstruction period, an objective necessity arose for further improvement in planning industry that had been amalgamated into trusts. "In Soviet Russia," noted the resolution of the Twelfth Party Congress, "where the basic means of production and transport belong to the state, the active intervention of the latter in economic activities must be planned. Experience has shown that the plan for the socialist economy cannot be established in advance, in a theoretical or bureaucrat-

ic way. The task for the near future cannot be defined according to some formula or other, but requires a constant and lengthy adaptation of the directing economic authorities and their methods and practice to the market and market relations."¹

The Supreme Economic Council of the USSR, Gosplan, CLD and other economic authorities put their efforts to improving the planning of the production and economic activities of trusts. The CLD Resolution of July 14, 1925 noted that consecutive analysis of production programmes and the target figures in the CLD, the SEC and Gosplan simultaneously made the planning process significantly more difficult. By decision of the first SEC Plenary Session, if the plans of trusts had not been approved by the beginning of the new economic year, the trusts were allowed to operate on the basis of their own plans until they were approved. The Plenary Session recognised the necessity for regarding the annual plans as parts of long-term plans. As a result, planning in general became a long-term effort.

The improvement in planning made it necessary to further rationalise planning. In this connection, the resolutions of the Combined Plenary Session of the Central Committee and the Central Control Commission of the Communist Party in October 1927 stated that, in view of the growing complexity of planning and its practical significance, the Plenary Session considered it necessary to strengthen planned supervision. In order to implement this decision, the USSR Supreme Economic Council raised the question before the government of turning the target figures into a basic planning act.

By the June 18, 1928 Resolution the USSR Council of People's Commissars, a single act for laying down targets was put at the basis of the planning procedure. Beginning in 1928-29, the trusts themselves drew up their own plans and submitted them to the higher organisation for check-

¹ *Decisions of the Party and Government on Economic Issues*, Vol. 1, p. 348.

ing. This put the planning work of trusts in order.

General economic difficulties during this period presented the trusts with many problems connected with the supply of raw and other materials and sale of output. Planned regulation was complicated by the trusts' lack of the necessary circulating funds. The model statute of trust of September 12, 1922 provided for a system of compulsory orders. On the basis of orders from the CLD or the Economic Council of the republic, the trust concluded a contract with state agencies under which it was bound to deliver the product at cost, taking profits into account. This practice was legalised by the Decree on Trusts of April 10, 1923. Moreover, the trusts had their representatives in other cities, took part in fairs and joined syndicates.

At the first stage of the existence of syndicates, however, their practical relations with trusts developed only with difficulty. At times, trusts and syndicates did not sell their goods and rejected "unprofitable" transactions. This led to a distortion of the state's trade policy, to an increase in unsold output, i.e., to artificial difficulties.

By the end of the reconstruction period, a distinguishing feature in the supply activities of trusts was the introduction of general contracts. These were concluded on a centralised basis, but were implemented in a decentralised manner—through the trusts or their enterprises. Supplies were also regulated by administrative order. An order of the Union SEC of November 26, 1926, for example, prescribed that all the cotton to be processed at state enterprises was to be sent through the All-Union Textile Syndicate, according to a plan, only to those enterprises, and that the sale of this cotton to other organisations was prohibited.

The SEC (USSR) Presidium demanded from the Chief Metal Department that it calculate the raw material requirements of metal-working trusts and enterprises and check the stores of metal in their possession. It also ordered some trusts to use long-term assets as raw materials. At the same time, Rudmetaltorg, an organisation trading

in ores and metals was asked to concentrate all such assets discovered at the enterprises of metal-working trusts in its own hands. These measures testify to the fact that the CLD and the SEC sought consistently to relieve trusts of supply functions and hand them over to syndicates and other specialised procurement organisations.

This policy complied with the tasks of the period under consideration. The trusts were able to devote more attention to purely production issues.

One distinguishing feature of the end of the reconstruction period was the growing role of the syndicates in supplying trusts with raw and other materials and in selling the output of the trusts.

As efforts were made to modernise industry, the trusts did a considerable amount of work on improving production. The central task in this was to mobilise internal resources by speeding up the rate of turnover of circulating assets. A survey of 29 trusts showed that the value of circulating assets in industry rose from 2,200 to 4,300 million rubles between October 1, 1923 and October 1, 1928, that is, by 90 per cent, while the output of marketable products increased fivefold. The rate of turnover of materials and commodities for this period increased by 150 per cent. Whereas in 1923-24, there was a 63 kopecks' worth of means of production, and 41 kopecks' worth of finished goods, (i.e., 1 ruble 4 kopecks in all) per 1 ruble of marketable products, on October 1, 1928, the figures were 27 and 13 kopecks, respectively (that is 40 kopecks in all). Still, an authoritative commission discovered that, on October 1, 1928, many of the leading trusts had significant surpluses of materials, this indicating that considerable internal reserves had been accumulated by the trusts.

Success in improving industry operation was hampered by the shortage of highly qualified engineers and technicians. In October 1927, the trusts controlled by the Union SEC had only 10 per cent of specialists with secondary and higher education they required. There was a particularly acute shortage of specialists in the trusts and en-

terprises of the metallurgical, chemical, coal, textile (wool and linen) and certain other industries.

With the start of the modernisation drive, the trusts worked hard to improve specialisation, standardisation and concentration of production. As production became more concentrated and specialised, co-operation between the branches of industry developed and technological links were established between individual enterprises. A higher level of concentration of production, specialisation and standardisation made possible the introduction of large-scale and mass production and a more efficient use of fixed and circulating assets. For example, specialisation of casting on a technological basis in the Moscow Engineering Trust, co-operation and an increase in the scale of production made it possible to introduce up-to-date equipment, intensify the division of labour, improve maintenance and raise the efficiency with which production area was utilised. The trusts did much to put to use the achievements of Soviet and foreign science and co-operated with foreign firms in the field of technology.

In this way, all the production and economic activities of Soviet trusts were subordinated to the goal of restoring the national economy, developing large-scale industry and raising the level of concentration of social production. The development of trusts in industry as a whole was directed towards ensuring the victory of the socialist system in the transition period. At the same time, these were practical steps in forming a system for managing socialist industry.

Syndicates and Their Role in the Organisation of Soviet Industry (1922—1929)

1. The Formation of Soviet Syndicates

The transition to NEP faced Soviet industry with complex problems in the organisation of supplies, procurement and sales. When many industrial enterprises were taken off the state's supply list and adopted self-financing principles, industry was increasingly drawn into market turnover. However, circulating assets were necessary for the consolidation and development of the links between self-supporting enterprises and the market.

One of the most wide-spread methods of replenishing circulating assets was to sell stocks of commodities on the open market. Since almost all industrial enterprises were in great need of circulating assets, goods were sold through fierce competition between state and private industry, between amalgamated and unamalgamated enterprises and between trusts. On the market limited to the central areas of the country, competition led to a fall in prices, so that often, in attempts to obtain circulating assets, state enterprises sold their output at below cost. As a result stocks were depleted and enterprises were unable to pay off their debts. Material funds allocated by the state were thus eroded.

In order to put an end to these extremely undesirable consequences of NEP, energetic intervention was required on the part of the SEC. In October 1921, an order was issued that, under the CPC Decree and the CLD Resolu-

tion on measures to restore large-scale industry, enterprises transferred on to the cost-accounting basis could only sell materials to replenish resources in short supply according to the plan for their supply by the state. It was also recommended that this right be used only in extreme circumstances and that the director of the enterprise be held responsible for this. This was entirely in state interests, as it prevented materials from being squandered. At the same time, the order put industry in a difficult position, since it hampered the formation of the necessary circulating assets. The problem of circulating assets still remained unsolved.

There was, however, another aspect to the problem of selling the trusts' output. In need of circulating assets, the trusts strove to speed up the sale of goods and, at the beginning, this was easy on the market in the central area, as it was located close to the main production centres, was larger than other markets and had the best transport links. Soon, however, the central area was flooded with output from competing trusts, and this led to a slump in consumer demand and fall in prices. Since the sales of goods even at reduced prices slowed down, the share of general overheads in the wholesale price rose. The trusts' absolute commercial outlays also rose. All this had a detrimental effect on the profitability of trusts, and many either ran at a loss or made no profit.

The oversaturation of the central market with goods, while there was an acute commodity shortage in other areas, necessitated the creation of peripheral outlets to be set up by trusts. The trusts' boards openly admitted, however, that the trusts were in no position to develop their own sales activities in the outlying areas, owing to the shortage of necessary circulating assets. It was in the state's interests for the distribution of goods to be even throughout all the country, including remote regions, for only then would an advance in agricultural production, the creation of the necessary raw-material base for industry and a strengthening of the socialist influence on the peasantry and in the non-Russian areas be possible.

Entering the broad market, the trusts met with fierce competition from private capital. The position of the trusts was undermined in this struggle by the shortage of circulating assets, the competition between trusts, their little experience in trading and the absence of well-defined regulation of trade on the national scale. The trusts, being virtually dissociated from one another, could not stand up to private capital in the trade sphere. Under the circumstances, the sale of the trusts' output became not only an economic, but also a major political problem.

The solution to the sales problem included many important issues relating to production (growth of the productivity of labour, fall in manufacturing costs, improvement of the quality of goods), trade (increase in overheads, expansion of the product range) and organisation (differentiation of trading and production functions of trusts, the struggle against mismanagement).

Initially attempts were made to solve this problem by strengthening the regulating role of the Central Supply Board (CSB) and developing exchange trade. This was the correct solution during the first year of NEP, as it helped the trusts to enter the market and strengthened internal links within industry.

At the end of 1921, a Central Trade Department (CTD) was set up within the CSB and, by an order of the SEC Presidium of December 12, 1921, this dealt with stock-taking and supervision over all trading operations within the SEC system. All institutions and enterprises subordinate to the SEC had to carry out their commercial activities through the CTD, which also had to organise its own trading activities. It was involved in extensive trading operations including the buying-up of goods from abroad (by agreement with the People's Commissariat for Foreign Trade). The Department was allowed credit from the State Bank and other credit institutions and was to have its own apparatus both in the centre (the Central SEC Commodity Exchange) and in the provinces (local trade departments of regional and gubernia supply bodies, local commodity exchanges and trade agents), and also its own

representatives abroad. The department included central and local exchanges, trade, and finance and credit subdivisions. It published a trade bulletin. The CTD was headed by a board made up of a managing director and five directors, who were appointed by the SEC Presidium. At first, the department was allocated materials and money by the SEC, but later it had to support itself by revenues from its own operations.

The SEC Central Commodity Exchange (CCE) occupied an important place in the organisational structure and work of the CTD; its main task was to reveal the supply and demand of state enterprises and satisfy their requests, in order of priority, out of its commodity turnover. A broker's office was opened at the exchange. It employed qualified brokers and made all exchange transactions public. According to the statute, the SEC Presidium, all economic agencies, amalgamations and individual enterprises within the SEC system and the economic agencies of other people's commissariats and departments could all become members of the CCE. Small trusts, enterprises and trade organisations and, in individual cases, private firms could be CCE members on a temporary basis. At the end of December 1921, a constituent assembly of the SEC Central Commodity Exchange was held, at which a committee of 25 persons was elected on the basis of proportional representation. It had representatives from SEC, the Central Union of Consumer Societies (Centrosoyus), the PCF, the People's Commissariat for Agriculture, the People's Commissariat for Foreign Trade, the People's Commissariat for Communications, the Agricultural Union and other organisations.

Many local commodity exchanges, subordinate to the CTD were set up. In March 1922, they were functioning in 24 large cities.

The commodity exchange was of considerable significance for the regulation of trade in general, and of the sale of industrial products, in particular. Yet it failed to fully resolve the sales problem. First, amidst general economic dislocation in the country, the exchange could not satisfy

all of industry's demands, and some of the raw materials and fuel needed for the development of industry were obtained outside. Second, for small trusts and independent enterprises, participation in the exchange was a heavy financial burden, and private capital made use of this. It acted as intermediary between state enterprises and industrial amalgamations. Some trusts began to turn to private intermediaries. There is a contract, preserved in the archives, between private persons on the formation of a trading and intermediary company under the title of the Partnership for the Supply and Sale of the Articles of the Metal Industry. The goal of this partnership was to uphold the interests of state and private metal amalgamations and enterprises "by supplying them with the necessary equipment, machinery, materials, foodstuffs and consumer goods and selling their products and articles by means of exchange, sales and the like". For a brokerage, it undertook to conduct trade operations in Russia and abroad, engaged in independent procurement, purchase and sale of goods and materials, provided technical consultation on production organisation and so on. Being a typical private partnership, it acted as a representative of the North Vyatka Mining Zone and had wide powers. Notably, it could use forms and stamps with the inscription "North Vyatka Mining Zone—Moscow Office".

The SEC order of February 17, 1922, which noted that, even after the exchange had been set up, Soviet institutions still made use of the services of private intermediaries, testified to the fact that private mediation was widespread. Since this was detrimental to state interests, all the commercial operations of state institutions and enterprises under the SEC had to take place through the exchange.

This order had to be given organisational support, however, and in order to fill in the gaps that appeared in the organisation of the sale of state output, the SEC started setting up central supply and sales agencies for individual industries. The statute of the Chief Trade Office for the State Chemical Industry stated that this Office had been established to carry out all trading operations in-

involved in supplying everything necessary for normal operation of the production amalgamations (trusts) and individual enterprises which were subordinate to the Office, and had been completely or partially taken off the state's supply list. It also dealt with co-ordination and combination of these operations of production amalgamations (trusts) and individual enterprises directly subordinate to the State Council of National Economy.

The chief trade offices played a major part in putting supply and sales activities of state industry in order, but their main activities were, all the same, involved in supplying state enterprises and trusts with the necessary raw and other materials and tools. During the first years of NEP, however, industry could not have been efficiently supplied if there had not been procurements.

Consequently, neither commodity exchanges nor chief trade offices were in a position to completely solve the supply and sales problem in state industry. An urgent need thus arose for supplies and sales agencies to fulfil procurement, supply and sales functions, agencies that could respond rapidly to the needs of production and give priority to large-scale industry amalgamated in trusts. It was the *syndicates* that assumed these functions.

The idea of setting up syndicates emerged at the end of 1921. The nationalisation of industry and the formation of trusts had made the concentration of sales an objective necessity, something that the trusts could not deal with, busy as they were with production and supply. The production function of trusts had to be separated from that of supply and sales, the latter being handed over to special agencies—the syndicates. The emergence of syndicates was an important stage in the organisation of industry management at the beginning of NEP. Press reports of the time show that the majority of workers and researchers associated the formation of syndicates only with the difficulties in sales that arose in the spring of 1922. Some contemporary scholars take the same stand. This view means that the formation of syndicates was not connected with the objective economic processes that

were taking place in the Soviet economy during the first years of NEP.

It becomes clear from an analysis of documents pertaining to these years that the idea of syndication emerged directly after the formation of trusts. In a report submitted by the Urals Metal Board to the SEC commission, for example, it was stressed that the need for commercial amalgamation in the Urals metal industry arose when the trusts first began to function. At the beginning of 1922, the idea of syndication of state industry was discussed at a special meeting of the SEC Presidium and, on January 21, 1922, the SEC adopted a decision to syndicate industry. Consequently, the question of whether to form syndicates had arisen and been virtually settled by the spring of 1922, when the trusts first encountered sales difficulties.

The pioneers in syndication of state industry were the textile trusts. These were in the closest touch with the market and, consequently, came under its influence to the greatest degree. In February 1922, a congress of representatives from textile trusts and raw-materials committees opened with the aim of setting up an All-Russia Amalgamated Textile Syndicate (ARATS). This syndicate was to include all the textile amalgamations, raw-materials committees and textile factories that had adopted the self-financing principle. The main tasks of the ARATS were distribution of state orders; mutual credit; co-ordination of trading operations and transfer of some of them to the syndicate; joint procurements and purchases of supplies, in accordance with the special resolutions of the syndicate; and fulfilment of the various commissions of its members.

It was initially envisaged that three economic centres would be set up to combine all the trading and supply operations within each branch of the textile industry. It was intended to set up economic centres for the cotton, wool and linen industries (with the hemp and silk industries being included in the latter). These economic centres were to be amalgamated in the Council (or bureau) for the textile industry. In other words, the idea

was to set up a Union of Textile Industry Syndicates. During discussion of this issue, however, the participants in the congress, while supporting the idea of setting up textile industry syndicates, rejected the proposal that several syndicates be established in the industry and a union of syndicates be organised. The congress decided it would be more suitable to set up a single syndicate for the whole industry. This was how the All-Russia Textile Syndicate (ARTS) was formed. The congress also came out against compulsory participation of textile trusts and self-supporting enterprises and the draft charter approved at the congress stated that membership was to be voluntary. The congress took measures to establish statutory capital for the syndicate. Members of the syndicate were permitted to join amalgamations for the purpose of obtaining the raw materials and fuel they needed from local resources or selling output on the local market.

Careful preparation made it possible to establish the syndicates in a very short time. As early as March 1922, two more syndicates were set up—the Match and Salt syndicates, and in the subsequent months, Leather, Clothes, Tobacco, Coal and Agricultural Engineering and other syndicates. In four months, eleven syndicates were organised, or two-thirds of all those set up during the reconstruction period. The sales difficulties in 1922 exerted their influence on the high rate of syndication, the “crisis of trade helplessness” in the spring of 1922 acting as the catalyst.

In the circumstances, syndicates were set up in some industries at artificially fast rates. The formation of certain syndicates was governed mainly by selfish considerations (the trusts’ desire to transfer the procurement of raw materials on to the syndicates, to receive additional circulating assets from the amalgamation, to improve their own sales position on the market and so on). This undermined the economic base for syndicates and made their position unstable.

Syndication did not take the same course in all industries. In some it was fast enough (in the textile, leather

and tobacco industries), while in others the process was relatively slow (in the chemical, timber, fishing and certain branches of the food industry and so on). In some industries, a single syndicate was set up, while in others, there were several, combining state industry either within a certain region or according to a narrow production profile, such as the production of animal fats, and tobacco.

The amalgamation went the quicker and easier, the higher was the concentration of production, the closer the links between the given industry and the market, and the more acute the problem of obtaining raw materials. The process was facilitated by such factors as the same line of production, standard machinery, and the general technological level of the plants, i.e., everything that put enterprises in the same production and trading position.

The traditions that were developed in industry organisation were of considerable significance for syndication, a fact for which the metal industry provides a good example. In those areas in which, before the Revolution, industry had been monopolised, syndication went at a faster rate in the first years of NEP (in the Urals and the Southern industrial region, for example).

The situation in the metal industry of the Central region was different. Before the Revolution, there had been virtually no regional amalgamations of the syndicate type in this area. Only individual enterprises, Goujon’s plant, for example, were connected with the Prodamet amalgamation. With the exception of the Maltsevo Factory Zone, the weak organisational, production and sales links between enterprises were striking. As they worked mostly for the Treasury, they were not particularly interested in forming syndicates.

The different attitudes towards syndication on the part of the metal industry in different areas, and the different economic conditions in which enterprises were operating (differing standards of technical equipment, specific raw material, fuel and sales problems and so on), made it impossible to set up a single syndicate for the industry. The

SEC had to back down on one of the main principles in its syndication policy—that there should be a single syndicate for each industry. The formation of two syndicates (Uralmet and the Metal Syndicate of the Central region) was permitted and the Yugostal Trust was given the right to act as a sales syndicate.

The formation of syndicates pursued very specific goals. The main task of the syndicates was to organise the sale of state industry output. Relations with the market had to be regulated and this is why the charters of syndicates devoted considerable attention to the trading activities of amalgamations.

In the supply sphere, the syndicates had to take over supplying its members with raw and other materials. With the exception of such purely sales amalgamations as the Oil Syndicate, the Coal Syndicate and the Salt Syndicate, all others dealt to a lesser or greater degree with the procurement of raw materials, while those such as the Tobacco and Native Tobacco syndicates made the centralised procurement of raw materials their main task. The charters of both the Tobacco and the Native Tobacco syndicates stressed that their members were obliged to procure raw materials through the syndicate alone. In other cases, the situation was different: the syndicate was only allowed to procure materials on commission of individual members or by agreement with a group of its participants. This was the case in the charters of the Match Syndicate and Uralmet.

The difficult financial situation in which industry found itself faced the syndicates with the important task of regulating the financial activities of trusts and self-financing enterprises. To this end, the syndicate was empowered to regulate distribution of credit among its individual participants.

Production was usually beyond the jurisdiction of the syndicates. Even when the charters mentioned participation by the syndicate in regulating the production activities of its individual participants, this was done in very vague language. The charter of the Clothing Syndicate,

for example, stated that the syndicate was to co-ordinate the production activities of its members, but there was no indication of how it should do so. The Salt Syndicate was somewhat of an exception, for it retained the right to decide how much salt was to be produced in the country as a whole and in individual areas. Sometimes the syndicate intervened in the production activities of its members at their mutual agreement. As written down in their charters, some syndicates had the right to establish general technical standards of products manufactured within the syndicate and to decide the production tasks for each enterprise. This right, however, could only be implemented if contractual relations were established between syndicates and their members.

The organisational structure of syndicates depended on the nature of the syndicate and that of its activities. Syndicates set up on a voluntary basis had a more complex central apparatus. The syndicate was headed by an assembly of commissioners which directed the activities of the syndicate. This assembly established the size of obligatory deductions to be made by members to the syndicate, decided the size of special and reserve funds and defined ways in which they were to be utilised. It approved the estimate and work plan for the syndicate for the future and also the report and balance-sheet for the previous period; approved the regulations for credit operations, distributed profits and approved instructions on the management of the syndicate. The assembly also selected the members of the board, the auditing and arbitration commissions, accepted and expelled members, approved the board's resolutions on the acceptance of new members, changed the charter of the syndicate, etc.

The syndicate's board was directly involved in managing the syndicate according to the charter and the resolutions of the commissioners' assembly. It represented the syndicate in dealings with other organisations and carried out commercial and other operations, crediting in banks, the delivery of commodities for sale to the members of the syndicate. It also fixed selling prices, drew up the

estimate, balance-sheet and work plan for the syndicate, accepted new members, hired and dismissed blue- and white-collar workers and so on. The structure of the central apparatus of the syndicate was determined by its goals. The Salt Syndicate, for example, was mainly concerned with sales and it was structured accordingly. The syndicate had a financial and commercial administration, but no special apparatus for procurement and supplies. In the Textile Syndicate, along with sales, an important role was played by supply. The central apparatus of the All-Russia Textile Syndicate had not only a trade department, but also one for supply, with a technical office, a cotton department and so on.

The management structure of syndicates based on compulsory participation of trusts took a somewhat different form. At the head of these syndicates stood not an assembly of commissioners, but a board or a managing director appointed by the SEC. The board of the Oil Syndicate, for example, had five members and was formed by the Chief Administration for Trade (CAT). What is more, the chairman of the board and his deputy were appointed by the CAT, and the other three positions were filled by representatives of the oil committees from Azerbaijan, Grozny and Emba. The syndicate operated according to order from the CAT Central Commercial Board and was obliged to report to it and the oil committees once a month. Twice a year, a general assembly of the members of the syndicate gathered for informational purposes.

In this way, the organisational structure of the syndicates was fairly flexible, allowing them to successfully solve the problems facing industry.

Apart from the syndicates, so-called conventions, a form of industry organisation based on syndicate agreements, were created. They did not enjoy the rights of a legal entity, lacked their own funds, and in this were distinguished from syndicates. Just like syndicates, however, they had regulating functions and usually regulated the sales and procurement, less frequently financial, and

only in exceptional circumstances, production activities of their members.

Organisations of the convention type included conventions proper and councils of congresses of individual branches of industry. Eleven such conventions were set up over the reconstruction period.

There were convention agreements with very specific aims: in some cases, to organise sales or procurements within the particular area of activity of the convention's members, while in others, to decide questions of a technical nature.

A number of factors furthered the spread of convention agreements. First, in some industries, the pure syndicate was not suitable for the organisation of sales (for example, in the timber and chemical industries, with the significant diversity of production conditions in which their enterprises operated). Second, conventions appeared as a consequence of the anti-syndicate attitudes of certain managers.

To a certain degree, the convention satisfied state industry's need for an authority to regulate sales and procurement. On the other hand, the conventions prepared the necessary conditions for syndication of industry.

With certain reservations, some large trusts can be included among organisations of the syndicate type. These combined all the enterprises in a given industry (such as sugar, rubber and paper industries), held a monopoly position in state industry (such as the Tea Board), while combining enterprises from a particular region and being of national significance (steel smelting in the South and molasses production in the North). Such trusts enjoyed economic independence, dealing with supplies, sales and credit. Within their own area, they were also bodies for economic regulation.

A diversity of forms of syndication was characteristic of the reconstruction period. Most important, however, was the development of actual syndicates or syndicate-type amalgamations that played a major role in the regulation of industry and exerted a considerable influence on the economic life in the country.

2. Organisational and Economic Links Between Syndicates and Trusts

The formation of the organisational and economic links between syndicates and trusts occupies a special place in the system of industry management in the period under consideration. An analysis of this process makes it possible to explain the nature of the links between production and sales activities of syndicated industry.

The syndicates dealt with a significant proportion of the sales of the industrial output of trusts (for some this reached 75 to 100 per cent). They were, therefore, able to influence the production and economic activities of trusts. However, their influence was mainly economic since the syndicates were deprived of any administrative rights in relation to the trusts. The fact that both the trusts and the syndicates had to develop their activities in the conditions of expanding market relations exerted a considerable influence on the nature and form of the relations that were taking shape.

Syndicate amalgamations were based mainly on the voluntary participation of trusts and enterprises. For all its positive aspects, the voluntary principle also had its drawbacks. The way syndicates were inclined to decide issues from their own selfish positions and the reluctance of individual participants to recognise the regulating role of the syndicate resulted in the relations between trusts and syndicates sometimes being entirely unsatisfactory.

The syndicates accused the trusts of competing against them, of failing to fulfil their obligations, of desire to gain additional revenues to the detriment of the amalgamation and so on. One of the clearest manifestations of the trusts' desire to compete against the syndicates on their markets was the way the trusts set up their own agencies in the areas covered by the amalgamation. In turn, the trusts accused the syndicates of trying to keep the most profitable markets for themselves. Hence the trusts' persistent demands for a review of the sales areas.

The financial relations between trusts and syndicates were not always satisfactory either. In 1923-1924, the trusts reproached the syndicates with delaying payment for goods delivered to them. Such reproaches were addressed to the Tobacco, Clothing and Oil syndicates. The trusts also expressed dissatisfaction over the different charges that they had to pay the syndicates. The salt industry trusts, for example, had to pay 2 per cent of the selling price of every kilo of salt to the Salt Syndicate. The trusts accused the syndicates of pursuing a policy of undermining the financial position of the trusts. The Moscow Clothing Trust, for example, accused the Clothing Syndicate of squeezing the trusts for funds to build up the syndicate's profits. The SEC had to intervene to dispel this prejudice on the part of the trusts.

In individual cases, the trusts went as far as abolishing the syndicates. As a result of their self-interest in their participation in the syndicates, the trusts left the amalgamations as soon as the need for such an organisation disappeared. This was particularly evident in the attitude of trusts to the Tobacco Syndicate, which was set up in May 1922, during the tobacco shortage. The trusts then saw amalgamation as the only possibility of continuing production. The syndicate was entrusted mainly with supply and procurement functions and only partially dealt with sales (of output that it received from the trusts in payment for raw materials). The syndicate dealt successfully with its tasks connected with the procurement of raw materials, but it only had to suggest an extension of its sales rights, for the trusts to immediately come out in opposition to it. The tobacco shortage passed and the trusts were not interested in the sales activities of the syndicate. In the summer of 1923, the tobacco trusts adopted a decision to eliminate the syndicate and distribute its property among themselves.

The disagreements between trusts and syndicates testified convincingly to the need for additional regulation of relations within the syndicate amalgamation. The charters, which were intended to regulate these relations,

sometimes proved to be less effective than expected. The right of free participation of trusts in amalgamations made the fulfilment of the charter terms dependent on the good will of the participant in the syndicate. Regulation of the relations within syndicates could either lead to a development of contractual relations, or to an increase in economic influence on the trusts.

One of the main methods of regulating relations within the syndicates was the development of contractual relations, and it was these that defined the actual obligations of the parties. The emergence and development of contractual relations between the syndicate and its members resulted from voluntary participation of trusts and independent enterprises in the syndicate amalgamations. Even when participation of trusts in syndicates was compulsory, however, the relations between the trusts and the syndicates could only develop on a voluntary basis.

The forms of contractual relations were not stable, but changed depending on the circumstances. They were influenced by the market situation, the production, trading and financial capacities of the trusts and the economic position of the syndicates. No doubt the SEC, the Council of Congresses of Industry, Trade and Transport, and congresses of individual industries greatly influenced the way contracts were concluded in the syndicates. These bodies determined the general lines and nature of contractual relations in syndicated industry and adopted decisions on individual issues concerning these contracts.

The relations between trusts and syndicates were initially placed mainly on a trading footing. The trust contracted with the syndicate to deliver to it part of its output at fixed prices. In the conditions of an acute shortage of circulating assets, this system was profitable for both the trusts and the syndicates, the latter having considerable circulating assets at their disposal. With seasonal fluctuations of selling prices, however, it was not profitable for the trusts to sell goods to the syndicate. By refusing to deliver the goods, the trust put the syndicate in a difficult position and the planning of the latter's replen-

ishment of commodity stocks was disrupted. During a period with a favourable market situation, the syndicate could end up without either the necessary commodity stocks or product range. This led to a slow-down in commodity circulation and to a delay in the flow of funds into the syndicates' coffers. The generous distribution of funds to the trusts, on the one hand, and their relatively weak inflow to the syndicate's accounts, on the other, had detrimental consequences. The flow of circulating assets to the syndicates dropped markedly and so the latter began to develop new forms of contractual links with trusts. It was a matter of finding forms that would, while helping to reduce the trading risks run by syndicates and to save their circulating assets from being dispersed, not be against the trusts' interests. The organisation of trade on commission was just such a form.

This idea was originated with the Textile Syndicate, which worked out a draft for a new contract with trusts in May 1922. At the basis of this contract lay the idea that the sale of output of trusts through the syndicate should be based mainly on commission. According to the conditions of the agreement, each of the participants was bound to hand over to the syndicate 15 to 20 per cent of its output on commission terms, although some trusts gave up to 75 per cent. In certain cases, the deductions paid to the syndicate were not defined as percentages of output, but were fixed in the contract as a specific quantity of the output to be sold. The trusts sold the output to the syndicates at ex-factory warehouse prices which were set according to an official syndicate price list, taking account of deviations existing at the moment the goods were sold to the syndicate. A 10 per cent discount was made on this price to cover the syndicate's outlays on selling the goods and to ensure it a commission. This commission was not stable, but depended on the market situation and the syndicate's organisation of sales. The syndicate was interested in reducing general overheads in order to obtain a higher commission. By agreement with the trusts, the syndicate had to present a monthly report on the

movement of commodities supplied to it on commission. The syndicate was obliged to pay the trusts immediately the goods were sold, and the trusts were given the right to choose the form of payment for the goods sold through the syndicate. This could either take the form of commodity exchange transactions or cash payments.

The practice of contractual relations soon spread to all of syndicated industry. Sales on commission practiced by syndicates did not, of course, play the same role everywhere, but differed from one syndicate to another, depending on the specific conditions of production or on the organisational forms of syndicates.

The Leather Syndicate, for example, based its sales activities on the same foundations as the Textile Combine did, but in concluding commission agreements, the syndicate granted extensive credit to its members. Even before the goods were delivered on commission, it gave the trusts an advance of up to 40 per cent of their value. These favourable credit conditions were in the interests of the members of the syndicate, and they readily agreed to sign commission contracts. The fact that the commission transactions were in their mutual interests, led to all the bank credit at the syndicate's disposal being granted to the trusts on very favourable conditions. Whereas for the Textile Combine, the timely selection of materials within a specific range was of the greatest significance and the quality did not worry it particularly, the Leather Syndicate, on the contrary, was particularly interested in improving the quality of products. The syndicate granted credit on better terms and signed more favourable sales contracts with those trusts that delivered better quality goods. Prices were also used to this end.

The transition from steady purchases to the system of commission sales was an important step in the development of the syndicate system. It was, on the whole, a successful attempt to apply economic levers to stimulate sales of industrial products through the syndicates.

Commission sales, however, were not the only way in which the output of syndicated industry was realised. The

syndicates also used guaranteed purchases, commodity exchange and so on, the share of the various forms varying according to the syndicate and being determined by such factors as the trusts' interest in the raw materials procure by the syndicates and in the subsidies provided by the syndicate on commission transactions. For example, in 1922-23, commission transactions with trusts constituted 75 per cent of the turnover of the Leather Syndicate, while it did not exceed 20 per cent in the Match Syndicate. An unusual situation emerged in the Native Tobacco Syndicate which in 1922-23 received 80 per cent of sold output from the liquidation of shares and payments for raw materials, and only 20 per cent on the basis of steady purchases and commission. What is more, the syndicate was sold twice as much as it received on commission. On the whole, however, in 1922-23, the commission trade of syndicates exceeded all the other forms of sales activity in syndicated industry.

The commission form of sales, however, could not become the only way in which the sales activities of state industry were organised, and the existence of other forms added confusion to the sales activities of syndicates and trusts. Control by inspection agencies, industrial amalgamations and the SEC was made more difficult. Moreover, the commission system limited the relations between the syndicate and the trusts to sales activities alone. The application of economic levers to influence the trusts was not sufficiently flexible, and this resulted in the trusts often evading their commitments.

Commission agreements, while establishing, usually, the size of deductions to the syndicate, did not specify quality requirements for output precisely enough. So long as the market was experiencing a commodity shortage, the syndicates, as a rule, put up with this situation. As the economy was rising to its feet again and the market became overflowed with goods, the question of the quality of output once more came to the fore. However, the existing practice of commission contracts far from furthered a successful solution. Syndicated industry could only improve the qual-

ity of output if it could provide standard raw materials, high-quality materials and semi-finished products. This, however, depended on the syndicate which procured the raw materials, ran auxiliary enterprises, carried out trade operations on the foreign market and concluded trading transactions with other syndicates and trusts. As a consequence, it was necessary to cover this field of economic activities of the syndicate with contract relations, but this did not fit into its commission agreements with trusts.

Under the circumstances, a transition was made to general agreements, which at the time meant both overall agreements, involving all participants in the syndicate, and contracts with individual trusts binding them to deliver all their output to the syndicate.

The idea of a general agreement originated with the syndicated industry in the summer of 1923, when the Clothing Syndicate suggested to its trusts that they conclude a general agreement on the sale of goods. The financial position of the syndicate did not permit it to take on the sale of all of the trusts' output, so it was a matter of giving the syndicate the right to sell not less than 80 per cent. According to the agreement, the products were to be delivered at minimal selling prices that were set by special estimates for individual groups and types of goods. These were made up from the cost of the material, wages, general overheads, an equalising tax and one per cent surcharge. General overheads were equal to 100 or 115 per cent of wages. The final payment on each statement of transfer of finished goods was to be made not later than three months after the statement was drawn up. At the end of this period, the syndicate was bound either to pay in full for the goods received from the trusts, or to pay for those which it accepted, and return unsold goods to the trusts. However, because of financial difficulties and a shortage of circulating assets, this reform was a failure.

The experience of the Prodasilikat (Silicate Sales Syndicate) is remarkable in this respect. In April 1924, it concluded a general agreement with the Ukrainian Porcelain

Trust, according to which the syndicate assumed responsibility for the sale of all the trust's output (porcelain, faience and glass). The agreement stipulated how the trust's output should be sold and the procedure according to which it should be paid for: 50 per cent of the output delivered by the trust was to be paid for at fixed prices, and 50 per cent at commission prices. The agreement also specified that the syndicate was bound to sell the goods within six weeks. It set the range of products and the areas in which the output was to be sold. The strengthening of the supervisory and regulating rights of the syndicate was an important feature of the agreement. Its supervisors were empowered to watch over production programme fulfilment at the trust's plants, over the quality of output and the distribution of goods by individual areas.

Apart from the two basic types of general agreement, there were also other types. In 1924, for example, the native tobacco industry went over to a system of general agreements. The assembly of commissioners of the Native Tobacco Syndicate obliged the syndicate to sell all the output of syndicated native tobacco enterprises. The syndicate had to conclude contracts not with the trusts, but with each enterprise individually and the selling prices had to depend on the market situation, but be not lower than the computed price. Almost half of the output produced by native tobacco factories was received by the syndicate in exchange for raw materials, and the rest was paid for on the basis of mutual agreement between the interested parties.

The general agreements played an important role in the organisation of sales in syndicated industry. They strengthened the planning factors in the relations between trusts and syndicates. As they were concluded for long periods and provided for the sale of almost all the output of syndicated industry, the general agreements helped in the planned organisation of trading relations among its members. This form also suited the trusts, as the syndicate was the main, and in some cases the only, sales inter-

mediary. This is why the trusts always took account of the syndicate's demands when drawing up their production programmes. At the same time, general agreements freed the trust from the numerous worries involved in selling the finished product. As a result, it could concentrate on running production at its enterprises and no longer required a sales apparatus of its own. The transfer of this apparatus to the syndicate meant that syndicates and trusts no longer competed on the market and much money was saved in the overheads involved in selling the output.

Alongside the consolidation of self-financing principles, the system of general agreements was of considerable significance for strengthening contract discipline within syndicated industry.

The transition to general agreements was an important step in the development of links within industry. Although, however, the general contracts helped bring production closer to the market, a gap still remained between the needs of the market and what was produced by industry. It was not a question of the quantity, but of the quality of the output and of the range of products meeting market demand. Work continued, therefore, to make the best use of the contract system which had acquitted itself so well, to bring industry into a still closer contact with the market. As an effective way of doing this, it was suggested in March 1924 that industry be transferred on to a system of orders.

This measure increased specialisation at individual enterprises. In April 1925, the assembly of commissioners of the Textile Syndicate adopted a decision to make a gradual transition to working with trusts on an order basis. The Textile Syndicate approached this task extremely cautiously. Talks were held with individual trusts throughout the summer months in order to prepare the base for the transition to the system of orders. It was only in September 1925 that agreement was reached with the Ivanovo-Voznesensk Cotton Trust which pledged to hand over all its output to the syndicate. This agreement was

the first real step towards a transition to a new form of relations within syndicates.

The organisation of the Textile Syndicate's sales by preliminary orders was based, on the one hand, on strict centralisation of the distribution of orders among trusts and, on the other, on drawing in local syndicate branches on a wide scale into determining the range of products to be put up on the market and the necessary quantities of goods to be delivered. Study of the syndicate's order began in its local branches, in each of which special assemblies were held. Both the commodity experts of the branches and representatives of local trading organisations (local traders' agencies, consumer co-operatives and so on) took part in the work of these assemblies. The recommendation worked out by the assembly formed the basis of the quarterly request of the branch. These requests were sent to the Product Range Bureau of the syndicate where they were grouped and co-ordinated with the production programmes of the trusts. In collaboration with the trusts, the bureau established the range of fabrics to be produced for the quarter. Moreover, in accordance with its quarterly plan, the syndicate distributed orders among the trusts, defining the group of fabrics, the grade, quantity, delivery area and the time for fulfilling the order.

A somewhat different version of the order system was implemented in the Urals Mining Syndicate. Until the autumn of 1924, all orders from its offices were sent to the syndicate's board and it was the board that distributed them among the trusts. This concentration of orders in the central office, however, held back the development of initiative in the syndicate's local offices. So, in 1924-25, the way in which orders were distributed was changed. At the beginning of the year, a certain fund was allocated to each of the local offices and, within the limits of this fund, they could place the orders among the trusts. The output received on these orders was sold by the office itself. Of course, decentralisation of the placing of orders, although partial, made it more difficult to

consolidate planning principles in Soviet industry and reduced the opportunities for the syndicate to exert its influence on production. On the other hand, however, the extension of the offices' rights made it possible to take more account of the local market and the possibilities of local industry. In the conditions prevailing during the reconstruction period, when the problem of industry's links with the market became particularly acute, both forms of the order system justified themselves. However, the first version embodied the socialist principles of management more fully (combination of local initiative with the general interests of the syndicate, the strengthening of planning in the relations between producers and sellers and so on).

Agreements also spread to other aspects of the work of trusts. The agreements between the Salt Syndicate and its trusts, for example, gave the latter the right to exercise control over the activities of the regional offices of the syndicate in those areas where the trusts' output was sold. This gave the trusts the opportunity to make sure that the syndicate agencies fulfilled all their commitments to the trust.

Contractual relations played an important role in putting links within the syndicates in order, but they in no way prevented disagreement arising among trusts and syndicates let alone friction between the individual members of the syndicate. A procedure had to be developed for solving arguments within the syndicate.

The syndicate and its individual members only had the right to defend their interests in court in relation to third parties. Misunderstandings within the syndicate were solved by arbitration, that is, the case was passed up to the syndicate's guiding bodies or through the appropriate SEC agencies, by administrative order. The charter of the Urals Mining Syndicate stated that, along with other tasks, the syndicate set as its goal "obligatory arbitration in the affairs of members of the syndicate among themselves". In the majority of cases, disagreements between participants of the syndicate were considered by the syndicate board,

the auditing commission and by the general assembly of commissioners of the syndicate.

The syndicates exerted an economic influence on the trusts, that was particularly strong during the initial syndication period, when the trusts were in particular need of circulating assets. One of the main problems during the syndicates' first year of existence was to form statutory capital on time but the trusts did not always contribute entry fees as they should have done. The syndicates had to resort to more decisive measures: the most incorrigible debtors were expelled from the syndicate; indebtedness in connection with entry fees and shares was paid off by holding back money due to the members of the syndicate for goods received from them.

There was competition among the participants in an amalgamation. This was manifested mainly by intrusions across the boundaries of their specific sales areas. In order to compel the trusts to adhere to the boundaries of the markets allotted to them, the syndicates resorted to sanctions against violators.

The syndicates had to devote considerable effort to strengthening discipline among their members. There were no instances of trusts being brought to court for violating the syndicate's charter. The free participation of trusts in syndicate amalgamations virtually excluded this possibility, but the syndicates often faced a situation when trusts, dissatisfied with something or other, left the syndicate. This was not in the state's interests and, in such cases, economic influence was usually applied. The trust that had left the syndicate soon came up against difficulties over raw materials, credit, circulating assets and so on.

In exceptional cases, the syndicates decided to expel trusts that violated their charters, which is exactly what the Native Tobacco Syndicate did, when it expelled its Ukrainian Native Tobacco Syndicate for causing the syndicate considerable losses by pursuing its own independent procurement policy and refusing to pay off its arrears. In accordance with the syndicate charters only a general assembly of the commissioners of the amalgamation was

empowered to expel a trust. Trusts that left syndicates voluntarily or those that were expelled, however, were unable to function for long outside the syndicate. This is why, after some time, they either returned to the syndicate or established contractual relations with it outside the framework of the syndicate system. The Ukrainian Agricultural Machinery Trust that left the Agricultural Machinery Syndicate was re-admitted after a mere two months. The reason for this was that the trust could only sell 35 per cent of its output on the local market and it did not have the strength to compete with the syndicate on the markets of the Russian Federation. It was consequently forced to re-establish contacts with the syndicate in order to sell the other 65 per cent of its output on the national market.

The reconstruction period was an important stage in the formation of relations between trusts and syndicates, a stage in the evolution of relations within the syndicate. Whereas when syndicates were formed, contractual relations between trusts and syndicates were based on purely trading principles, by the end of the reconstruction period the planning foundations in their relations had increased markedly. Using mainly economic influence, the SEC and the syndicates managed to raise the discipline of trusts entering syndicates and this led to an organisational consolidation of the syndicates and to the development of relations between them that complied with the requirements of the period of industry modernisation.

3. The Main Aspects of the SEC Policy on Syndicates

The syndication of state industry was constantly at the centre of attention of the SEC. However, the forms its participation took in guiding this process were constantly developing.

In 1922-1923, the SEC confined itself basically to regulating the process of industry syndication by approv-

ing syndicate charters, sorting out individual points of dispute between trusts and syndicates, offering them material assistance and developing syndicate legislation. Considering the syndicates as voluntary unions, the SEC took no active part in directing their actual economic activities.

In 1922-1923 this approach to the problems of syndication was to some extent justified. One of the main conditions necessary for the ruined industry to advance was to establish rational economic relations both by industry and by area. To this end, not only the actual situation that had taken shape in the economy had to be used, but also the existing traditions. It was easier for the trusts and individual enterprises to solve this problem than for the SEC, which was cut off from actual production. This, however, meant that the syndicates became almost independent of the SEC. They pursued an independent trade and procurement policy, regulated their own relations with their members, obtained and handed out credit. One of the manifestations of this independence was the sharp rise in prices of manufactured goods. With the relatively low prices for agricultural produce, this meant a break in the market ties between town and country, and this conflicted with the very idea of the New Economic Policy. In this way, the SEC's policy of granting syndicates total independence, in the final analysis, proved inconsistent.

This is why, in the second half of 1923, the attitude towards syndicates took a sharp turn and it was decided that each syndicate should be reviewed in order to decide whether it should be retained.

In order to do this, in July 1923, a special commission was set up within the SEC (USSR) to survey syndicates. The commission was to decide two issues: whether or not the syndicate was an artificial form of amalgamation that, having eliminated competition, held back the natural selection of the most viable enterprises; and whether or not the syndicate threatened the interests of the consumer by its monopoly position on the market. The survey programme covered all aspects of the syndicates' activities: their organisational structure, financial position, trade and procure-

ment activities, production and influence on the work of the trusts.

On the basis of the results of the commission's work, a number of syndicates were abolished and the activities of others were curtailed.

All-round discussion of the fate of syndicates at meetings of the SEC (USSR) Presidium, and its commissions studying the operation of syndicates, in the Council of Syndicates, in the Council of Congresses of Industry and Trade and at various assemblies confirmed the need to retain syndicates in state industry. In the conditions that prevailed during the first years of NEP, it would have been virtually impossible to regulate the sales activities of industry without syndicates, and, consequently, both to control the market for industrial output and to organise the procurement of raw materials. Because of the lack of circulating assets, the trusts proved to be incapable of extending the network of their outlets in the provinces. By engaging in sales, the trusts diverted their funds from production, thus making the reconstruction of industry and of the economy as a whole more difficult. This is why the majority of trusts came out in favour of retaining the syndicates.

Recognition of the need for syndicates to be retained resulted in a change in the SEC's attitude towards syndicates. In 1924-1925, the task was set of turning syndicates into the main regulating centres for individual branches of industry and retaining their operational and trading functions. The SEC's syndicate policy was now aimed at syndicating all state industry, consolidating syndicates organisationally, clearly distinguishing between the functions of trusts (production amalgamations) and syndicates (supply and sales amalgamations), at establishing closer ties between the trade and production activities of industry and at strengthening the regulating role of the syndicates.

It became important to define the principles for the organisational construction of syndicates. Those principles that had governed syndication of industry under capitalism were unacceptable. On the basis of the revolutionary

transformation of the country, and experience already accumulated, the principles that should govern syndication in the new socio-economic conditions had to be worked out. This involved time-consuming work by the SEC in conjunction with the syndicates, trusts, big enterprises, social organisations in industry, transport and trade, and trade unions. Many important principles concerning syndication were formulated in the Party's guiding documents.

One of the major aspects of syndication was the participation of private capital in syndicates. They were set up when private capital was enjoying a certain revival and, in connection with the New Economic Policy, the illusion appeared in bourgeois circles that capitalism might be restored. Former entrepreneurs saw NEP as a sign of weakness on the part of the Soviet authorities and they, therefore, tried to revive the idea of capitalist syndicates. In these conditions, the SEC correctly assessed the class nature of these attempts on the part of the bourgeoisie and came out strongly against the formation of capitalist syndicates. The SEC's position on this is made clear by the action it took in connection with the formation of the Amalgamation of State Industrial Enterprises on lease in Petrograd and the Petrograd Gubernia.

At the end of 1921, a group of Petrograd entrepreneurs asked the SEC for permission to organise this amalgamation and approve its charter. Archives show that this amalgamation was already practically in existence and had a temporary board that required *de jure* recognition. The board's memorandum emphasises that in the economic conditions that had developed a lessee could do either nothing or very little on his own to solve the problems facing him. The draft charter submitted by the board showed that the amalgamation did not affect the economic independence of its members, but was only concerned with regulating the relations between private capital and the state, the consumers, the suppliers of raw materials and fuel, and the workers.

Guided by formal considerations, the Lease Bureau of the Petrograd Economic Council supported the formation

of this amalgamation, but the SEC took a different view. Correctly assessing this action on the part of private capital as an attempt to strengthen the economic and social might of the lessees, it came out against the creation of a capitalist syndicate. Its conclusions on this issue stressed that the amalgamation of entrepreneurs might easily, in the conditions of economic ruin and speculation, develop only negative tendencies to disorganise the economy. To strengthen the social might of the entrepreneurs was at that time the least likely way of establishing a healthy atmosphere in industry. The creation of this sort of amalgamation would strengthen the entrepreneurs' position in relation to the workers.

This conclusion reflected the general attitude of the SEC towards the possibility and permissibility of capitalist syndicates being set up.

The question of whether private capital should be permitted within Soviet syndicates was decided somewhat differently. At first, the SEC did not object to private capital participating in these syndicates, and the syndicate charters approved in 1922-1923 included a point that private enterprises might join the syndicate with permission from the SEC Presidium. Private enterprises were to be guided by the same rules as were state enterprises on entering the syndicate. Private capital could also take an indirect part in syndicates by buying shares in mixed joint-stock companies. Since the principal share-holder of such a company was the state, in this case private capital did not play an independent role in the syndicates.

In 1924-1925, however, when the speculative role of private capital became patently clear, the SEC broke off all relations with private capital within the syndicate system. In the final draft of the Statute of State Syndicates worked out by a special SEC commission, the composition of the syndicate was very clearly defined. Only state industrial and trading enterprises operating on self-financing principles, and joint-stock companies dominated by state capital could become members. As a consequence, by

the end of the reconstruction period, all access for private capital into Soviet syndicates had been cut off.

Another point of principle in the organisation of syndicates was the demand that amalgamations should cover enterprises engaging in the same sort of production within a specific branch of industry.

At the beginning of syndication, the SEC was faced with having to decide what exactly a syndicate should be: a narrowly specialised amalgamation or one with a broad range of functions. There were no firm views on this at first, and the SEC advocated narrowly specialised syndicates. This is why the first projects for syndication in the textile industry intended to put an economic centre at the head of a group of trusts for each type of fibre to unite the trading and supplies departments of trusts. It was proposed that three types of centre should be set up: syndicates specialising in cotton, wool and linen. This, in fact, meant the creation of three syndicates according to types of fibre, and in this case the Council of Syndicates would be no more than a convention of syndicates. When, however, the textile trusts came out in support of a single textile trust, the SEC suggested that not only the textile industry but also the clothing industry be united within a single syndicate, i.e., that a super-powerful syndicate be set up. This idea was not implemented, however.

Neither the formation of narrowly specialised syndicates nor that of super-large amalgamations complied with the objective conditions for syndication of industry. Narrow specialisation of syndicates would have led to the material and financial resources in industry being fragmented and would have meant the formation of multiple centres, thus weakening the sales, procurement and supply activities of the amalgamations. Super-large amalgamations would also have been harmful, however, as this would have meant that the syndicate paid less attention to individual industries and lost sight of the production needs of trusts and enterprises. Both approaches would have held back the reconstruction of state industry.

By the end of the reconstruction period, with whole

industries pursuing a unified economic and technical policy, the question arose of the need for larger syndicates. The country was on the threshold of industrialisation and it was urgent for such a policy to be implemented. The increase in the size of syndicates was facilitated by such factors as the high degree to which industrial production had been restored and the experience accumulated by the SEC in syndication. The policy was implemented by syndicates embracing non-syndicated state industry, by merging the existing ones and by the sales functions and trade apparatus of the trusts being handed over to them. Over the short period from October 1, 1923 to August 1, 1925, the number of members of syndicates increased by 25 per cent, which testifies clearly to the fact that syndication was gaining momentum. At the same time, however, it is evidence that syndicates were growing in size. There were instances when related syndicates merged. At the end of 1925, the Fats and Butter syndicates merged into a single syndicate. The South Steel Syndicate serves as an example of an increase in the scale of syndicates by transferring the sales functions and trade apparatus of the trusts. In the autumn of 1925, the syndicate renounced its sales functions and switched over entirely to metal production. This decision was explained by the fact that, with the metal shortage, the SEC virtually distributed metal through specialised sales organisations. In these conditions, the South Steel Syndicate could not sell metal and it was not profitable for it to maintain a large trading apparatus. Moreover, the syndicate's production interests persistently dictated that funds be transferred from trade to production. This is why the syndicate handed over its warehouses and outlets to the Metal Syndicate of the Central Area.

In the course of syndication, the SEC came up against the fairly difficult question of the forms of participation by state trusts and enterprises in syndicates. The methods inherent in a capitalist economy were fundamentally unacceptable in the Soviet economy. Amalgamation could not be effected by strong enterprises swallowing up weak ones,

or by buying up shares on the stock exchange, by making use of the industrial enterprises' dependence on the banks. In the socialist economy during the reconstruction period, three forms of syndication were possible:

1. Voluntary participation of trusts and independent enterprises;
2. Compulsory syndication; and
3. A form of amalgamation in which participation was voluntary for some members and compulsory for others.

The SEC made use of all these methods, but varied the balance between them at different stages of syndication. When it first started forming syndicates, the SEC adhered to the first two methods of participation, sometimes giving preference to compulsion. With the issue of the April 10, 1923 Decree on trusts, the situation took a sharp turn. The decree permitted participation in syndicates and left the SEC the right of sanction. The trusts did not fail to make use of the possibilities presented to them by the decree, and in the spring and summer of 1923, a wide-spread revision was made of relations within syndicates, in favour of trusts. With the exception of Oil Syndicate,¹ virtually all amalgamations based on compulsory participation were abolished. The voluntary principle became dominant in the formation of syndicates. The failure of compulsory syndication was no chance: the SEC did not succeed in combining trusts into syndicates by purely administrative methods because, as the Twelfth Congress of the Communist Party stated in its resolution "On Industry", "the compulsory nature of syndication should have been prepared economically and commercially justified".²

During the first years of NEP, voluntary participation by trusts in syndicates must be considered as having been,

¹ The specific features of the oil industry, connected with the tanker fleet, which could not be divided up among trusts, and the strictly distributive nature of the amalgamation made it impossible either to abolish or to re-organise the Oil Syndicate.

² *The CPSU in the Resolutions and Decisions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 2, 1970, p. 419 (in Russian).

in general, of great economic expedience. It allowed trusts to choose a form for organising their procurements and sales that most closely corresponded to their interests, and created favourable conditions for enterprises within syndicates to stand up for their rights and interests. This compelled the syndicate to pay closer attention to claims made by its members.

One of the ways in which the syndication of industry was stimulated was giving the syndicates material assistance from the state when they formed. The SEC provided goods, raw material stocks and monetary funds to the syndicates.

The scale of material assistance fluctuated in individual syndicates depending on the significance of the industry and its actual position. This assistance took different forms: sometimes materials and money were given to enterprises as long-term loans (as was the case with the Leather Syndicate, to which the SEC gave the materials and money of the former chief committee as long-term loans), and in other cases, no repayment was required (the SEC gave the Tobacco Syndicate all tobacco stocks seized during the war without requiring compensation).

Along with these, other forms of material assistance were used. In the first place, this was SEC participation in syndicates, in which the SEC made large contributions. For example, the SEC held shares worth a million rubles in the Silicate Syndicate and 880,000 rubles in the Fishing Syndicate. The SEC usually paid for its shares with raw and other materials and commodities which the syndicate urgently required. Another important action by the SEC in this field was strengthening the syndicates' material and monetary funds by merging syndicates and other sales amalgamations.

An important way of speeding up the syndication of industry was the SEC's method of distributing state orders. All state orders had to be fulfilled by the syndicates and only as an exception through other channels. The syndicates then distributed these orders among their members: in proportion to their production capacity and at the dis-

cretion of the board and assembly of the syndicate's commissioners. Finding great difficulty in selling their output, trusts and enterprises were interested in a guaranteed market and they strove to obtain state orders for themselves. Since these orders were only distributed through the syndicates, trusts and independent enterprises were compelled, in search for the market, to join syndicates.

Credit and tax relief given to syndicates were of fundamental significance. Notably, state subsidies and credits were distributed through the syndicates, loans and raw materials procurement were centralised in them and they enjoyed advantages over non-syndicated industry in the payment of excise duty. A longer period for paying excise duty meant that the syndicate's money could stay in circulation longer. Moreover, since the excise duty was established in depreciating state bank-notes, the syndicate made big gains on the difference in their exchange value.

Certain branches of industry, including, for example, the textile, leather and printing industries, were to be provided with imported materials, but not even the trusts, let alone individual enterprises, had the right to enter the foreign market. Only syndicates were empowered to do this. Import credit was also concentrated in syndicates. As a consequence, trusts and enterprises that required imported products were again compelled to join syndicates.

Without resorting to administrative methods of influence, the SEC succeeded in building up syndicate organisations in almost all branches of industry.

However, voluntary participation in syndicates by trusts and enterprises had harmful consequences as well. The right to freely enter or leave syndicates meant that, although the skeleton of the syndicate was usually preserved, it was nonetheless constantly shifting. New participants in syndicates were, as a rule, small trusts and individual enterprises.

Moreover, this right did not help strengthen discipline among the members of the syndicate, who did exactly what was profitable for them and refused to do anything that was against their interests. This upset contractual dis-

cipline and economic links within syndicates. The general position of syndicates was weakened as a result.

In 1924, the attitude of the SEC (USSR) towards the voluntary participation of trusts and enterprises in syndicates began to change, as the positive aspects of voluntary participation had already been exhausted, while the negative consequences became increasingly evident in the autumn of 1923 crisis. Another reason was new trends in syndication. Syndicates were now regarded not as the sales apparatus of trusts, but as an important component in the management system for state industry. For this reason, the attitude of the Union SEC to the formation of syndicates became the same as if it were yet another state organisation. It gave up indirect influence on the syndication of industry in favour of direct participation in the formation of syndicates. Administrative methods began to be used more widely, ruling out the voluntary principle.

This transition did not take place immediately, however. At first, mixed participation in syndicates was practised. In February 1924, for example, on considering the relations between the Salt Syndicate and salt trusts, the SEC (USSR) Presidium adopted a decision that the five major trusts were to join the syndicate, while the other trusts were allowed to continue voluntary relations with the syndicate, as before. In the autumn of 1924, the Fishing Syndicate was set up by a CPC resolution and the number of its participants was decided by the Council of People's Commissars, i.e., the voluntary principle was abandoned for good.

The syndicates were set up mainly as sales organisations for state industry. For an understanding of the syndication policy, the attitude of the SEC towards the concept of industrial sales is important. Up to 1925, it was considered that the sales activities of industry could develop in different forms — from large-scale wholesale to retail — and in 1923-1925, in the pursuit of buyers, the syndicates developed retail trade.

The development of retail trade allowed the syndicates to somewhat alleviate the difficulties they were experienc-

ing over sales and to receive additional money, which they urgently needed. The spread of syndicate-backed retail trade was furthered by factors such as the relative weakness of state trade and the prejudice of certain Soviet managers against co-operatives. On the other hand, however, the involvement in retail trade diverted the syndicates from the main tasks involved in syndication, led to a rise in trade expenditure and diverted funds from production. With the spread of syndicate retail trade, competition increased among state trading organisations and between them and co-operatives. In order to eliminate these undesirable aspects and divert money back into production, the attitude towards syndicates' retail trade had to be revised.

At the end of 1924, the SEC came out against syndicate retail trade as it considered that neither the syndicates nor any other sales organisations for state industry should, as a rule, engage in retail trade. The All-Union Conference of SEC agencies held in December 1924 recognised that retail trade in state industry was inadmissible in principle.

The SEC intended to rely on the co-operative sales apparatus. This position corresponded to the Party's general line on co-operative construction. Lenin's work "On Co-operation" and the decisions of the Fourteenth Conference stressed that co-operation was the socio-economic form of link between the state economy and small commodity producers in villages. Co-operation gave the state the opportunity to establish control and regulate both small-scale agricultural production and commodity turnover in the country. The resolutions of the Fourteenth Party Conference stated that, considering the consumer co-operative as "the main, basic link in the commodity chain, state industry must sell its output primarily through the consumer co-operatives, using private capital only where the co-operatives are unable to serve all the commodity turnover."¹

¹ *The CPSU in the Resolutions and Decisions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 3, 1970, p. 200 (in Russian).

The handing-over of state industry output sales mainly to co-operatives presented the SEC with the problem of adjusting their relations. In June 1925, the Policy Department of the Union SEC published a report entitled "The Relations Between State Industry and Co-operatives", which indicated that these relations should have a contractual basis, on the condition of mutual commercial benefit.

An important role was played in the regulation of these relations by the Resolution of the Co-operative Conference of the Central Committee of the Communist Party held in August 1925. This resolution noted that the upswing in the national economy of the USSR made it both possible and necessary to increase the role of co-operatives in the sale of industrial output. It said that the consumer co-operative should, therefore, be considered as the main agent of state industry facilitating the movement of its goods on to the open market, particularly in the countryside. The resolution stated in this connection that, in order to increase the role of the consumer co-operatives, they were to be granted preferential rights in receiving industrial goods. The question was also brought up of trusts and syndicates gradually increasing the role of co-operatives in selling state industrial articles and in procuring agricultural produce.

An agreement was concluded between the SEC and Centrosoyus on the relations between state industry and consumer co-operatives. It was intended to consolidate co-operatives as a unified system, to increase their role in supplying the broad masses of the population with commodities and to cut overhead costs. In accordance with this agreement, the SEC took over supplying all consumer co-operatives with the industrial goods they needed, while the consumer co-operatives undertook to cut overheads further, reduce outlays on the apparatus and trade mark-ups in all its components. All relations between state industry and consumer co-operatives were to be on a contractual basis.

The transfer of retail trade to consumer co-operatives did not mean a cut-back in the sales of state industry. On

the contrary, as reconstruction gained momentum sales activities expanded. This is why, right from the beginning of the syndication of industry, one of the most pressing problems was to regulate sales and create special bodies for this purpose.

In 1922, within the Central Supply Administration (CSA) a specialised board was set up to regulate trade; it dealt with trade policy, the economics of internal trade, accounting of trade turnover and control over the activities of SEC sales organisations. The aim predetermined the organisational structure of the new board. It had a trade policy department which was to work out principles for state trade policy, issue documents on the regulation of commodity turnover and help trade to develop to the maximum. It also had to deal with credit and tax problems in industry, economics of internal trade, questions of transport and the state foreign-trade policy. The board was made up of an accounts department (accounting of trade operations, registration of demand and supply, and price analysis) and an inspection department to ensure that state interests were promoted in trade.

While it played an important role in working out the principles to guide the development of trade policy, the board, however, was unable to fulfil its regulating functions to the extent required in the extremely difficult economic situation in the country. Its work proved to be significantly removed from the urgent problems of state industry sales. The board was unable to establish the necessary control over the trading activities of syndicates. The difficulties that arose in selling industrial output in 1922 and the autumn of 1923, in particular, made it patently clear that it would be impossible to ensure a rapid advance of state industry without sales being properly organised first.

This is why, in 1924, regulation of sales was once again at the centre of attention of the SEC. The turning point in the relations between the SEC and the syndicates was the March 5, 1924 sitting of the SEC (USSR) Pre-

sidium. A decision was taken that the SEC should have closer contact with its trade apparatus. Since no special agency existed within the SEC to direct the syndicates, the SEC (USSR) Presidium recognised the need to organise a Trade Commission to make sure that syndicates and other SEC trade institutions fulfilled the Government's resolutions on the regulation of trade, to work out measures to reduce overheads, to reduce the role of intermediaries, wherever possible, and to determine whether the use of private capital was expedient or not.

The work of the SEC Trade Commission developed mainly as discussion of the main issues concerning the syndicates. In this sense, it was of great significance in providing a precise definition of the various aspects of the SEC's policy on syndicates. In the day-to-day regulation of the sales activities of state industry, the role of the Trade Commission was, however, quite small, but it was in this sphere that active intervention was required from the SEC. In order to strengthen its leading role in the organisation of syndicates, constant and effective control had to be established over the activities of the syndicates. With this goal in mind, in the spring of 1925, the Trade Policy and Price Department of the State Economic Administration was reorganised and a special subdepartment to deal with syndicates was set up. The nature of the department's work also changed: it was transformed from a department for consultation and regulation into an agency for the day-to-day guidance of the activities of syndicates.

The syndicate's subdepartment was charged with reviewing the trade, finance and current plans, estimates, reports and balance-sheets of syndicates, and with changing their fixed capital and circulating assets, working out measures to regulate the market for syndicated industry, guiding the boards of syndicates on trade and finance, and organisational issues, and resolving conflicts between syndicates and their members. When questions concerning syndicates were outside the jurisdiction of the Trade Policy and Price Department, they were resolved in other

subdivisions of the SEC central apparatus, but with the obligatory participation of representatives from the syndicate's subdepartment. In order to give the Trade Policy Department the opportunity to carry out regular supervision over the day-to-day activities of the syndicates, the SEC (USSR) Presidium approved the programme for working accounts of syndicates.

While consolidating its position in directing the sales activities of state industry, at the same time the SEC pursued a policy of strengthening the regulating role of syndicates on the market where raw materials and industrial goods were sold. In November 1925, it was decided that syndicates and trusts of country-wide significance should be made responsible for the general state of the market for the output of syndicates, particularly in areas where they were the main sources of commodity supply.

The SEC policy of strengthening the role of syndicates in organising the sales and supplies activities of state industry was also manifested in its attempts to hand over all the sales operations of trusts exclusively to syndicates.

During the reconstruction period, the SEC pursued a policy of gradually transforming syndicates into planning and regulating agencies. It began with the metal industry, for a number of reasons. On the one hand, the existence of two syndicates and the South Steel Trust with the functions of a syndicate in this industry brought up the question of setting up a co-ordinating centre. On the other hand, the metal industry was more dependent on state orders and monetary subsidies than other industries.

In February 1923, a constituent assembly of the metal industry convention was held, organised by the Chief Metal Committee of the SEC. It included the Urals Metal Syndicate, the Metal Syndicate of the Central Region and the South Steel Trust. Later the need arose to expand the convention to include metal trusts and individual large enterprises. In 1924-1925, the convention was faced with

the task of bringing the sales activities of syndicated industry into closer contact with production.

The convention of metal syndicates helped reduce the competition among trusts and brought the selling prices of metal and metal wares closer to their prime cost. The results of the convention's work were assessed highly.

The SEC did not, however, extend its initiative beyond the metal industry and only at the end of the reconstruction period did it return to the idea of turning syndicates into the SEC planning and regulating bodies. The departure from the voluntary principle and the formation of syndicates according to the usual administrative procedure created additional preconditions for completing the set tasks. It was a matter of reviving the council of syndicates, but not as a representative body of syndicated industry, but as a SEC agency for regulating the sales and procurement activities of state industry. At the same time, the question was raised of setting up a peripheral apparatus of the council of syndicates in all major centres, which would allow the council to observe the state of the market, and grain and raw material procurements everywhere.

The conference of representatives from syndicates that was convoked in December 1925 to discuss the organisation of the council of syndicates gave its unanimous support to the proposal that a special commission be set up to work out a statute of the council of syndicates. At the same time, preparations began for establishing peripheral branches of the Council.

The problem of regulating sales and supplies in state industry was solved by the SEC in yet another way. The relations between syndicates and also between syndicated industry and its contractors (non-syndicated enterprises and trusts, co-operatives and so on) had to be regulated by introducing and improving forms of contract.

During the War Communism period, industry adapted to the way the Soviet state made distributions, but with the transition to NEP, the situation changed fundamentally. Enterprises were taken off the list of state supplies and

transferred on to the self-supporting basis. This meant that new forms of economic relations developed between enterprises. State industry transferred from distributive principles of supply and sales to contractual relations. At first, the enterprises and amalgamations transferred on to the self-supporting principle adhered to contracts that differed little from those used in the private sector. The almost total freedom they were granted in establishing economic links meant that, in their pursuit of circulating assets, they were governed in their relations with contractors by profit considerations only.

This economic freedom, however, conflicted with the planned nature of the Soviet economy. The sharp rise in prices in 1922-1923 under the pretext of achieving "rehabilitation prices" in industry, and the increasingly fierce competition on the markets of the Central region, while the outlying areas received few industrial goods, were the warning signs that could not but alarm the SEC. These harmful factors could only be eliminated by strengthening the planning basis of the relations between state industry and its contractors. The objective need to enhance the role of planning in the organisation of supplies and sales in state industry was reflected in the attempts by the SEC to resolve this issue by improving day-to-day planning, introducing a system of general agreements and strengthening contractual discipline.

The quarterly plans for deliveries compiled by syndicates were of considerable significance for the supplies and sales of state industry. They made it possible to regulate the sales and material and technical supplies of trusts and enterprises to a considerable extent. There were, however, serious drawbacks in the system of quarterly delivery plans: the plans were drawn up only a short time before the beginning of the planning period; they did not always take account of the requests and possibilities of the subordinate branches, and they did not adjust the sales programmes with the plans for raw materials and foodstuffs procurements. These factors

reduced the efficiency of the quarterly planning of deliveries.

In November 1925, the SEC (USSR) Presidium turned the attention of syndicates to these shortcomings and, in its letter to the boards of syndicates, it outlined a number of measures for improving the planning of syndicates' sales. In particular, it raised the question of working out a general approach to the planning of sales. The letter stressed that each syndicate should draw up its delivery plans independently, taking account of the conditions in the given branch of industry. The SEC (USSR) Presidium defined the different aspects of delivery plans more clearly, indicating that they should reflect the expected output, the saturation level of the market with local products, the suggested list of contractors and relations with them, the adjustment of the capacity of the syndicate's branches with their grain and raw materials procurement plans and so on.

In order to improve planning in the supplies and sales of state industry, the SEC concluded general agreements. The goal of the agreement was not only to protect the contractors, but also to ensure planned co-ordination of their supplies and sales. It established the general conditions for sale, fixed prices, and defined the procedure for the supply of goods. General agreements were concluded for one or two years. State industry thus went over from transactions to long-term agreements. General agreements were concluded between different syndicates, syndicates and trusts, and syndicates and Centrosoyus.

Whereas in the first years of NEP, the contracts covered individual enterprises and trusts, with the transition to general agreements, long-term relations spread to whole industries. General agreements were the basis for trade agreements to be concluded among the lower components of the contracting parties. These agreements clearly defined the range and quantity of goods, the conditions for payment and the place of delivery, and established the responsibility of the parties for non-fulfilment of the obligations they assumed.

One of the most widely used means of regulating the sales of state industry during the reconstruction period was the distribution of markets among the sellers, a practice that made it possible to obviate harmful competition among trusts, to supply the domestic market more evenly with industrial goods and take more account of local needs. At the same time, however, this practice led to the trust being established in a monopoly position on the given market and this reduced its incentive to improve the quality of industrial output and cut costs. On the other hand, as they were linked with a market of a definite capacity, the trusts could not increase their volume of production, even if they had the necessary technical and material resources. By the end of the reconstruction period, when it became vitally important to increase production, improve quality and cut costs, the expediency introducing the new system of sales on a wider scale became obvious. In 1925, therefore, the question was raised of radically revising the methods used for regulating the sales of state industry.

The SEC rejected the proposal that a way out of the situation should be sought by increasing competition among trusts, as all trusts would then have devoted their efforts to conquering the central market, while less profitable sales on the periphery (high transportation costs, increased turnover time and so on) would have been completely disrupted. Moreover, the experience of the second half of 1924 and the beginning of 1925 showed that free competition among trusts and their pursuit of customers brought about increased debts in state industry and a sharp rise in bills returned under protest.

The idea of centralising sales in syndicates became current among managers; it was supported by the SEC. The concentration of all sales in syndicates permitted the entire trading apparatus of the trusts to be placed under their jurisdiction and this meant it would be used more rationally and that the overheads in state industry would be cut. The increasing scale of sales operations furthered an improvement in the quality of industrial output, wider

standardisation of production and a stronger control over enterprises. One of the most important aspects of the SEC policy on syndicates was its attempt to co-ordinate the trading activities of amalgamations with the main production tasks of state industry. This problem could not be solved in a short-run campaign: it took the entire reconstruction period.

In the first NEP years, when the sales problem was particularly acute and the trusts were commercially helpless, the SEC had to concentrate on organising the sales of industrial products. This could not but find reflection in the SEC policy on syndication, and the charters of syndicates speak much about trading relations within the amalgamation, but almost nothing about the part played by syndicates in organising the production activities of state industry. Having made the syndicates almost purely trading bodies, the SEC implemented its idea of combining sales activities within state industry too. It was clear, however, that this one-sided approach to syndicates was short-lived, as the successful development of syndicate trade depended to a large extent on the establishment of close links with production. This was an indispensable condition, without which it would have been impossible to improve the quality of output, expand the product range, cut the production costs. The experience of 1922 and 1923 showed that the separation of syndicates from their production base and the unnecessary pre-occupation with trade had unpleasant consequences, primarily for the syndicates themselves which, after the severe crisis at the end of 1923 and the beginning of 1924, were on the point of being abolished. This crisis could only be overcome by bringing the syndicates closer to industrial production.

This need was first stressed by the Twelfth Party Congress in April 1923, when it pointed out in its resolution that "the great functional independence of trusts and individual enterprises, the more flexible functioning of syndicates and the general situation in our industry necessitate greater collaboration between purely pro-

duction activities and purely commercial ones". Without predetermining the organisational forms for this collaboration, however, the congress emphasised the fact that "systematic study of experience accumulated in this sphere and the development of practical methods for collaboration between industry and trade is an urgent task that can only be solved by constant co-ordination of the efforts of the SEC, the People's Commissariat for Foreign Trade and the People's Commissariat for Internal Trade, and by active participation of Gosplan under the general supervision of the Council of Labour and Defence".¹

The process in which the trade and production activities of state industry were brought into closer contact developed intensively at the end of 1924, when the SEC of the USSR began to deal with these issues. An important role was played by the All-Union Conference of SEC agencies held in December 1924. This conference considered using the syndicates to raise labour productivity in industry and to cut retail prices. In fact, this meant determining the range of products, limiting the quantity of types of industrial goods produced, standardising raw materials and output, reducing overheads and so on.

The syndicates did not, however, embrace all state industry. A large number of small and medium-size industrial enterprises and almost all local industry was outside the syndicate system and, consequently, the SEC could not exert overall supervision of all state industry through the syndicates. In the first two years of economic rehabilitation, there was no need to organise special agencies for supervising whole industries. Reconstruction involved, primarily, syndicated enterprises. Thus, with the syndicates, the existence of directorates and departments within the Central Administration of State Industry (CASI) and the Chief Economic Administration (CEA)

¹ *The CPSU in the Resolutions and Decisions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 2, p. 420.

fully satisfied the country's needs in the overall regulation of industry. As the rate of reconstruction increased and the number of operating enterprises rose, it became increasingly difficult to manage industry with the help of the existing organisational structure. Moreover, trade was being increasingly concentrated in the syndicates, while the trusts that joined them reverted to being purely production amalgamations. In these conditions, neither the syndicates nor the existing SEC departments could ensure a unified economic and technical policy within individual branches of industry. The former were in no position to do this because their activities did not cover the whole of their respective industries (with the exception of the Oil Syndicate), and nor were the latter, because their functions were so specialised (the CASI dealt with operation and technical problems, and the CEA, with planning and economic policy). In the middle of the reconstruction period, the need arose to set up a body that would be able to co-ordinate the production and trading activities of a particular industry.

In 1924, it was the standing conferences that became these bodies. These were formed either under the CEA of the USSR Supreme Economic Council or under the Economic Administration of the RSFSR Supreme Economic Council. Thus, by the end of the reconstruction period, there were standing conferences for the leather, chemical, silicate and construction industries in the CEA. Under the Economic Administration of the SEC (RSFSR), a standing conference was formed for the clothing industry. These conferences dealt with the development problems of the industry (the preparation of drafts for SEC resolutions concerning the industry, the drawing-up of production and raw materials procurement plans, the development of programmes for finance and concentration of production). They also dealt with co-ordinating the regulating functions of the corresponding syndicate or convention. Different bodies grew up in other branches of industry with similar goals and functions to those of the standing conferences (for example, in the oil industry this

body was the Council of the Oil Industry). For all their diversity, the standing conferences had certain common features. First, they united both syndicated and non-syndicated state industry within the given branch. Second, by the nature of their activities, they were regulating agencies. Third, one of their main lines of activity was to solve the scientific and technical problems of industry.

It soon became clear, however, that there were drawbacks in the organisation of standing conferences. In some branches of industry, other institutions functioned alongside the standing conferences, dealing almost with the same problems. The absence of one single planning and regulating centre prevented the standing conferences from fulfilling the tasks set before them, and so the SEC (USSR) began to set up committees. In August 1925, the SEC (USSR) Presidium adopted a resolution to set up a chemical committee under the CEA and to transfer the chemical and glass-making sections of the CEA department for the organisation of industry under its jurisdiction. In October 1925, the CEA board decided to form a silk bureau under the SEC (USSR) before setting up an All-Union Silk Committee. The bureau was to be guided by CEA directives in its practical activities.

By expanding the scale of syndication and strengthening the syndicates organisationally and economically, the SEC, at the same time, facilitated the transformation of the syndicates into branch agencies for regulating state industry. Having extended the limits of their sales and procurement activities, the syndicates were able to exert a greater influence on the production activities of trusts and independent enterprises. In this way, by the end of the reconstruction period, co-ordination of the sales and production activities of state industry was achieved through committees and bureaus being set up under the SEC (USSR) and through organisational and economic consolidation of syndicates.

The transition to the New Economic Policy, the transfer of enterprises on to the self-supporting basis and their

withdrawal from the state supply list once again raised the question of organising raw materials procurement. The procurement system that had been employed during the Civil War and foreign intervention had to make way for other forms and methods of procurement more consistent with the new conditions of economic development. This meant a certain decentralisation of procurement in state industry and a change in the methods by which procurements were made. Having been provided with circulating assets, the enterprise had to supply itself with raw and other materials and fuel. This solution to the problem of organising procurements played a certain role in reviving industry, but this practice was not justified in all industries. Whereas the leather, soap and silicate enterprises could restore production on the basis of local raw materials, the cotton and cloth enterprises were situated a long way from their sources of raw materials and it would have been both expensive and inefficient for them to set up their own procurement agencies. Besides, this practice led to the fragmentation of funds, which undermined the financial basis of the enterprise. It detracted attention from production and triggered unnecessary competition between procurement agencies on the market.

With the formation of trusts in industry, changes took place in this sphere, but even with the existence of trusts, a need was felt for special procurement organisations. It was burdensome for the trusts to deal directly with the producers of raw materials, and the SEC was compelled to organise special raw material societies. Thus, the SEC's attempt to satisfy the demands of state industry for imported equipment and materials could only be made if independent procurements were organised for exported raw materials. With this end in view, an export and procurement office was set up under the SEC's Central Trade Organisation.

The next step in the centralisation of procurements was made when syndicates were formed. Some syndicates dealt predominantly with procurements (the Tobacco, Match and other syndicates). At the end of the reconstruc-

tion period, a tendency emerged to turn such syndicates into raw material societies. On the basis of the abolished Tobacco Syndicate, for example, a joint-stock society, Tobacco Raw Materials, was created, and something similar happened in the match industry. Although the Match Syndicate had been reconstituted by the end of 1924, it was deprived of its sales functions and differed little from a raw materials society. Initially, the syndicates supplied only their own members with raw materials, but later, the SEC (USSR) charged them with procuring raw materials both for syndicated and non-syndicated industry (although not all syndicates were in position to do this).

It was an important task for the SEC to draw the co-operatives into the procurement of industrial raw materials. Even before the Revolution, the consumer co-operatives were engaged not only in sales, but also in the procurement of agricultural raw materials (leather, bristle, flax, tobacco, and so on). The co-operatives had considerable experience in procurement and the appropriate apparatus, but the methods used by the state during the Civil War and foreign intervention to procure materials (state monopoly in leather, tobacco and native tobacco materials, surplus food requisitioning and direct commodity exchange) resulted in the consumer co-operatives being almost completely cut off from the procurement of industrial raw materials. With the transition to NEP, the SEC began drawing the consumer co-operatives into procurement of such raw materials as flax, tobacco and leather, relying almost completely on the procurement agencies of the consumer co-operatives in areas where the state apparatus was either weak or non-existent.

An important role was played in drawing co-operatives into the procurement of agricultural raw materials for industry by a resolution of the co-operative conference, approved by the Central Committee of the Communist Party in July 1925. This document drew attention to the need to involve co-operatives into procuring agricultural produce on a wider scale. It raised the question of what concrete forms the relations between state industry and

co-operatives should take. On this point, the resolution stated that the work of state industry and agricultural co-operatives on procurement of raw materials and grain must be based on contracts. These were to be mutually advantageous and make sure that obligations of both sides were fulfilled, so that the co-operatives supplied state organisations (trusts, syndicates and organised local industry) with raw materials and grain first, and according to their participation in the general procurements of the given material or grain. The decision of the co-operative conference stated that, in areas where potato co-operatives were strong enough financially and economically to deal with the procurement of potatoes, potato procurements should be made exclusively through the co-operatives. This resolution was the foundation for the further work of the SEC in organising agricultural procurements for industry. To help implement this resolution of the co-operative conference, the SEC gave its assistance in establishing contractual relations between the syndicates and Centrosoyus and other co-operative organisations in the joint procurement of agricultural raw materials.

By transferring procurement from individual enterprises to trusts, and then to syndicates, the SEC pursued a consistent policy of centralising material procurements. The growing scale of the procurement campaign called for an expansion of the procurement apparatus, which, in turn, necessitated additional outlays. In drawing the co-operatives into this work on a wide scale, the SEC made this task considerably easier and could divert some state industry funds from procurements to production, which was in keeping with the state's general industrial policy.

In centralising procurements of agricultural raw materials, the SEC came out against procurement functions being transferred to local economic authorities. In handing these functions over to the syndicates, the SEC gave the procurement bodies a specialised nature within a given field of production. In the textile industry, for example, there were specialised procurement agencies for each type of fibre—the wool, cotton and flax. In the tobacco in-

dustry, the procurement of raw materials was concentrated in the Tobacco Raw Materials Joint-Stock Society. In other branches of industry, it was the syndicates themselves that procured materials (the Leather Syndicate, for example). Relations between syndicates and their procurement agencies were based on contracts.

The existence of a number of procurement agencies necessitated co-ordination of their activities and, to this end, in May 1924, a raw materials commission was set up. The work of this commission was to find out industry's requirements of raw materials and co-ordinate the interests of industry with imports and exports.

Another important aspect of the SEC's work was developing new procurement methods. With the abolition of the food-requisitioning system and the state monopoly on individual types of raw materials, the field of compulsory procurements contracted sharply. Some materials continued to reach state industry as tax in kind in the form of compulsory quotas, but they made up an insignificant proportion of what was required, and, from 1923 onwards, taxes began to be levied not in kind, but in cash. This meant that the state had virtually renounced compulsory procurements. In these conditions, a major role in procurements was to be played by economic incentives.

From the end of 1921, the Supreme Economic Council adhered to a contractual system, that made it possible both to stimulate the advance of productive forces in agriculture and, to a certain degree, to guarantee that raw materials reached state industry. The combination of these factors predominated in the SEC policy on agricultural procurements. The producers themselves also had an interest in contracts with state industry, for these gave them significant economic privileges. Namely, advances were granted to them on future harvest, consumer goods were sold at below market price, the peasants were supplied with seed and so on.

When considering the foundation on which the SEC procurement policy was based, the problem of procurement prices must be examined. The essence of this problem

consisted in determining the costing components. A solution was made difficult by the fact that procurement prices had to be calculated in a disrupted economy and monetary system. Not only the usual price-formation components had to be taken into account, but also the specific factors characteristic of the first years of the reconstruction period (depreciation of bank-notes, the introduction of an arbitrary exchange rate for the ruble by the People's Commissariat for Finance, the deterioration in credit conditions and so on). Underestimation of these factors was extremely detrimental to procurement work. In December 1921, for example, the PCF set a price of 18 gold rubles per pood (16 kg) of cotton, on the basis of pre-war prices and current prices on the Liverpool market. However, no account was taken of factors such as the arbitrary ruble exchange rate, credit conditions and the like. As a result, the actual price of cotton did not exceed six rubles a pood, and the Chief Cotton Committee received 17 million rubles less from industry in 1922. Later, however, the Chief Cotton Committee achieved a rise in the real price of cotton to 10.8 golden rubles a pood from the trusts, but even then, it was getting only half the price set by the PCF. This did little, of course, to assist the procurement work of the SEC.

The SEC was faced with the task of determining its general approach to the problem of price formation in the conditions of the first NEP years. It held the view that when prices were computed, production costs should be taken into account together with a certain income to be derived by the raw material producer, for only in that case would he have an interest in the production and sale of raw materials to state procurement agencies. In turn, the latter sold the materials at the procurement price plus overheads to maintain their staff.

The form of payment for raw materials procured is of interest. On the one hand, the transition to NEP meant a growth in commodity-money relations and there seemed to be no doubt about the form of payment. On the other hand, however, the period was unique in that the transi-

tion to commodity-money relations took place under a commodity shortage and depreciation of the Soviet ruble. This made cash payment undesirable for the materials producer, and so the All-Russia Central Executive Committee's resolution of August 18, 1921 permitted payment for goods not only in cash, but also by any other equivalent (such as grain). In 1921-1922, the SEC adhered to this practice, but from the beginning of 1922, a clear trend was observed in procurements away from commodity exchange, in favour of cash payments. The first step in this direction was made in cotton procurements.

Supply and sales in state industry could only be organised successfully if qualified specialists were available in adequate numbers, and at first the SEC and the syndicates relied mainly on personnel trained before the Revolution. However, specialists were needed who understood the goals and tasks of the economic policy of the Soviet state and were able to implement it. For this reason, the SEC organised the training of new trade personnel: courses were set up for Soviet trade officials, both at business clubs and within the SEC framework. All economic institutions were given the right to send their workers to these courses. Moreover, trade workers were trained to work abroad at special courses set up under the People's Commissariat for Foreign Affairs.

4. Syndicates Within the Management System for State Industry During the Reconstruction Period

During the reconstruction period, syndicates held an extremely important place in the management system for state industry. In the first 18 months, the syndicates combined 189 of the 360 trusts then in existence, or 50 per cent of the enterprises and 79 per cent of the labour force of all trusts. Later, the percentage of state industry integrated within the syndicates rose even further.

Table 1 shows the growth of syndicated industry (in the syndicates' share of output as a percentage of the overall output of the given industry).

Table 1

Industry	1923/24	1924/25	1925/26
Textile	34.6	39.5	64.6
Metal	20.5	27.7	33.7
Oil	98.2	98.9	99.0
Leather	49.8	49.3	54.4
Silicate	33.8	33.0	42.4
Fishing	—	45.8	74.0
Salt	68.0	74.6	92.4
Animal fats	11.0	20.0	40.0
Match	—	—	11.9
Native tobacco	13.2	31.8	37.0
Starch and molasses	—	72.0	81.0

For the majority of syndicates, their main activity was selling the output of syndicated enterprises, that is, the sale of industrial output on the domestic market and participation of syndicates in export and import operations. Their work on organising sales of industrial output on the domestic market was of particularly great significance. During the period from 1923-24 to 1925-26, the syndicates' turnover on the domestic market increased from 897.2 to 2,793.2 million rubles, or more than three-fold. Syndicates such as the All-Union Textile Syndicate, the Urals Metal Syndicate, the Oil Syndicate and the All-Union Leather Syndicate had particularly large turnovers. In 1925 and 1926, their share of the total turnover of syndicates in the sale of industrial output on the domestic market was 55.1 per cent.

Table 2

Agency	1923/24	1924/25	1925/26
State organisations	45.6	42.2	38.9
Co-operatives	36.4	44.4	51.4
Private	18.0	13.4	9.7
Total	100.0	100.0	100.0

The operations of syndicates on the domestic market involved both wholesale and retail turnover, but the former was of greater significance (93 per cent of the total).

The distribution of these wholesale operations according to type of agency is of some interest (in per cent, see Table 2 on p. 226).

These data show two trends in the sales activities of syndicates. On the one hand, there was a constant fall in the share of private capital in the turnover of syndicates on the domestic market (from 1923/24 to 1925/26, it almost halved), and, on the other hand, there was an intensive increase in the role of the co-operatives. In 1925/26, their share of the turnover of syndicates on the domestic market was already more than half. The co-operatives became the syndicates' main contractors, which was fully in line with the policy of the SEC (USSR) of handing over retail sales of the output of syndicated industry to the co-operatives.

We have discussed the relations between syndicates and co-operatives in connection with the main aspects of the SEC policy towards syndicates. Up to 1925, these relations were regulated mainly by normal commercial transactions, but one-time trading agreements were not in keeping with the Party's policy directed towards strengthening the planning principles in the Soviet economy. From the end of 1925, therefore, the transition began to a new procedure in the relations between syndicated industry and Centrosoyus by abandoning one-time transactions in favour of long-term agreements.

The first steps in this direction were made at the beginning of the industry syndication period. In October 1922, the Sugar Trust and, in March 1923, the Salt Syndicate concluded contracts with Centrosoyus to sell a part of their output through it. However, the syndicates sold only an insignificant proportion of their output through the co-operatives.

After the sales crisis in the autumn of 1923, both the syndicates and Centrosoyus cooled towards long-term agreements, for two main reasons: industry considered

that the co-operatives did not have sufficient capacity to bring their output to the peasant market, while the co-operatives accused the syndicates of failure to supply them regularly with the goods covered by the contracts. Shirking long-term agreements with Centrosoyus, however, the syndicates sought at the same time to expand their contacts with the middle (on the gubernia level) and lower links in the consumer co-operative chain. This was profitable for the lower links, because it eliminated the expensive mediation of Centrosoyus. It also suited the syndicates, as it speeded up the delivery of industrial output to the market in the outlying areas.

Centrosoyus came out strongly against this practice, for it was regarded as a disrupting factor in co-operative commodity turnover, that weakened its position as the guiding centre for consumer co-operatives. As far as the syndicates were concerned, they held different views on this. Some defended their right to sell their output through the co-operatives (the Match Syndicate, for example), while others believed that it would be more expedient to make commercial transactions with Centrosoyus (the Tobacco Syndicate and the Sugar Trust). Still others used both methods to sell their output (the Salt Syndicate).

In 1925, in connection with the beginning of the modernisation period of the national economy and the improvement of planning within it, the question of the ramified consumer co-operative apparatus taking a more active part in organising the sales of industrial output on the domestic market became most pressing. Both the SEC and Centrosoyus tried to find a solution by making more use of the system of general agreements. In 1925/26, the share of general agreements with co-operatives in the turnover of syndicates on the domestic market was 27.5 per cent, and 45.6 per cent in the sales of syndicates through the co-operative system. General agreements became an important form of trading links developing between syndicates and co-operatives.

The relations of local trading organisations with syndicates had contradictory elements. The syndicates

catered for national and republican industry, while the local trading organisations, gubernia and district industry. In a number of cases, however, the local trading organisations competed with the syndicates for domination of the domestic market. According to the nature of their activities, the local trading organisations could only be multi-purpose organisations, in consequence of which their overheads rose. On this basis, the syndicates considered the existence of local trading organisations to be economically and organisationally unjustified.

The SEC, however, had to take account of the fact that the position of the local trading organisations in the country's commodity turnover proved to be stable, although their number had dropped markedly by the end of the reconstruction period—their turnover grew rapidly. Whereas in 1923/24, the turnover of the local trading organisations constituted 15.3 per cent of the national commodity turnover, in 1924/25 it rose to 16.3 per cent. In 1924, their commodity turnover was only 18 per cent less than that of the syndicates. The question, therefore, arose of the relations between syndicates and local trading organisations, and it was first studied in January 1924. The syndicates' claims to a monopoly in representing the interests of state industry in supplies and sales were rejected. Both the syndicates and the local trading organisations had to participate in the state trading system. After this, the local trading organisations came to be seen as agencies for medium-size wholesale trade and local procurement, while all other supplies and procurement operations were handed over to the syndicates.

The syndicates played an important role in restoring the economic links of the Soviet state with other countries. The majority of syndicates engaged in extensive operations connected with the purchase of raw and other materials and the sale of the finished output of trusts and enterprises on the foreign market. The fact that the syndicates operated on the foreign market can be explained by industry's acute need for imported raw and other

materials and machinery; the lack of special state export and import organisations, and by the failure of the trusts in their operations outside their own country. Because of this, the need arose to concentrate export and import operations within individual branches of industry in the hands of the syndicates.

According to their charters the syndicates could engage in foreign-trade operations, but they did this in conformity with the principles of the state's monopoly in foreign trade. The import and export operations of syndicates were regulated by the resolutions of October 16, 1922 (the All-Russia Central Executive Committee) and April 12, 1923 (the USSR Central Executive Committee).

The foreign-trade activities of the syndicates were organised in various ways. At the start, special purchasing agencies were set up, in which the syndicates took part. This organisational form for imports was supposed to allow the foreign currency and commodity exchange resources at the disposal of the given industry to be concentrated in the hands of a single authority, a single purchasing policy to be pursued and foreign-trade overheads to be cut. This was the case in the textile industry. In 1922, a bureau for the purchase of cotton abroad was instituted, which included cotton trusts and the Chief Cotton Committee, as well as the Textile Syndicate. It was, however, the syndicate that was called on to play the leading role in this bureau. Of the two million poods of cotton to be purchased, two-thirds were intended for the Textile Syndicate and one-third for the Cotton Committee. The predominance of the syndicate in the organisation of the imports for the cotton industry was also reflected in the composition of the bureau's managerial body. The management board was formed on the basis of one representative from each of the syndicate, the Cotton Committee and the trusts. This did not, however, prove a success, as it turned out that the trusts were unable to find the necessary foreign currency. The bureau had to turn to the State Bank for loans and credit. Since these financial operations took place through the

Textile Syndicate, its significance as the leader in foreign trade operation grew even more. In January 1923, the syndicate alone was given the right to make purchases and have its offices abroad and a special cotton department was set up within it to deal with all the bureau's purchases of cotton abroad.

This measure was taken on principle. Whereas in 1921/22, the SEC willingly allowed the trusts to engage in imports, beginning in 1923, they were only permitted to do so in exceptional cases (these were big trusts embracing whole industries and virtually fulfilling the functions of a syndicate such as the Sugar Trust, the Rubber Trust and the Tea Board). The vast majority of trusts, trading organisations and other supplies and sales organisations for state industry were divested of this right. They could only receive one-time permits from the People's Commissariat for Foreign Trade to make purchases of needed goods on the foreign market. State industry was represented abroad essentially by the syndicates.

This situation remained unchanged until the beginning of 1925, when the People's Commissariat for Foreign Trade (PCFT) began to take all export and import into its own hands. The first step in this direction was the establishment of mixed joint-stock societies, in which the syndicates and the PCFT took part. In February 1925, an agreement was signed between the Leather Syndicate and the PCFT on creating a co-operative partnership for foreign trade. The next step was the setting-up of special export and import associations under the PCFT. This policy was confirmed in decision of the plenary Session of the Party's Central Committee in October 1925.

At first, the syndicates used the foreign market to overcome the shortage of raw materials in industry. At the same time, they purchased dye-stuffs, chemicals, spare-parts for engines and machine-tools which were absolutely essential for the development of production. However, the country's limited foreign currency resources confronted the syndicates with the export problem. The Textile,

Match and Leather syndicates began to accept finished goods from their contractors in exchange for imported raw and other materials. At the same time, the syndicates, while handling the exports and imports for state industry, took over supplying imported materials not only to syndicated trusts and enterprises, but also to factories and plants outside the syndicate system. The syndicates represented all of their respective industries on the foreign market, their position as regulating agencies for industry being strengthened as a result.

The extensive dealings of the syndicates on the foreign market and their increasing trade dictated that a permanent trading office be opened abroad. The periodic trips abroad made by purchasing commissions were no longer able to satisfy the needs of state industry, which required a permanent trade mission. Accordingly, the syndicates opened their foreign branches, missions and offices, and had their own agencies. Export and import departments were set up within the syndicates to supervise the network of export and import institutions.

The participation of the syndicates in trading on the foreign market was under the control of the SEC, the PCFT and the People's Commissariat for Finance. The SEC decided which goods were to be obtained on the foreign market. The PCFT granted the syndicates the appropriate licences to carry out these operations and the PCF allocated the foreign currency needed. This procedure helped keep all the foreign-trade operations of syndicates under state control.

An important place in the syndicates' work was occupied by organisation of material and technical supplies to syndicated trusts and enterprises. In the last years of the reconstruction period the largest syndicates (Textile, Leather and Silicate) started to supply non-syndicated industry with materials and machinery, i.e., material and technical supply for the whole of state industry was in the hands of the syndicates. The leading positions in supply were held by the Textile Syndicate, the Leather

Syndicate and the Urals Timber Syndicate, and their share of the total turnover of all syndicates in the supply of industry in 1925-26 was 98.5 per cent.

The main part of the work connected with the organisation of material and technical supply involved procurement of raw materials. Initially, the syndicates regulated mainly the procurement activities of trusts by distributing the regions for raw material procurement among them. The Textile Syndicate was an exception in that. Right from the start, it engaged directly in extensive procurement operations. However, the acute shortage of materials of vegetable or animal origin in the summer of 1922 forced the syndicates to give up regulating the procurements of trusts and organise their own procurements. At first, they did not rely completely on their own apparatus, but procured raw materials on the basis of contracts with organised contractors (such as the People's Commissariat for Foodstuffs, Centrosoyus and others) or through intermediaries from among former private procurement agents. The existing branches of the syndicates dealt only with receiving materials from procurement agents and classifying them.

However, the inability of the majority of trusts to control raw materials markets, particularly distant markets (those for raw hides in Kazakhstan, Kirghizia and Siberia, for example); the wide-spread participation of new agencies in procurement activities; the fierce competition among procurement agencies, engendering a rise in the prices of raw materials, all these factors necessitated a revision of the syndicates' policy on procurement. In 1923-24, the syndicates greatly intensified their procurement work, most of them setting up their own procurement agencies. Some syndicates, however, stopped, completely or partially, independent procurement of raw materials on the domestic market. The Textile Syndicate, for example, handed over all its cotton procurement operations on the domestic market to the Cotton Combine; wool procurement, to the Wool joint-stock company, the share-holders of which were the Textile Syndicate and

the cloth trusts; and flax procurement, to the trusts and enterprises themselves. The Textile Syndicate concentrated on procuring raw materials abroad. At the end of the reconstruction period, the Textile Syndicate returned to procuring flax through the ramified procurement network of the co-operatives and state trading organisations, rather than through its own apparatus.

In trying to strengthen the raw material base of industry, the syndicates showed great concern not only about increasing the quantity of materials obtained, but also improving their quality. The syndicates and raw material associations took various credit, agrotechnical and organisational measures to increase the production of industrial crops. To this end, they financed the scientific and experimental institutions of the People's Commissariats for Education and Agriculture, which worked on the syndicates' orders. The syndicates and raw material associations strove to disseminate the achievements in the selection of seeds and raising of new breeds, and new cultivation techniques among the industrial crop producers. They supplied the producers with high-quality seeds from their own seed-growing nurseries. In some instances, the procurement agencies for state industry themselves undertook mechanised cultivation of the fields of raw materials producers (the Cotton Committee and the Sugar Trust). The Native Tobacco and Tobacco syndicates ran their own experimental centres that did considerable work among the raw materials producers, demonstrating to them the most advanced methods for cultivating tobacco. In their attempts to increase production of industrial crops, the syndicates resorted to direct commodity exchange and loans in kind to producers. To this end, the SEC allocated special funds to the syndicates and raw materials associations. A fund was set up for restoring tobacco production in the Crimea and the Caucasus. The Tobacco Syndicate used this fund to provide high-quality tobacco seeds on loan to those interested, and also to buy flour with which to pay the tobacco producers.

The syndicates and raw materials associations took measures to advance the productive forces of those branches of agriculture that provided state industry with raw materials of animal origin. At the end of 1925, with the active participation of the Textile Syndicate, the wool joint-stock society and all the wool-processing trusts, a sheep-breeding joint-stock society was instituted. Individual syndicates organised mineral extraction themselves. At the end of 1925, for example, the Silicate Syndicate developed mineral deposits (clays, sand and lime) in eight areas, and the volume of this production increased more than tenfold from 1922 to 1925.

Of great significance in the organisation of supplies of raw materials to state industry was a correct grading and pricing to these materials.

All these measures led to the syndicates and raw materials associations becoming the main procurement agencies of raw materials for corresponding branches of industry at the end of the reconstruction period.

The syndicates did not, however, deal with the procurement of raw materials alone; they also supplied trusts and enterprises with production equipment and materials. Wherever the volume of this work was significant, the syndicates set up special technical offices. At the beginning of 1923, a technical office was set up within the Textile Syndicate. An attempt was made to combine the work of enterprises which were supplying the textile industry with spare parts, materials and factory-made tools by concluding contracts between the Chief Administration of the Defence Industry and trusts. Since at the beginning of NEP, state industry could not always satisfy timely the demands of the technical offices, the latter were compelled to use products in heavy demand manufactured by handicraftsmen.

In dealing with supplies and sales, and having concentrated a significant share of credits in their own hands, the syndicates exerted a strong and all-round influence on syndicated industry and on the trusts' activities. As they received most of the output of the trusts for sale, the

syndicates specified the quantity, quality and outward appearance of the products. To a significant extent, this was achieved by improving the contracts between syndicates and trusts. Whereas the 1922-24 contracts established a percentage deduction from the trusts' output in favour of the syndicates and delivery conditions, in 1925 a new trend appeared. The adoption of a system of orders within the syndicate made it possible to include a larger number of indicators in the contract (general appearance of the product, quantity, quality, colouring, design, price and so on). By setting out its demands in the contracts and orders, the syndicate influenced the production activities of the trusts and enterprises.

To these ends, the CLD and SEC policy of standardising output was implemented. Standardisation, which was a major technical and economic achievement, promoted specialisation of production, helped raise labour productivity and cut the prime costs of industrial goods. By establishing standards and limiting the diversity of industrial goods, the syndicates regulated the production activities of the trusts in the right direction.

Product range bureaus and commissions were set up under the syndicates, and their duties included determining the required range of products and their quality, and advertising new articles. In order that the trusts might have an interest in producing new goods, the syndicates paid higher prices for them.

The syndicates played an important role in organising new production. In some cases, they financed the construction of enterprises (the Leather Syndicate), in others, they gave advice to factories on mechanisation and rationalisation of production (the Match Syndicate).

In this way, by the end of the reconstruction period, the syndicates exerted a considerable influence on production in syndicated industry, having become an important link in its organisational structure.

5. The Evolution of the Syndicate System in the Period of Industry Modernisation

The syndicates, set up as sales, supply and procurement amalgamations for state industry, continued to play this role in the period from 1926 to 1928. The syndication of state industry developed in that period as new syndicates were being set up and the old ones taking fuller control over the sales activities of industry.

In addition to the syndicates, conventions were established that operated on the basis of syndicate-type agreements. In the summer of 1927, a plywood convention was formed to regulate the prices of plywood, introduce it into production (coach-building, cement packaging and the like) and stimulate exports. A year later, a convention emerged in the confectionery industry that amalgamated a number of trusts and independent enterprises (in Moscow, Leningrad, Kharkov, Odessa, Kiev and so on). The main task of this convention was to distribute raw materials more evenly among the trusts and enterprises concerned and to neutralise the privileged position of large trusts on the raw materials market. At the end of 1928, a convention of state construction organisations was formed to provide its members with equal opportunities on the construction materials market.

During these years, changes took place in the way syndicates were organised. Whereas during the reconstruction period, the syndicates were based on voluntary agreement between trusts, in 1926 and 1927, they were set up by administrative orders from the SEC and the CLD of the USSR. The trusts did not usually object to this and, in a number of cases, came up with the idea of syndication themselves. But, all the same, the procedure for forming syndicates changed. The policy that emerged at the end of the reconstruction period continued to be pursued in 1926 and 1927. In the first period, however, deviation from the voluntary principle was considered as an exception from the general rule, while in 1926 and 1927, all syndicates were set up on direct orders from the SEC

and the CLD of the USSR, although the voluntary principle had not been formally abolished. For example, the Statute of State Syndicates adopted by the Central Executive Committee and the Council of People's Commissars of the USSR on February 29, 1928, confirmed the voluntary principle concerning the participation of trusts in syndicates. It provided for compulsory syndication only in exceptional cases, by resolution of the CLD of the USSR (when it was a matter of amalgamating trusts of all-Union or local importance, but situated in different Union republics), or the Economic Council of the Union republic (if trusts of local importance situated within the republic were amalgamated). In 1926 and 1927, the principles governing the formation of syndicates, therefore, differed sharply from those that had been laid down in the Model Charter of Syndicates of March 26, 1925. The new procedure was more in keeping with the economic conditions of the period, when it had been decided to give more attention to the economy.

The change in the procedure for forming syndicates meant that, whereas in the reconstruction period the syndicates strove to gradually increase their role in the sale of the output of syndicated industry, those set up in 1926 and 1927 immediately ensured themselves the predominant role in these sales. For example, the All-Union Metal Syndicate in the first year of its existence, concentrated in its own hands 96.7 per cent of the sales of ferrous metals, the Canning Syndicate, 71.5 per cent of the output of the industry and so on. The high degree of concentration of sales in the syndicates from the moment when they were formed was the second characteristic feature of syndication in 1926 and 1927.

From 1926 to 1928, the role of the syndicates in the sales of the industrial output of syndicated industry increased sharply. With only a small number of trusts and independent enterprises, usually of local significance, staying outside syndicates, the desire of the syndicates to monopolise the sales of industrial output in branches under their jurisdiction in practice meant the transfer to

them of all the sales of state industry output. In 1927/28, the syndicates accounted for 82.3 per cent of the sales of state industry and in 1928/29, for 90.6 per cent. What is more, individual syndicates almost totally monopolised sales of output within the bounds of a single branch of industry. In 1927/28, for example, the Metal Syndicate dealt with the sale of all ferrous metals. Eight amalgamations (for starch, oil, salt, canning, state fisheries, matches, textile and leather) were close to taking full control of sales within their own industries, their share in sales exceeding 90 per cent. The share of five other syndicates (for native tobacco, silicate, timber, paper and chemicals) fluctuated from 64 to 73 per cent.

In 1928/29, syndication was carried on at a rapid pace.

The high degree of syndication led to an increase in the organisational and economic activities of the syndicates, and this was reflected primarily in the growth of their turnover in all operations (sales, procurement, supplies, exports and imports). For the period 1923/24 to 1927/28, the syndicates' turnover for all forms of supplies and sales increased almost 5.5 times, having risen to 6.7 million rubles in the last year.

The sale of industrial output on the domestic market always occupied a dominating position in the turnover of the syndicates, its share increasing from 72.1 to 80.5 per cent between 1923/24 and 1927/28. For certain syndicates it was of even greater significance: in 1927/28, for example, turnover on the domestic market constituted 98.9 per cent for the Salt Syndicate. This all testifies to the fact that selling the output of state industry was the major component in the activities of the syndicates.

The organisation of material and technical supply also occupied a significant place in the work of the syndicates. Their turnover for this form of supplies was constantly on the increase, although its share in the overall turnover of all syndicates fell somewhat. In 1923/24, the overall volume of material and technical supply operations undertaken by the syndicates amounted to 303.6 million rubles, or 24.4 per cent of all turnover, while in 1927/28, it had

increased by 250 per cent to 1,093.3 million rubles, but its share had dropped to 16.3 per cent.

The activities of the syndicates on the domestic market consisted of broad wholesale operations and retail sale of industrial goods. From 1923/24 to 1927/28, the absolute volume of wholesale operations of all syndicates increased by 520 per cent, and of retail turnover by almost 200 per cent. The syndicates mainly undertook wholesale operations among themselves, and with state organisations and co-operatives. In 1925/26 these operations accounted for 90.3 per cent and in 1927/28, 98.3 per cent. In the same period, the turnover of private capital dropped from 9.7 per cent to 1.7 per cent. This was a consequence of the drop in the share of private capital in industry by the beginning of industrialisation and the consolidation of the socialist sector in the economy as a whole.

The group of state organisations included people's commissariats (for communications, agriculture and others), municipal bodies and industrial amalgamations, and their share of the total wholesale turnover of the syndicate system was almost 50 per cent. This testifies to the fact that the syndicates devoted considerable attention to satisfying the demands of the public sector of the economy.

In 1925/26, domestic industrial consumption constituted 26.5 per cent of the sales of syndicates, and in 1926/27, 28.1 per cent, but the syndicates did not carry out their operations all in the same way. They can be divided into two groups as regards the character of operations. Some syndicates sold their output primarily on the personal consumption market. These included above all, the textile, leather and fishing syndicates operating in industries which produced consumer goods. The other group of syndicates mainly sold their output within industry itself. In 1926/27, for example, 97.5 per cent of the coke and benzene industry, 95.8 per cent of the aniline industry, 95.2 per cent of the wood chemicals industry and 91.1 per cent of the hemp industry went for consumption within industry itself.

The co-operatives were also major partners of the syndicates. Whereas in 1923/24 the share of co-operatives in the turnover of the syndicates was 36.4 per cent, in 1927/28 it had increased to 54.2 per cent. In fact, the consumer co-operatives were the syndicates' main partners on the consumer market.

The relations between syndicates and consumer co-operatives were built on a contractual basis, with contracts usually concluded for a year, covering the main groups of products and establishing supply terms and the way of payment. These were called general agreements. The volume of operations carried out on their basis was constantly on the increase. Whereas in 1925/26, the average figure for 12 syndicates was 45.6 per cent, in 1927/28 it was 76.9 per cent, and for individual syndicates the figure was sometimes even higher.

The organisation of the trading links of syndicates on the basis of general agreements was extremely important in strengthening the position of consumer co-operatives on the domestic market. The co-operatives were able to determine the quantity and product range of their output in advance and the need for large inventories disappeared. The co-operatives also had preferential terms of payment for deliveries. For example, the contract between the Animal Fat Syndicate and Centrosoyus for 1927/28 stated that 25 per cent of the quarterly amounts requested should be paid in cash, while the rest in the form of bills of exchange within thirty days of the arrival of the shipment at its destination. Private capital did not enjoy such terms.

The contractual system exerted a considerable influence on the organisation of the syndicates' sales activities. One of its main results was the development of transit operations. Whereas during the first few years, the syndicates first concentrated all their output in their own warehouses, from where they made deliveries to buyers, with the development of the contractual system, the need for additional warehousing disappeared. By agreement between the board of the syndicate and Centrosoyus, the destina-

tion, quantity and date for deliveries were established. This meant that most goods were delivered directly to the consumer. Whereas in 1925/26, 32 per cent of the syndicates' sales on the domestic market were direct, and 68 per cent via the warehouse, in 1928/29, the figures were 85.5 and 14 per cent, respectively.

The development of the transit system meant that direct links were established between enterprises and the low-level components of the co-operative system, and so the need disappeared for the local syndicate apparatus. Thus, by the end of the 1920s, a considerable number of syndicate branches, offices and agencies had been closed. Of the nine offices, 80 commissioners and 68 warehouses the Salt Syndicate had at its disposal in 1923/24, only one office, 19 commissioners and 18 warehouses remained in 1927/28. Of the 34 offices of the Fishing Syndicate in 1925/26, 16 were closed in 1927/28. Similar things happened in other syndicates. With the introduction of the transit system, transportation overheads dropped sharply. The number of administrative personnel attached to the syndicates fell off significantly, and for the period 1925/26 to 1927/28 alone, their numbers fell by 26.7 per cent for all syndicates taken together.

In spite of the fact that the introduction of contracts did much to improve the trade system, there were serious drawbacks in its practical realisation; these were mainly connected with the procedure for drawing up contracts. Talks between the syndicate boards and Centrosoyus went on for several months and sometimes the disagreement between the parties was so great that intervention was required on the part of higher authorities (the SEC, the People's Commissariat for Trade, the Supreme Arbitration Commission of the CLD and others). The syndicates objected to existing methods for fulfilling contracts. For example, an order for native tobacco could only be received in accordance with the general agreement, if permission was obtained from twelve different authorities. There was a delay of several months between the moment when a request was submitted and when the goods were

received. One basic drawback to the system of general contracts was that they were concluded by the syndicates almost exclusively with central co-operative organisations, and primarily with Centrosoyus. In turn, Centrosoyus opposed contracts between syndicates and the lower components in the consumer co-operative system. This had a number of detrimental consequences. By preventing low-level co-operatives from establishing direct links with state industry, the higher co-operative authorities held back their development as an active component in the whole commodity turnover structure. Because they lacked complete information on the real requirements for individual goods, the central co-operative authorities were not able to determine the need for them even approximately on either a regional scale or for the country as a whole. This sometimes even resulted in the central co-operative bodies turning down deliveries of goods that were in short supply. Having no information on the market demands, industry was, to a certain extent, operating in the dark. There was a real danger of a gap developing between state industry and the market, between production and consumption, something that conflicted with the Party's general line on industrialisation of the country.

The links that had taken shape between industry and the market had to be altered, and the syndicates took concrete steps to this end. General contracts were replaced by general agreements which, in contrast to the former that established the quantity of goods to be delivered, their distribution by region, price, time and delivery terms and ways of payment, established only general delivery terms. At the same time, the parties to the agreement concluded a model contract which served as the basis for so-called local contracts between syndicates and the low-level components in the co-operative system. In comparison with the general contracts, the general agreements made it possible to establish direct links between industry and the lower co-operative agencies and to react more flexibly to market demand.

There were supporters and opponents of both forms of link between state industry and co-operatives. A broad discussion on this topic was held in the papers *Ekonomicheskaya zhizn* (Economic Life) and *Torgovo-promyshlennaya gazeta* (Trade and Industry Gazette) and in the journal *Puti industrializatsii* (Ways of Industrialisation). The system of general contracts was defended by Centrosoyus and the People's Commissariat for Trade of the USSR, who considered the general contracts as the right form of link between industry and the market, as, on the one hand, they orientated industry towards production of necessary goods, and, on the other, ensured a steady trade. Centrosoyus and the PCT supported the idea of strict centralisation, considering that the system of general agreements reduced the influence of the central co-operative authorities on the grass-root units, took distribution of commodities between the different areas of the country out of their hands and undermined the state's centralised influence on the market.

In the opposite camp stood the SEC (USSR) and the All-Union Council of Syndicates which, in the interests of the syndicates and trusts, brought up the question of improving the system of general contracts as early as the summer of 1927. The Council of Syndicates emphasised the fact that the existing form of general contracts prevented the syndicate from studying consumer demand and weakened the links between the producers and the sellers. The suggestions made by the Council of Syndicates were used as the basis for the report of the SEC Presidium to Gosplan of the USSR on May 29, 1928. The main idea of the report was that the system of general contracts be restructured on the basis of centralised supervision of the drawing-up of contracts and their decentralised fulfilment. In the opinion of the SEC (USSR) Presidium, centralisation of the general contract system was one of the main reasons for the uneven distribution of commodities among the separate regions of the country, and it was, therefore, suggested that the way contracts were concluded be changed, by decentralising orders, re-

quests, payments and complaints. It was proposed to implement this decentralisation by concluding local contracts or, as they were called, implementation contracts along with the general contracts (agreements).

The SEC Presidium considered that a general contract between the board of a syndicate and a co-operative centre should establish the total quantity of goods to be sold by the syndicate, their distribution by areas, the approximate product range, price and terms of payment. On the basis of these contracts, the local offices of the syndicates would draw up local contracts directly with the district consumer co-operative societies. The local contracts would establish the exact product range, delivery terms and the mandatory delivery date.

The Sixteenth Party Conference in April 1929, when discussing measures to improve the functioning of the trade apparatus, noted that rationalisation of the trade system had to be carried out from the point of view of a possible decentralisation of day-to-day functions, while retaining and improving centralised guidance in the planning of finances and trade; improving the flexibility of the trading system, and an actual cut-back in the intermediate links between factory and consumer of industrial goods and between the producer of agricultural raw materials and their consumer.

An important principle on which the general contract system was to be based was further decentralisation of day-to-day functions, while the overall management system remained centralised. This applied both to state industry and to the consumer co-operatives. The CLD Resolution of July 3, 1929 noted that the system of general contracts between syndicates and Centrosoyus should be supplemented by local (implementation) contracts which were to be concluded between local branches of syndicates and the low-level components of the consumer co-operatives. In other words, the CLD Resolution legalised the SEC (USSR) practice of establishing direct links between syndicates and all the components of the co-operative system.

The CLD Resolution also recognised the mutual responsibility of the parties for fulfilment of their contractual commitments. Previously, the co-operatives had been in a more privileged position than state industry, as they had the right unilaterally to refuse to accept commodities if the market did not exhibit any long-term demand for them. Refusal put industry in a very difficult position and resulted in goods being stock-piled and circulating assets being immobilised. Recognition of mutual responsibility for fulfilling the contract was a step forward in the development of economic relations between industry and consumer co-operatives. It strengthened contractual discipline and improved the ties between state industry and the trading network.

Finally, the CLD Resolution emphasised the need to speed up the delivery of goods to the consumer. To this end, the contract included a time-table to ensure continuous deliveries of goods to the consumer. Attention was drawn also to setting minimal periods for shipments of goods, delays over which entailed the material responsibility of the supplier.

These principles were all reflected in the list of terms for the shipment of goods by syndicates worked out by the CLD for inclusion in the general contract. Considering that the general contract should cover conditions that were necessary for planned organisation of the market, the CLD proposed to the syndicates and Centrosoyus that the contracts should specify the overall quantity of output to be sold by the syndicate (with a break-down according to basic types of product and sales areas), size of quarterly deliveries, prices and permissible price fluctuations, average period of credit extended by the syndicates on each type of commodity, the procedure and period for distributing orders and, finally, delivery of goods (by direct shipment or via the local branch of the syndicate, and packaging). The general contract established the responsibility of the supplier for the quality of the output and observance of the set delivery dates. The contract was drawn up for one year.

In this way, the CLD Resolution helped strengthen contractual discipline and increased the planned influence of the state both on industry and on the trading network. Although the syndicates were disbanded before they could feel the direct influence of this CLD Resolution, its principles laid the foundation for future economic practice.

Despite the fact that the general contracts had a significant effect on putting the trading network in order, however, there were serious drawbacks in the general contract system, which made it impossible for industry to react flexibly to the demands of the consumer market. Overcoming the commodity shortage once more brought up the question of the relations between industry and the market. These had to be so built that industry could respond to the market demands in time. Only then could the former become the basis for firm economic ties between town and village and play the leading role with respect to agriculture. Syndicated industry could not respond to changes in the market, just as well as state and particularly co-operative trade with their ramified trading network could do. The need arose to reconstruct the relations between industry and the trading network in order that the latter could quickly and accurately inform the former of changes taking place on the consumer market. Having such information, industry could adapt to the market demands in good time. It was a system of advance orders that became this link between industry and the trading network. This system was first introduced in the textile industry. The necessary preconditions for transition to this system were a high concentration of sales, specialisation of enterprises, a well-established product range of textile goods and the considerable experience of the textile syndicate in organising the sale of the output of the industry.

Preparation of the textile industry for transition to the new system of relations with consumer co-operatives and local trade organisations started immediately after the February 1927 Plenary Session of the Central Committee of the Communist Party. The memorandum sent by the

Textile Syndicate to the SEC (USSR) and the PCT of the USSR proposed concentrating all the sales of textile industry output in the syndicate, transferring the factories' stores to the syndicate, going over as far as possible to a system of general contracts in the syndicate's relations with its trading partners and to a system of advance orders. The CLD Commission investigating rationalisation of the trading apparatus supported the proposals contained in the Textile Syndicate's memorandum. With minor amendments, they formed the basis of the CLD Resolution of August 26, 1927 on the transfer of the textile industry as from January 1, 1928, to a system of advance orders. This resolution stressed that the transition was to be effected in two stages. During the first six months, the syndicate was to sell not less than 50 per cent of its output according to the new system, and from July 1, 1928, the whole textile industry was to go over to a system of advance orders. In accordance with the CLD Resolution, all trusts belonging to the syndicate were bound to hand over all their output to the syndicate from October 1, 1928. The syndicate became the only sales centre for the whole industry (including non-syndicated enterprises). All textile trusts were bound to hand over their warehouses to the syndicate.

The system of advance orders was based on the production programme of the textile industry. This programme was drawn up and amended in several stages. First, an approximate programme was drawn up for the whole year, and this served as the basis for six-month firm programmes that took account of the seasonal fluctuations in market demand. The annual programme was approved not later than four and a half months before the beginning of the production period. This made it possible for the Textile Syndicate to compile a firm six-month production programme in time. In turn, in order to draw up a six-month programme, the Textile Syndicate had to know the content of the orders made by trading organisations. These orders were first compiled at the district consumer co-operative societies and local trading organi-

sations and then passed on to Centrosoyus and the Council of Local Trading Organisations. After certain amendments, all the orders were taken up to the Textile Syndicate and the information received was used as a basis for drawing up production programmes for trusts and enterprises in syndicated textile industry. Representatives of the trading network took part in the drawing-up of this programme to make sure that the orders were in keeping with the industry's capacities and that production was adjusted to market demand.

The system of advance orders, in conjunction with that of general contracts, had a positive effect on syndicated industry, making it possible to adjust the relations between syndicates and the trading network, better satisfying market demand for industrial goods, and stimulating planning both of the production and the sales activities of state industry.

With the transition to modernisation of industry, the syndicates paid increasing attention to supplying state industry with the materials and machinery it needed. The turnover of the syndicates both on supplying industry with raw materials and other materials and production equipment was constantly increasing. Whereas in 1925/26, their operations involved in supplying agricultural raw materials were to the tune of 603.5 million rubles, in 1927/28, the figure was 746.2 million rubles. In the same period, the corresponding figures for supplying production equipment and materials were 235.7 and 357.1 million rubles. The increase in the share of production equipment and materials supplied by the syndicates testifies to the growing importance of the syndicates in the organisation of material and technical supplies to state industry.

To define the role and place of the syndicates in the management system of state industry, their growing influence in the provision of credit to syndicated industry must be emphasised. As the syndicates were given the right to use freely increasing amounts of bank credit, the possibilities for granting credits were constantly expanding. In 1928, for example, all credits allocated for the textile

and oil industries were distributed through the Textile Syndicate and the Oil Syndicate. The share of bank credits allocated through the other syndicates also rose.

The syndicates became the distribution centres for bank credits not only among their own members: they granted credits on the scale of the whole industry, including unsyndicated enterprises. The evolution of the syndicates in the credit sphere was in keeping with the overall SEC (USSR) policy on this issue.

The increasing role of the syndicates in the organisation of supplies, sales, financing and credit in state industry wrought changes in relations within the syndicates. First of all, the syndicates freed the trusts from taking a direct part in market turnover, enabling them to concentrate on purely production problems. The syndicates assumed a significant proportion of the organisational effort to supply state industry with materials and machinery. By taking over the allocation of credit, they received an additional lever for regulating the production activities of the trusts.

The relations of the syndicates with the trading network were based on a trade price-list. Prices were based on prime costs plus overheads and a profit, and took consumer demand into account.

The gap between the prices on the accounting and trade price-lists was not great, but the existence of the two systems meant a further weakening of the position of the trusts within the syndicates.

The syndicates practiced settlements without bills of exchange and made payments in cash (the Textile, Metal and Native Tobacco syndicates). This led to a decrease in the role of bills issue by the trusts in their credit and payment relations with the syndicates. In the Animal Fats, Silicate and Metal syndicates internal bills were abolished altogether. During 1927/28 alone, the trusts' bill issues for the entire syndicate system dropped from 21.5 to 18.5 per cent.

At the same time, the syndicates were gradually adopting a system of planned payments. From 1926/27, the

Leather Syndicate and shortly afterwards the Paper, Silicate and Textile syndicates, paid for the output they received in cash, on the condition that the trusts ceded their short-term credit deposits to the syndicates, i.e., a situation arose when the trusts virtually handed over their financial resources to the syndicates.

The increasingly important position of the syndicates and their transformation from the supplies and sales agencies of the trusts into bodies for managing trusts gave rise to attempts on the part of the latter to limit the syndicates' influence. Since the relations between syndicates and trusts were governed by contracts, the trusts tried to reduce the influence of the syndicates during the drawing-up of the contracts. For example, when it set about drawing up the contract for 1928/29, the Central State Trust for the Glass Industry suggested that the Silicate Syndicate based its relations with the trust on a contract with equal guarantees of fulfilment and without attempts on the part of the syndicate to exert administrative influence.

By the end of the 1920s, the syndicate system had developed considerably: they had become agencies of the SEC (USSR) in the management of state industry. By taking over all supplies, sales and financing, they began to exert a considerable influence on the production activities of trusts and enterprises. The syndicates regulated the volume of output, the quality and product range. The strongest syndicates, in the organisational and economic sense, went beyond the bounds of syndicated industry and fulfilled planning and regulating functions on the scale of the given branch of industry.

The increasing role of the syndicates in the organisation of state industry threw new light on the role of the chief administrations of the Supreme Economic Council of the USSR. A significant proportion of their functions had, in fact, been taken over by the syndicates. The chief administrations only formally supervised industry.

As a result of this situation, some workers in the sphere of management wanted to place planning, regulation and

overall supervision (functions that belonged to the chief administration of the SEC of the USSR) and organisation of sales and material and technical supply (that came under the jurisdiction of the syndicates) all in the hands of a single authority. Organisationally this would mean merging the chief administrations of the SEC (USSR) with the corresponding syndicates.

The textile industry proved to be the most prepared for this type of reorganisation. The idea of merging the Chief Textile Administration of the SEC (USSR) with the Textile Syndicate was first brought up in October 1927, but at that time, the SEC considered it necessary to retain both chief administrations and syndicates. It came out against the proposal made by a group of workers in the Workers' and Peasants' Inspectorate that the Textile Syndicate be abolished. The SEC proposed that the Textile Syndicate be retained to deal with the sale of output, financing of industry and its supply with raw and other materials. This position can be explained by its apprehension that the influence of the central apparatus on industry would be undermined. The SEC (USSR) was supported by the heads of a number of syndicates, who saw the merging of the Chief Administration with the Textile Syndicate as a revival of over-centralisation and a possibility for a growth in bureaucracy.

On June 20, 1928, however, a Resolution by the SEC and the Council of People's Commissars, "On Reorganisation of the Management System in the Textile Industry" was published. In accordance with that Resolution, the functions of the Chief Textile Administration of the SEC of the USSR were transferred to the Textile Syndicate. From then on, the latter was to plan textile production, supervise textile trusts under the jurisdiction of the SEC (USSR), and also trading organisations and joint-stock societies if these were engaged in selling textile industry output or supplying the industry with raw material and equipment. Moreover, the Textile Syndicate retained its sales, procurement and financial functions.

The CEC and CPC Resolution assigned to the Textile Syndicate those functions which, in fact, it already performed. Having wide powers, the syndicate set itself the task of establishing a close organisational link between day-to-day planning and the actual functioning, and also of combining all current planning and financial, payment and credit activities for the whole industry.

In this way, by the beginning of the First Five-Year Plan, considerable qualitative changes had taken place in the economic functions of the syndicates. With an increase in the role and scope of centralised planning, not only did the ways in which the syndicates exerted their influence on the relations between industry and the market change, but also the organisational forms of these links improved. Within the very heart of industry itself, the conditions were maturing for a fundamental reorganisation of the system and methods for managing all industry.

Management of State Industry and Branch Industrial Amalgamations [1929—1932]

1. The Transition to Industrialisation and the Improvement of the Management of Industry

By 1928, the Soviet Union had made noticeable achievements in the modernisation of its industry. At the same time, the decisive attack on the positions of capitalist elements both in industry and trade was continuing. The question of "Who Will Beat Whom" was being resolved in favour of socialism both in town and countryside. By the beginning of the First Five-Year Plan, only two structures remained: the socialist and petty-commodity production. The latter was forced into the background and made way for the socialist structure. The final victory of the socialist structure was dependent on the successful fulfilment of the decisions of the Fourteenth Party Congress on socialist industrialisation. The main task of the period was to turn the Soviet Union into a highly developed industrial power. In order to achieve this, the necessity arose for a revision of the organisational forms and methods of industrial management that had developed.

During the reconstruction period, one of the major economic problems was to subjugate the elemental market forces to the interests of socialist construction, and the organisational forms of management were adapted as far as was possible to achieving this end.

The modernisation period posed new organisational problems. From 1926 to 1928, concrete measures were taken to improve the existing system of industry management, and the independence of individual factories and

plants in their day-to-day operations was increased. In the main, the organisational forms of management that had taken shape to accomplish the economic and political tasks of the reconstruction period remained unchanged. Besides this, structural shifts in the national economy which appeared in the course of industrialisation necessitated "a restructuring of the entire state management apparatus in order to bring it into keeping with the system of our national economy and the tasks of socialist construction."¹

However, the organisational forms of management that had taken shape during the reconstruction period were no longer in keeping with the goals and tasks of the technical modernisation of industry. They were suited mainly to regulating economic planning, day-to-day trade. The extension of the socialist sector and the strengthening of the planning principle introduced new elements into the organisation of trading links with industry. This was reflected in practice in the fact that the syndicates, while being in complete control over the sales of all industrial output, changed from being sales organisations into agencies for the management and regulation of industry.

The methods used by the syndicates to regulate the economic links in industry conflicted with the tasks of modernisation.

During the reconstruction period, the syndicates based their economic activities on commercial accounting, using commodity-money relations. As a rule, prices were formed according to the law of value. This was a period when industry was to a considerable extent under pressure from the unorganised market.

The main task of Lenin's industrialisation plan was not only to create the material and technical base for socialism, but also to ensure the economic independence of the country. The decisive factor in achieving this was

¹ *The CPSU in the Resolutions of Its Congresses, Conferences and Plenary Sessions of Its Central Committee*, Vol. 4, 1970, p. 229 (in Russian).

the rate of industrialisation. The market-oriented methods used by the syndicates to regulate industrial production to a certain extent acted as a brake on industrialisation of the economy. The need to change accents in the economy in a very short period gave rise to a price policy which made it possible to concentrate resources in the key sectors of socialist construction. In this way, an active price policy was necessitated by the tasks of industrialisation but conflicted with the syndicates' practice of setting prices mainly in response to market factors.

As already mentioned, general contracts and planned regulation of commodity turnover made further improvement of centralised planned management of industry an objective necessity. This was reflected in the Statute of Trusts adopted on June 29, 1927, in accordance with which enterprises belonging to trusts were transferred on to the self-supporting basis. Major difficulties were, however, encountered in achieving these goals, namely, as regards the development of the theoretical principles and methods of self-financing.

As a rule, the introduction of self-financing was not connected with any new conditions in the organisation of socialist production. Some economists at the time considered that the very fact that the economy had entered the modernisation stage signified an attack on NEP, a further strengthening of the role of planning and subordination of all economic tasks to this.

This view virtually set the plan in conflict with self-financing, for it meant that during the reconstruction period, NEP was pursued as economic expediency, while the transition to industrialisation entailed renunciation of this policy. This conception, however, conflicted with the practical policy of the Party. As stated in the resolution of the joint Plenary Session of the Central Committee of the Central Control Commission and the CEC of April 11, 1928: "The New Economic Policy is the route along which the Party is firmly travelling and the only one which makes socialist transformation of the economy of the country possible. This is why the pernicious campaign-

ing ... to abolish NEP must be resolutely rejected by the Party."¹

The transfer of enterprises on to the self-supporting basis required a number of measures to be taken to reorganise the SEC central apparatus and its republican agencies, to revise the role and place of the trusts and enhance the economic role of the enterprise in its day-to-day affairs.

This was especially emphasised at the September 1928 Plenary Session of the CCC of the Communist Party. "The success of the transfer of industry on to a higher technical level by introducing the latest technology must be ensured by a parallel reorganisation, both in the industry as a whole and within the individual enterprise. Along with the extension and intensification of efforts to improve production processes, more attention must be paid to planning production, consolidating the planning bodies of the enterprises and speeding up the transfer of the enterprise on to the self-supporting basis."

The completion of the reconstruction stage and broad-scale modernisation of industry were accompanied by considerable qualitative changes in the national economy. The scale of production increased, as did that of planning; specialised bodies for industry management were set up; the division of the country into administrative areas was nearing completion; engineering and technical personnel were being trained; the forms and methods of financing and crediting industry were changing; a cash-free system of settlements was being introduced increasingly widely; and elemental market forces virtually ceased to exert any influence on the development of the Soviet economy. All this created the necessary preconditions for further improvement of the management of industrial production. During 1928 and 1929, the organisational structure of the economic apparatus was constantly being

¹ *The CPSU in the Resolutions of Its Congresses, Conferences and the Plenary Sessions of Its Central Committee*, Vol. 4, p. 80.

improved and the methods by which this apparatus was directed changed. The measures taken by the SEC (USSR) were a direct result of the need to fulfil the tasks of the First Five-Year Plan. For example, the SEC formed a single system to provide scientific and technical services to industry, beginning with the SEC itself and including trusts, enterprises and some large workshops. The absence of suitable bodies to guide scientific and technical work at the grassroot level made it necessary to organise such bodies at enterprises, trusts and workshops. Socialist rationalisation of production was considered as one of the major ways of achieving the goals of socialist industrialisation. The October 1928 Resolution on bureaus for rationalisation under the chief administrations and committees of the SEC (USSR), trusts and enterprises put an end to organisational disunity in work on rationalisation.

At the same time, concrete measures were taken to improve industry management within individual industries. The Northern Chemical Trust, a trust of nation-wide importance, for example, was expanded by the addition of enterprises of the Moscow Economic Council. The chemical plants of the Supreme Economic Council of the Ukraine were amalgamated in a single all-union trust, the Ukrainian Chemical Trust.

In June 1929, a committee for the coke and gas industry was instituted to deal with planning and day-to-day guidance within the industry. In November of the same year, a committee for the introduction of chemical processes in the economy was set up under the USSR Council of People's Commissars. Concrete practical measures were taken during the reorganisation of management of the chemical industry to improve management in this industry. At the same time, a committee for the production of artificial fibres was set up within the SEC (USSR) to deal with planning, regulation and management of production and capital construction. Management of the metal industry was also reorganised. Specialised administrations were set up on the basis of the Chief Metal Administration for engineering, metal-working, mining and

non-ferrous metallurgy. With the transition to modernisation of industry, this reorganisation was of particular significance. Increased demand for metal necessitated improvement of production organisation and management in the industry. During the years of the First Five-Year Plan, all metallurgical enterprises were amalgamated in a single trust. When planning the development of the iron-and-steel industry, the CLD approved a Statute on the Construction of New Metallurgical Plants. By decision of the SEC (USSR) Presidium, a special commission was set up to deal with questions pertaining to supplying the metal-working industry with the petroleum products. To improve the work of the glass and china industry, chemical trusts were made larger. Measures were also taken to improve centralised management of the timber industry, capital construction and so on.

All these measures were taken within the framework of the existing system of industry management, while at the end of the 1920s, the necessary conditions matured in industry for a thorough-going reorganisation of the entire system of industry management. The reasons for such a reorganisation were analysed in the report of the SEC (USSR) Presidium to the Sixteenth All-Union Conference of the Communist Party. This report also noted that, in connection with the modernisation of the national economy, industry was faced with new tasks, the most important of these were the organisation of industry, the nature and methods of managing it and the structure of the industrial apparatus. The efficiency with which state resources were used and the rate of industrial growth were to a large extent dependent on how correctly these problems were solved.

Considerable preparatory work had been carried out by special commissions before the reform of industry management was launched.

For discussion of this issue, a report was published by the Central Committee of the Workers' and Peasants' Inspectorate (WPI) that stated that "the moment has come to reorganise industry management from top to bottom.

The SEC of the USSR has not only to intensify technical guidance of industry, but also to combine the functions of technical guidance with those of economic planning in the closest possible way."

The impending reform was subjected to thorough analysis at a sitting of the Planning and Economic Board of the SEC (USSR) and at that of the SEC (USSR) Presidium, at which it was noted that entirely new principles were to form the foundation of the impending reform of industry management, principles that would differ fundamentally from those behind the management of industry at the beginning of NEP.

The growth of the material resources at the state's disposal, the expansion of the socialist sector and the gradual ousting of private capital not only from industry, but also from retail commodity turnover, created a firm base for consolidating and extending the planning principle in industry at the beginning of the First Five-Year Plan. New demands were made on technical and organisational aspects of planning.

The most important thing of all was to improve direction of the enterprise, because of the role played by the enterprise during the modernisation of the national economy. The SEC (USSR) report "On the Reorganisation of Industry Management", which set forth the main principles of the reform, stressed that "the enterprise must be independent and its administration bears full responsibility for fulfilling the production programme", and laid down guidelines for the structure and content of the production and finance plan, for the organisation of sales, supplies, financing and so on. The boundaries of the self-financing system were extended. Whereas in the Statute of Trusts of June 29, 1927, the self-financing principle applied only to an enterprise as a whole, the SEC report suggested that it should also apply to the enterprise components (the workshop and the team). Measures were outlined to improve labour organisation, strengthen one-man management, raise the level of technical and economic knowledge of enterprise directors. In connection

with reorganising the industry management system and increasing the role of the enterprise, the question arose of the place and role of the trust within this system.

On the eve of the reform, a suggestion was made within the commission of the Central Committee of the WPI to set up, in contrast to the trust as a district industrial amalgamation, an organisation which would combine enterprises of the same specialisation. The commission believed that this would significantly simplify technical guidance of industry. This type of amalgamation meant a new form of industry management, based on branch specialisation, and involved a regrouping of enterprises taking account of their production specialisation. During the discussion of the trusts' place in the new management system, the majority of participants came to the conclusion that, at a time when the enterprises were entrusted with the main tasks involved in the technical modernisation of industry the position of the trusts in the system of industry management changed.

In this way, in the course of preparations for the reform of industry management at the end of the 1920s, the main ways and methods of putting through the reform were outlined.

2. Branch Industrial Amalgamations

During the reconstruction period the following system of industry management had taken shape: enterprises—trust—syndicate—chief committee—functional agencies of the SEC.

With the broad-scale modernisation, however, the functions of the trusts changed, the role of the enterprise in the management system increased, and objective conditions arose for changing the organisational forms and methods for managing the whole of industry. This was particularly evident in the economic activities of large syndicates (the Textile, Metal, Silicate and others).

Using a system of economic levers and incentives, the syndicates effectively regulated industry. The SEC chief

administrations were administrative bodies that had no power to exert economic influence and could not really influence the development of the industry.

In the situation, the gap between administrative and regulating functions in industry management was widening. An objective necessity arose to set up a single authority that combined both sets of functions for management of the entire industry.

An important role in the solution of this problem was played by industrial amalgamations, which became a transitional step towards the formation of branch People's Commissariats. They were bodies that combined the functions of the chief committees and the syndicates. The main task of the new bodies was to organise technical and economic guidance of production for the whole industrial branch. Although some experience had already been accumulated in combining the function of chief committees and syndicates (the Textile Syndicate), the problem of setting up a single authority capable of achieving the main goals of the period remained unsolved. Regardless of a significant evolution in its functions, the Textile Syndicate remained a supplies and sales agency for state industry, technical guidance lying beyond its jurisdiction. During the industrialisation stage, however, stress was laid on raising the technological level of industry, and all the other problems had to be solved in the light of this general Party line. A formal merger of the functions of a SEC chief administration and of a syndicate, without a thorough reorganisation of the industry management system, could not and did not yield positive results. The Textile Syndicate's experiment was a failure and further mergers had to be abandoned.

Initially it was intended to abolish the subsidised administrative chief committee by combining it with the self-financed amalgamation (syndicate). As a result of this merger, self-financed amalgamation emerged the economic activities of which covered the whole industry. The syndicate was transformed from an organisation based on a voluntary union of state trusts and enterprises

into one which embraced all fields of the production and economic activities of syndicated industry. The goals of industrialisation of the national economy could not, however, be achieved in a short period using only the methods of the syndicates which relied mainly on the market for regulating industrial production. This very mechanism was unsuited to rapidly breaking up the proportions that had already become established in the economy. Moreover, there were shortcomings in the way the syndicates functioned, shortcomings which prevented them from running a whole branch of industry efficiently. First, the planning of the development of the whole industry was not well worked out. The syndicates did not ensure technical guidance of the industry and this conflicted with the tasks of the First Five-Year Plan involved in the technical modernisation of industry. Second, the syndicates suffered from a chronic shortage of own circulating assets. As a consequence, the attempt to set up self-supporting chief committees on the basis of a combination of SEC chief committees and syndicates, in the activities of which the old methods used by syndicates prevailed, did not prove a success. This is why a new managerial authority had to be created: the branch industrial amalgamation which carried out both day-to-day and regulation functions in industry management.

The main reasons for setting up branch industrial amalgamations were as follows: the need for technical and economic management within a single authority; shift of emphasis in the organisation of production and management to the enterprise and a cut-back in the intermediate links; the regrouping of enterprises on the basis of their production specialisation and the establishment of branch specialisation; an increased role of self-financing methods at all levels in industry; and organisation of the work in industry to expand the technical base of the national economy.

The duties of the new amalgamation included: planning production in the industry as a whole; planning and guidance of capital construction; technical guidance; or-

ganisation of supplies and sales; guidance of trading and financial activities; organisation of labour; and training and distribution of personnel. The structure of directing organs and the relations between individual links within the management system differed according to the type of industry, its economic, technical and organisational structure, to the enterprises which it combined, the degree of specialisation, geographical location, etc.

Three types of amalgamations were formed:

1. Amalgamations including enterprises and trusts only of national significance. These supervised all the activities of their member enterprises' production planning, planning and direction of capital construction, technical guidance, organisation of supplies and sales, guidance of trading and financial activities, and organisation of labour.

2. Amalgamations including enterprises and trusts of national, republican and local industry. With respect to enterprises and trusts of nation-wide significance, they had to carry out all the functions enumerated above, and with respect to the others, the same functions as a syndicate plus planning of production, capital construction and general technical guidance in the training of personnel.

3. Amalgamations of a syndicate type including enterprises and trusts only of republican significance. In this case, in addition to the functions of a syndicate, the amalgamation had to plan production and capital construction on a scale of several republics and direct technical modernisation.

Enterprises and trusts of national significance were regrouped in accordance with the type of amalgamation. The first group included special engineering, metallurgical and fuel industry enterprises; the second had mainly general engineering and the third was basically light and food industry.

When republican amalgamations were organised, the entire system of relations between Union amalgamations and republican and local industry was almost fully re-

tained. Instead of individual trusts and enterprises, however, relations were conducted with Union amalgamations through the intermediary of the republican amalgamations. These had a range of duties that corresponded to those of the existing directorates of republican economic councils.

Being a self-financed organisation, the amalgamation had its own balance which included all the property of the enterprises and trusts of all-Union significance. The profits of the amalgamation consisted of the difference between the release price and the production cost, and was reflected in the amalgamation's balance. The profit was formed in the following way: first the enterprises and trusts transferred all profits for the current year to the amalgamation's account; 50 per cent of additional planned profits of the enterprise were transferred to it, as were remaining planned profits, depending on plan fulfilment. The work of the enterprise, member of an amalgamation, was assessed on the basis of the difference between planned and actual prime cost, and the enterprise had no profit-and-loss account of its own. This testifies to the high degree of centralisation of financial functions within the amalgamation.

For trusts of republican and local significance, a special account of profits and losses according to the corresponding trusts and enterprises was kept.

Specialised operational and functional bodies were set up to organise the management and regulation of production within the amalgamation. These operated as self-financed subdivisions. The operational bodies included administrations for supplies and sales of semi-finished goods and for capital construction. Specialised bodies fulfilled mainly supplies and sales functions and partially production ones (capital construction). The functional bodies included economic planning and accounting administrations. The bodies were responsible for economic planning, accounting and supervision of production within the whole of amalgamation, scientific research and technical guidance.

One of the central tasks of the amalgamation was to organise technical guidance of the trusts and enterprises within the amalgamation. Research institutes were placed under the jurisdiction of the amalgamations and these virtually had to manage the whole branch of industry.

At first, the amalgamation was directed by a board, but the collegial form of management later made way for one-man management. Direction of the amalgamation was entrusted to managers.

The amalgamations were created at the beginning of the 1930s on the basis of the Party Central Committee's Resolution of December 5, 1929. At the same time, the chief administrations with their corresponding committees and fourteen syndicates were abolished. On the basis of chief committees and syndicates, 33 all-Union branch amalgamations were established. Republican and regional amalgamations incorporating trusts and enterprises of republican and local industry were also set up. Eleven such amalgamations were set up in the RSFSR. In some cases, all-Union, republican and local amalgamations were set up in one and the same industry. The new amalgamations did not upset the existing division of industry into all-Union, republican and local.

Enterprises belonging to republican and local industry that formed part of an all-Union amalgamation remained subordinate to republican and local authorities. They were financed through the republican or the local budget. All-Union amalgamations were directly connected with republican and local enterprises only on day-to-day economic issues (supplies, sales, technical guidance). Even when republican amalgamations were established procurement of raw materials and sales of output were concentrated within all-Union amalgamations. Republican amalgamations dealt with supplies and sales only within limits determined by the Supreme Economic Council of the USSR.

The amalgamation was subordinate to the SEC of the USSR, which defined planning tasks, gave directives on price formation, supervised plan fulfilment, made inspec-

tions and surveys, approved charters and selected management personnel.

The trust still remained the directing agency of the enterprise and bore responsibility for the organisation of the enterprise's production and economic activities. The trust's rights were, however, limited. Some of its functions were handed over to the branch industrial amalgamation and some to the self-supporting enterprise. The trust was divested of the right to organise supplies and sales. Consequently, the formation of amalgamations meant that a three- or four-stage structure took shape in industry management (the SEC—amalgamation—trust—enterprise). On the whole, however, a three-stage structure predominated (the SEC—amalgamation—enterprise).

One of the main tasks of the amalgamation was to organise production planning. Directives on industry planning originated in Gosplan and were then made more specific in the SEC summary plan for industry. On the basis of general planning directives from the SEC, the amalgamation worked out corresponding directives for the trusts and enterprises for the coming economic year. The trusts and enterprises used these directives to work out concrete figures, taking account of their own potentials, and then reported these to the amalgamation. On the basis of these figures, the amalgamation compiled summary targets, in the elaboration of which the amalgamation was guided by the national plan and the interests of development in its own branch of industry.

After approval of the target figures by the SEC of the USSR, the amalgamation informed the trusts and enterprises of the production tasks established for them in the form of a production and finance plan, which formed the basis for all the economic activities of the enterprise (trust). The production and finance plan for the enterprise established the production programme, the quotas both in physical and value terms, for expenditure of raw and other materials, the number of workers required, the estimated prime cost and a number of other indicators. The production and finance plan and all the necessary

calculations were studied by the board of the amalgamation together with the director of the enterprise and were approved by the board. The estimated prime cost approved by the board of the amalgamation was the price at which the enterprise sold its output to the amalgamation board and to other organisations. The enterprise received an order from the amalgamation which established the quantity, time and terms for the delivery of the finished output and the terms for new construction as well as the price. Maintenance and minor repairs were defined as an overall volume of repairs. Long-term plans for the development of production and the plan for modernisation and improvement were worked out on the basis of the general directives from the amalgamation.

There were, however, difficulties involved in planning, owing to the imperfect planning methods, the lack of the necessary qualified economic personnel and absence of a functional system for management organisation. The planning agencies of the amalgamation, with the participation of other management departments, compiled only target figures and plans. Day-to-day planning was not coordinated. Divergences from the plan resulting from orders issued by other departments only became known to the economic planning administration of the amalgamation, from the reports of the enterprise or statistical data. In these circumstances, the economic planning department of the amalgamation could not take account of day-to-day changes in the enterprise's plan in time or exert an active influence on production. All this created difficulties in organising the work of industrial enterprises and hampered the introduction of self-financing.

The resolution of the First All-Union Conference on planning production in the metal-working and electronics industries stated that "organisation and planning of production must be made the leading component of management". The Resolution of the SEC (USSR) Presidium of August 12, 1931 "On Planning between and within Workshops" noted that there were shortcomings common to whole industry. For example, the production process

was not elaborated in all details; quotas for the output and expenditure of materials were not justified; equipment was not supplied with the necessary operating and maintenance instructions; the production and finance plan was not backed by sound enough technical arguments; unjustified experimental statistical output quotas were used and no account was taken of the results of detailed analysis of the production process; warehousing operations were poorly organised, as was the functioning of auxiliary workshops; and the organisational structure for the management of the trust lacked clarity.

During the First Five-Year Plan, considerable attention was devoted to improving production. Complex measures were planned and carried out, namely: planning methods, the settlement system, stock-taking and reporting were improved.

When the amalgamations were set up, the forms and methods used for supplies and sales changed. Within the amalgamation, a specialised, self-financed administration was created to deal with planning and day-to-day work in supplies and sales for the whole industry. The enterprise was supplied on the basis of an established list according to which it received not less than 80 per cent of the necessary materials. It had the right to obtain other materials independently, though even in this case it was supervised by the board of the amalgamation.

The supplies and sales administration accepted orders and distributed them among the enterprises, established the product range and the procedure for receiving the output. A system of general contracts was in operation. The administration was entrusted with all functions involved in organising warehousing for the whole industry, including that of enterprises and even of individual workshops. The administration procured and bought basic materials, dealt with technical supply and storage, established ceilings for stocks of raw materials and expenditure of other materials.

With centralised management of industry, centralised regulation of supply operations gave the trusts and enter-

prises several advantages. On the scale of the whole industry, it led to economy in distribution costs and a rise in the rate of turnover of circulating assets. Despite the obvious advantages of centralised supplies and sales, significant drawbacks surfaced up soon after the introduction of this system. At the First All-Union Conference of workers from socialist enterprises, the system came under criticism. Under the new system, day-to-day supply work was not dealt with by the enterprise itself, but by branch, district and other supply departments. It created artificial difficulties for the amalgamation in organising supplies according to the list, product range and, what is more, cut off the enterprise from this process.

On January 30, 1931, the newspaper *Za industrializatsiyu* (For Industrialisation) published an article entitled "How to Improve Industrial Supplies", which analysed the reasons for the difficulties that had arisen in supplies. At the petroleum, chemical and automobile enterprises, for example, orders and the specifications for materials needed were frequently changed. During three months alone, the Ukrainian agricultural engineering plants introduced fifty amendments. Since, as yet, there were no scientifically justified rates of material expenditure per unit of output, order did not correspond to real needs. The metallurgical project in the Urals, for example, asked for 190,000 cubic metres of timber for three months, when its true requirements were only 74,000 cubic metres. At first, the ball-bearing plant project asked for 7,000 tons of steel, when it really needed 374 tons.

The system for approving and drawing-up documents was also inefficient. Within the supply system alone, a request had to pass through five or six different specialised agencies, and then it went through as many planning and regulating agencies. The main drawback to the system was departmental instead of personal responsibility for the organisation of supplies.

At the First All-Union Conference of workers from socialist enterprises it was emphasised that the existing supply system isolated the directors of enterprises from

supply questions. Orders for equipment were handed to the amalgamation, which then had to distribute them among the plants without any participation on the part of the customer. The plant could not be allowed to procure materials beyond the limits of the plan and the amalgamation, and without the direct participation of the plant placing the order, for without contracts being drawn up between them there was no guarantee that the orders could be fulfilled. For this reason, improving industry supply involved an improvement in planning, contracts, and introduction of the principle of collective and individual benefit.

Governed by the decisions of the All-Union Conference of managers from socialist enterprises, the SEC (USSR) Presidium issued on March 25, 1931 a special resolution "On Measures to Improve the Supply System", which stated that the warehousing facilities of enterprises should come under the jurisdiction of the director and his deputy both on a day-to-day basis and administratively. All work connected with supplying enterprises with necessary materials should be based on general agreements between the amalgamation and the supplier, in accordance with the funds and credit allocated to the enterprises. It was intended to improve the technique for filing requests and material responsibility for failure to fulfil terms of the contract or supplies and sales commitments. The defaulters were to pay fines, and the responsibility of the enterprise for obligations undertaken was increased. It was decided to improve supplies by drawing up plans for material supplies (material balance-sheets). These were considered as a component part of the target figures for development of the industry and were approved at the same time. The material balance-sheets of enterprises were compiled on the basis of the orders from workshops.

At the same time, specialised self-financed supply amalgamations were set up. In the auto and tractor amalgamation, for example, instead of a supply administration, a specialised organisation was established to deal with supplies and repairs. The role of the enterprise was in-

creased and its supply departments were entrusted with actual supply functions. These worked on the basis of local contracts concluded directly with the supplier following the signing of the general agreement of the amalgamation. In the absence of a general agreement, the enterprise operated independently. According to the new statute, enterprises bore full responsibility for commitments made and their losses were no longer covered by the amalgamation.

All questions relating to management of fixed and circulating assets, i.e., the drawing-up of the production and finance plan, bank credit, distribution and redistribution of capital among the self-financed bodies of the amalgamation, establishment and approval of settlement prices, and also the general financial policy, were dealt with by the financial administration of the amalgamation.

Enterprises were financed by the amalgamation's board in a centralised way, according to annual, quarterly and monthly estimates.

In the Statute of Enterprises worked out by the board of the auto and tractor amalgamation, it was stressed that the property of the enterprise, its circulating assets and the size of depreciation outlays were to be set by the enterprise for each year. The enterprise was also to keep independent accounts, commercial and statistical reports, and calculation, and take inventories. The board and the enterprise were to settle their mutual accounts quarterly.

Amalgamations had considerable powers in planning prices. The Resolution of the Central Committee of the Communist Party of December 1929 stated that, in order to increase the day-to-day powers and responsibility of amalgamations of industrial enterprises, the SEC and the PCT when planning commodity turnover should give only general directives on cutting release prices and that they should indicate the average limit for such a cut, so that later work in price-setting could be entrusted as far as possible to the amalgamation itself.

Amalgamations planned both branch and intra-branch prices. Whereas prior to the reform of industry manage-

ment, prices for the textile industry products had been worked out and approved by the PCT, after the All-Union Textile Amalgamation was formed, these functions became the concern of its sales department.

In March 1930, the SEC (USSR) Presidium issued a directive that the SEC apparatus should draw up instructions on price formation for the branch. These were to define price policy and establish average fluctuations. Preparation of the necessary data and actual compilation of price lists was to become the concern of the corresponding department of the amalgamation. Prices for consumer goods continued to be set by the People's Commissariat for Trade.

When regulating the profitability of the branch of industry, the amalgamation set a single branch price. Within the amalgamation, individual settlement prices were introduced for each enterprise. When the enterprise was handed the quarterly order, the amalgamation set the planned prime cost of the product, which also served as the planned price for settlement between the amalgamation and the enterprise. The actual price was based on the actual prime cost. On delivery of the finished product, the difference between the planned and the actual price was transferred through the State Bank to the current account of the amalgamation.

If the actual price was below the planned one, the plant drew up a special bill for the difference which was paid by the amalgamation. Within the amalgamation there were different methods of making payments for output. In the auto and tractor amalgamation, for example, direct transfers were used on obligations by selling goods on deferred payment.

The amalgamation made centralised budget transfers, i.e., it transferred the turnover tax for all its enterprises and other economic units to the State budget. In 1931 alone, 94 per cent of the total turnover tax revenue entering the State budget came from the all-Union amalgamations.

At the same time as the amalgamations were created,

a credit reform was put through. Concentrating all branch management functions in the hands of the amalgamation necessitated centralised distribution of financial resources.

Credit relations based on direct but also on indirect mutual crediting came into sharp conflict with the development and improvement of centralised planning, the management system, and transfer of enterprises on to the self-supporting basis, i.e., commercial accounting that existed at the time and the so-called indirect mutual crediting contradicted the new tasks of the period under consideration.

The credit methods on which the reform was founded, however, did not develop immediately. At the first stage of the credit reform, some of the enterprise's accounts in the State Bank were closed (the current, simple, special, commodity and other accounts). These were replaced by a single current account for the enterprise for all its monetary operations. The bank paid the enterprise at settlement prices set by the amalgamation board. Accumulations, which included planned profit and depreciation outlays were drawn off by the bank.

Before the credit reform, the amalgamation's board financed the enterprises every month, on the basis of estimated prime cost. Final settlements were made at the end of each quarter. The main drawback to this system was that the board based its control on the monthly finance plan, which was often drawn up with some delay. The lack of daily accounts led to a cash deficit.

In these circumstances, control over fulfilment of the production and finance plan was made more difficult. An inevitable consequence of this was that the entire financing system did virtually nothing more than satisfy the enterprises' requests for cash to pay wages, mainly with loans. Subsequently, these loans accumulated in the amalgamation's board. The actual position as regards the financing of enterprises was the same as before their transfer on to the self-financing basis. The only difference was that they were financed according to actual prime cost.

The new stage in the reform began in February 1931. A current account was introduced in which the progress in the fulfilment of the production and finance plan was reflected. The balance of the current account showed the financial result of the plan fulfilment. It soon became clear, however, that mistakes had been made in the reform. The invoices of the supplier were paid automatically and the State Bank did not know whether the buyer from whose account the payment was made was in agreement. The buyers and the State Bank branch that served them did not have the necessary information at the right moment. As a result, ceilings were overstepped. A lack of preliminary control led to individual suppliers indulging in abuses. This increased the gap between the time when the seller was credited and that when the purchaser debited.

The policy of achieving profitability within the branch when it was virtually independent financially, and also the shortcomings in the credit reform at the first stage, resulted in enterprises being granted credits regardless of whether or not they had fulfilled the plan. This led to a raising of credit ceilings even when the quantity and quality targets of the plan were not attained, and to automatic transfer of profits to the budget, regardless of whether a profit had been made. All this undermined the enterprise's interest in reducing production costs, in accumulating profits and mobilising internal resources. The measures taken to eliminate mistakes in the credit reform helped to consolidate the self-financing basis. Settlements were no longer made automatically and credit was granted in accordance with plan fulfilment. The funds of the enterprise were distinguished from borrowed funds. An insurance account was created into which went not less than 50 per cent of additional profits received by the enterprise from reducing production costs. The funds on the account could only be used once the planned reduction in production costs had been achieved. The enterprise's outlays became dependent on its own accumulations. Once the adjustments were made in the credit reform, the procedure was

dispensed with according to which enterprises transferred almost all their profits into the State Bank and, in turn, were almost entirely financed out of the budget. A direct connection was established between accumulation and plan fulfilment, and the enterprises, therefore, had an incentive to fulfil the plan.

In this connection, profitability became extremely significant. During the First Five-Year Plan, there was a difference between production costs and wholesale prices for metal, ore, coal, timber and other materials. In 1931, planned cost per ton of coke was 20 rubles 32 kopecks, while the release price was 16 rubles 40 kopecks. In the Machine-Tool and Instrument-Making Amalgamation, the average ratio of price to production costs for instruments fluctuated from 66 to 150 per cent, for machine tools up to 140 per cent on the average, and for individual types of machine-tools the ratio was between 109 and 170 per cent.

For the industrialisation period, this gap was of particular significance. It acted as an incentive to introduce new technology, above all in heavy industry. The difference was covered by state subsidies which the amalgamations enjoyed on a wide scale. Beginning in 1936, state subsidies were reduced.

It became important to elaborate common organisational and methodological principles for transferring enterprises on to the self-financing basis. The absence of a common methodology and any broad exchange of experience meant that different principles of self-sufficiency and different forms of inter-workshop transfers were in operation at almost every enterprise.

The introduction of self-sufficiency in industry necessitated not only a revision of accounting and organisation of planning at the plant. An important stage in this was the allocation of circulating assets and orders to the workshop. There were long arguments in the press about whether an intra-plant current account or a cheque system were more suitable. The system of current accounts was recognised as being more flexible and adaptable, its ad-

vantage being that it did not require additional documents.

In some instances the principles of self-sufficiency were distorted. The Rostov plant transferred workshops to full self-sufficiency—meaning that workshops had direct links with the State Bank. The bank opened current accounts for each workshop and these were independent of the current account of the plant. It was as if a special branch of the State Bank was in operation within the plant. These links led to a split in the enterprise as a single production organism and conflicted with the Resolution of the Central Committee of the Communist Party of December 5, 1929. Sometimes special accounting "for self-sufficiency" was set in opposition to general accounting. There were no common principles for forming the incentive fund. At some enterprises this fund drew 10 per cent and in others from 20 to 30 per cent of the saving made. In the Moscow auto plant, bonus payments were made if the programme was fulfilled 100 per cent, while the cable factory paid on 90 per cent fulfilment.

In spite of numerous shortcomings, noticeable results were achieved by the self-financed workshops: losses of time were cut; the volume of output increased; and a system of contracts within component units of enterprises was introduced. All this had a favourable effect on the development of the economy.

The initiative and enthusiasm of the workers was of no little significance. In the 1930s and early 40s, this was manifested in the compilation of counter-plans. The idea of these plans began with the workers' initiative to fulfil the tasks of the First Five-Year Plan ahead of schedule. Counter-plans were preceded by the organisation of socialist emulation. Their direct goal was to improve the use of equipment, raw and other materials and raise the quality of output.

The economic and organisational difficulties that arose during the industrialisation years were due to the specific conditions of the period. The country set out to build socialism without having any experience or enough resour-

ces or knowledge. A special system for industry management had to be created and the new forms and methods of management tested in practice.

However, objective difficulties were encountered in the solution of these tasks. Owing to the increasing scale of capital construction and the lack of the necessary resources, the State budget was overstrained. Temporary difficulties in supplying the population with foodstuffs and manufactured goods necessitated a transition to exchange and wages in kind. Moreover, the mistakes made in the introduction of the credit reform and in the organisation of material and technical supply stemmed from the economic theory of the 1920s concerning the essence of commodity-money relations in the transitional period.

According to that theory, the application of commodity-money relations was connected with the temporary New Economic Policy and was made necessary by the presence of the multi-structural economy. Abolition of the latter, it was believed, would bring the end to the former.

In practice, this would mean the end of the financial system, the transformation of money into transfer tokens, rejection of commodity turnover, a transition to direct commodity exchange, incompatibility of the plan and self-sufficiency, the plan and the market, and in the final analysis of socialism and the application of commodity-money relations. The logic of this was as follows: the socialist economy develops on the basis of plan alone, while the market inevitably presupposes commodity-money relations, and the two are, therefore, incompatible.

Setting the plan in opposition to the market meant setting socialism in opposition to commodity production. Since planned organisation of socialist production replaces the spontaneity of capitalism, extension of planning means the end of market relations.

This conception signified a total elimination of the functions of the market and in their place proposed a strict system of regimentation of all aspects of economic activity, and replacement of value (market) categories with accounting and distributive ones.

The introduction of self-sufficiency was connected with the application of commodity-money relations; and opposing the plan to these implied opposing it to self-sufficiency. In fact, self-financing was a method for fulfilling the state plan, but it must be remembered that during the First Five-Year Plan, self-financing had its own specific features. The socio-economic tasks of industrialisation necessitated a concentration of financial resources. The rapid change in the economic structure of production was only possible with centralised financing and regulation of capital investment and equally centralised redistribution of financial resources for the needs of current and long-term construction.

The practical fulfilment of this programme in the industrialisation years led to strict regimentation of the economic independence of self-supporting enterprises. The attempts of certain economists to present this process as the disappearance of money and a transition to direct commodity exchange were decisively rejected by the All-Union Conference of workers of socialist industry in March 1931 and by the Seventeenth Party Conference in January and February 1932.

In this way, the reorganisation of management carried out in 1929/30, the central point of which was the creation of self-financed amalgamations, led to a fundamental change in the whole system of industry management.

By the middle of 1930, however, serious defects had become evident in the functioning of the self-financed amalgamations. Investigation by the commissions set up by the SEC and WPI of the production and economic activities of the All-Union Textile Combine revealed shortcomings that, as it later became evident, were typical of all amalgamations. These were unwieldiness and inefficient functioning of the management apparatus, a lack of clearly defined rights and obligations between the functional and operational administrations. Contradictions appeared in the implementation of the reform itself. For example, the transfer of enterprises to self-sufficiency presupposed that they would be granted wide economic inde-

pendence, while the creation of amalgamation meant the opposite. The extension of production specialisation and the appearance of new branches of industry demanded an efficient organisation of the technological modernisation of industry, while a whole series of shortcomings in the functioning of the amalgamations hampered efficient direction of the industry. This was noted in the resolution of the Seventeenth Congress of the Communist Party and in the SEC (USSR) report "On the Preliminary Results of the Reorganisation of Industry Management". The question arose of making the amalgamations smaller, based on branch specialisation. From the second half of 1930 onwards, when the CLD gave the SEC permission to break up the coal and steel amalgamations, each into four new amalgamations, the process began of reducing the size of amalgamations. As a result, they ceased to be single branch authorities. Having lost the functions of planning for the whole branch, the amalgamations were no longer able to solve problems involved in the development of technology within the industry on a complex basis. The organisation of sales and supplies was divided up too. The conference of managers in June 1931 stressed that this process was taking the right direction and drew attention to the need for closer specialisation of amalgamations. A parallel process to that of reducing the size of amalgamations was the creation of specialised supplies and sales organisations.

As long as the number of amalgamations was relatively small, the SEC Presidium and the Planning, Technical and Economic Administration (PTEA) could guide them directly, but in November 1930, the SEC (USSR) Presidium decided to reduce the size of PTEA too, setting up seven branch and twelve functional sectors in its place.

A few months later, the branch sectors were reorganised into chief administrations. This is how the chief administrations for the engineering industry, the metallurgical industry and others appeared. A four-stage management system developed (enterprise—trust—amalgamation—chief committee). In this form, the amalgamations were

an intermediary link in the industry management system. The reduction in their size and the creation of chief administrations for branches of industry began the transition to branch specialisation of the central management apparatus.

This four-stage management system was not, however, suited to achieving the tasks of further reconstruction of industry. The increasing scale of production, the emergence of new industries and the increasing complexity of industry as a whole meant that the SEC of the USSR was unable to supervise all branches of industry. In order to accomplish the tasks of industrialisation in the country, particular attention had to be devoted to the development of heavy industry. It was on the basis of these requirements that the Central Committee of the Communist Party admitted the necessity, in its Resolution of February 1931 "On the Practical Work of Economic Organisations", of taking the light and the timber industry out of SEC, and setting up individual people's commissariats to run these branches. By the resolution of the CEC and the CPC of January 1932, the SEC (USSR) was reorganised into the People's Commissariat for Heavy Industry.

In this way, by the end of the First Five-Year Plan period, a branch system for industry management had taken shape. Within the industry branch, the industrial enterprise became the primary link. During the next pre-war five-year plans, further improvements were made in this branch system of industry management, specialisation of production was extended and the level of industrial production was raised on the scale of the whole national economy.

NOTES

The All-Russia Central Executive Committee

This was the supreme legislative and administrative body of the RSFSR functioning until the USSR Constitution was adopted in 1936.

The All-Union Council of Trade Unions

The highest leading body of the Soviet trade-union movement elected at the All-Union Congress of Trade Unions. The Council plays a major role in the political, social, economic and cultural life of the country. It directs the work of the trade unions in fulfilling the tasks set by the Communist Party and successfully playing their guiding role as schools of communism.

The All-Russia Extraordinary Commission for Repression of Counter-Revolution and Sabotage

This was the weapon of the dictatorship of the proletariat to ensure state security in the Soviet Republic. It was set up in December 1917 and in February 1922 was reorganised into the General Political Administration. When the USSR was formed, this in turn was reorganised into United General Political Administration, which in 1934 was included into the People's Commissariat for Internal Affairs.

April Theses

These are Lenin's theses "The Tasks of the Proletariat in the Present Revolution" which he delivered in April 1917. The April Theses summarised the enormous revolutionary experience of the Communist Party and proclaimed a general plan of struggle for the transition from the bourgeois democratic revolution to the socialist revolution.

In the economic sphere, these transitional measures included nationalisation of all the land in the country, with confiscation of all manorial lands; the merging of all banks into a single national bank; the establishment of control over these by the Soviet of Workers' Deputies, and the introduction of control over production and the distribution of output.

In the political sphere, Lenin proposed a transition from a parliamentary republic to a republic of Soviets, in which he saw the state form of the dictatorship of the proletariat. The basic requirement of the April Theses was for a transfer of power to the Soviets.

The April Theses played a leading role in showing the Communist Party and the working class the way to victory of the socialist revolution.

Brest Peace Treaty

Concluded in March 1918 in Brest-Litovsk between Soviet Russia and Germany, Austria-Hungary, Bulgaria and Turkey. The peace talks were conducted in a situation of economic ruin, general disillusionment with war and collapse of the front. For Soviet power to consolidate itself and for the independence of the young Soviet state to be maintained, it was essential that the war be brought to a halt. The peace was concluded on harsh terms.

The conclusion of the Brest Peace Treaty gave the Soviet country a peaceful breathing space. The Soviet Republic won time to consolidate the power of the Soviets, organise its economy and form the Red Army. The revolution in Germany and the collapse of German militarism in November 1918 gave the Soviet state the opportunity to annul the Brest Peace Treaty.

Central Control Commission and Workers' and Peasants' Inspectorate

The Central Control Commission of the Communist Party was set up at the Tenth Party Congress in 1921 as the Party's control organ. The Twelfth Party Congress in 1923 created the combined party and state authority to maintain the unity of the Party, strengthen Party and state discipline, and improve the work of the Soviet state apparatus. At the Seventeenth Party Congress in 1934, this body was reorganised into the Commission for Party and Soviet Control and the Nineteenth Party Congress in 1952 renamed it the Committee for Party Control.

Central Executive Committee of the USSR and of a Union Republic

These were the supreme legislative and administrative organs of power during the period from the formation of the USSR in 1922 to the adoption of the USSR Constitution in 1936.

Centrosoyus

This stands for the Central Council of Consumer Societies of the USSR, the guiding centre of consumer co-operatives in the country. It organises and directs the activities of consumer co-operatives towards a fuller development of co-operative trade, procurement and purchasing of agricultural produce and raw materials in rural localities. The highest organ of Centrosoyus is the Congress of Commissioners of Consumer Co-operatives.

Co-operative Plan

This was Lenin's plan for the transformation of small, private peasant farms through voluntary co-operation, as outlined by Lenin in his works "On Co-operation" and "The Tax in Kind".

The co-operative plan was based on the need for a union of the working class and the peasantry in the interests of the building of socialism.

Decisive conditions for the implementation of the co-operative plan were the victory of the socialist revolution, a dictatorship of the proletariat and the socialist state's possession of the leading branches of the national economy. Under these conditions, co-operation is a socialist form of economy.

With the dictatorship of the proletariat, co-operation is the only possible way of gradually involving the toiling peasants in socialist construction. It is the most comprehensive and attainable form of transition to socialism for the broad masses of the peasantry. The co-operative plan envisaged the development of all types of co-operation: from the simplest supplies and sales forms to different types of production co-operation. It was a major principle of co-operation of the toiling peasants that it should be voluntary. The co-operative plan was implemented by the Communist Party in fierce class struggle against capitalist elements in the course of the socialist collectivisation of agriculture.

The Council of Labour and Defence (CLD)

This authority had the power of a commission under the Council of People's Commissars of the RSFSR, and then of the USSR. It was formed in 1920 from the Council of Workers' and Peasants' Defence. Its task was to co-ordinate the activities of various authorities in economic construction and defence of the country. It was abolished in 1937.

The Council of People's Commissars

This was the highest executive and administrative organ of power in the Soviet Union before being reorganised in 1946 into the Council of Ministers of the USSR.

Initially formed as the government of the RSFSR by the Second All-Russia Congress of Soviets on October 25, 1917, its first chairman was V. I. Lenin.

The Council of Workers' and Peasants' Defence

This was a state agency headed by Lenin which, during the years of foreign military intervention and the Civil War, held full powers to mobilise manpower and material resources for the defence of the country. It was set up in 1918, and in 1920 was reorganised into the Council of Labour and Defence.

The Credit Reform in the USSR

This involved the introduction in 1930-1931 of direct crediting through the State Bank instead of commercial (commodity) crediting between enterprises. This created the conditions necessary for a substantial strengthening of monetary control over the activities of enterprises. As a result of the reform, the State Bank became the centre for short-term crediting of enterprises. For financing and long-term crediting of capital investment special banks such as the Industrial Bank, the Agricultural Bank, the Central Commercial Bank and the Bank for Foreign Trade were set up.

Democratic Centralism

Discovered and substantiated by Lenin, this is the basic principle of socialist management, on the basis of which the centralised state management of the national economy is combined with the development of creative initiative on the part of the working people of enterprises and local authorities and with an increase in responsibility for the fulfilment of state plans.

Dictatorship of the Proletariat

This is the state power of the proletariat established as a result of the elimination of the capitalist system and the destruction of the bourgeois state apparatus. Establishing the dictatorship of the proletariat constitutes the main content of the socialist revolution. It is a dictatorship of the overwhelming majority over the minority directed against exploiters and against oppression of the peoples and towards elimination of exploitation of man by man. It reflects the interests of all the working people.

The working class uses its power to suppress the resistance of the exploiters, consolidate the victory of socialism and rebuff attempts to restore capitalism. The dictatorship of the proletariat does not, however, consist entirely or even to any large extent in violence. Its main function is creative. The dictatorship of the proletariat is the major condition for the victory of socialism. It is used by the working class to draw the broad masses of the working people

on to its side, to educate them and involve them in socialist construction, and to transform all spheres of the life of society in a revolutionary way.

The basis and the highest principles of the dictatorship of the proletariat is the union of the working class with the peasantry under the leadership of the working class. The main guiding force in the system of the dictatorship of the proletariat is the Communist Party. In the course of the building of socialism, the social base of the dictatorship of the proletariat expands and the society becomes unified in socio-political and ideological terms. Simultaneously with the development of the social structure of society towards ever greater homogeneity, the dictatorship of the proletariat undergoes changes, and the state of the dictatorship of the proletariat develops in to the state of the whole people.

Economic Councils

These were an organisational form of management of industry of the USSR set up after the Great October Socialist Revolution on the regional (district), gubernia, town and uyezd level and guided by the SEC. The statute of economic councils was adopted by the SEC in February 1917. These bodies were under dual subordination—to the SEC and to the local Soviets of Workers', Peasants' and Soldiers' Deputies. Their main task was to regulate and organise economic activities on the local level. The economic councils carried out their activities on the basis of wide participation of the working people. They were made up of representatives of Soviets and trade unions. The decisions of the economic councils were mandatory for all enterprises and establishments within the given area and could only be countermanded by the SEC. The economic councils played a major role in the development of the national economy. They promoted the growth of production, the rise in labour productivity, the consolidation of the socialist sector and the growth of the welfare of the working people.

The tasks, functions and rights of the economic councils changed as the national economy developed. In connection with the concentration of industry management directly in the hands of the SEC of the USSR and the Supreme Economic Councils of the Union republics, the economic councils were concerned with managing local industry. In 1932 they were abolished.

Economic Reform in the USSR

This constitutes a system of economic and organisational measures to improve the planning and management of social production, economically stimulate enterprises and the working people in order to raise the efficiency of socialist production, intensify its branches and, on this basis, raise the welfare of the working people. Dur-

ing the economic reform, the transition was made to new conditions of planning, management and material stimulation of socialist production. The decision to carry out an economic reform was adopted by the September (1965) Plenary Session of the Central Committee of the CPSU and was approved by the Twenty-Third Party Congress.

Extreme Centralisation

The system of extremely centralised management of Soviet industry from 1918 to 1920 through branch chief and central administrations of the Supreme Economic Council. This system was in keeping with the tasks of war-time and was intended to mobilise the limited production resources for the country's defence needs. The chief committees managed all aspects of the activities of industrial enterprises, which had no independence in running their own affairs. They also dealt with the material and technical supply of enterprises, the sale of their output on coupons, without monetary payment. After the transition to peaceful construction, this system of management was replaced by a new one based on a combination of the principles of centralised management of enterprises with their economic independence and initiative and on the application of the principles of economic self-sufficiency.

Factory Committees of Trade Unions

These are organs of the primary trade-union organisations elected to deal with current trade-union work within the industrial enterprise.

Five-Year Plans (the First Five-Year Plan)

The First Five-Year Plan for developing the national economy of the USSR covers the period 1928 to 1932. The five-year plans are state plans for the development of the national economy and culture of the Soviet Union. Each five-year plan represents a stage in the building of socialism and communism. As a result of the fulfilment of the First Five-Year Plan, the foundations of socialism were laid, the USSR was transformed from a predominantly agricultural state into a developed industrial one. Other results were that, in the main, the small, divided peasant farms were set on the path towards large-scale collectivisation, the conditions were established for the final elimination of capitalist elements and the country's defences strengthened.

Food Requisitioning

Requisitioning was a means employed by the state to procure agricultural produce during the period of War Communism. In the conditions of the Civil War and economic ruin, the Soviet authorities did not have enough industrial goods at their disposal to ex-

change for agricultural produce. The only way to obtain foodstuffs to supply the workers and the fighting armies was to requisition the peasants' surplus produce. Food requisitioning was conducted according to the class principle, and it fell most heavily on the kulaks and prosperous peasant farms. In implementing the food requisitioning policy, the socialist state relied on the military and political union of the working class and the toiling peasantry, who had an interest in victory over capitalism and the landlords. Food requisitioning created the conditions for supplying the army and workers with foodstuffs and for victory over the enemies of the socialist state. It did not, however, stimulate personal interest in the development of the peasant economy, and so after the end of the Civil War, it began to hold back the development of agricultural production. In 1921 it was replaced by a food tax.

The Food Tax

This was a tax in kind levied on peasant farms introduced in 1921 to replace food requisitioning. The decision to introduce the food tax was adopted at Lenin's recommendation at the Tenth Congress of the Communist Party in 1921. The tax was smaller than the amount previously requisitioned and once the tax was paid, the peasants had the right to sell surpluses on the market.

Foreign Military Intervention and the Civil War in the USSR

From 1918 to 1920, the young Soviet Republic came under military attack from the imperialist states, together with the Russian counter-revolutionary bourgeoisie and landlords. Their goal was to destroy Soviet power, reinstate the power of the bourgeoisie and turn Russia into a colony of the foreign imperialists. These attempts were totally defeated as a result of the heroic struggle of the workers and peasant masses of Russia against the interventionists and the White Guards. The struggle of the working people against the enemy was organised and led by the Communist Party, under whose leadership the workers and peasants defended the socialist revolution and created the conditions for the building of socialism.

Gosplan (the State Planning Committee of the USSR Council of Ministers)

Gosplan is the scientific economic planning authority of the Soviet Union. Initially, the functions of national economic planning were fulfilled by the SEC under the guidance of the Communist Party. In 1920, a state commission was set up to draw up a plan for the electrification of Russia. Gosplan was formed by decree of the Council of People's Commissars in 1921 as the state general planning commission under the Council of Labour and Defence "to

work out a state economic plan on the basis of the electrification plan approved by the Seventh Congress of Soviets and to exercise overall supervision of this plan". With the consolidation and development of the socialist economy and the appearance of new industries, the functions of Gosplan expanded and extended.

Groups

These were the main form of production amalgamation in the textile industry.

Gubernia

This was an administrative and economic unit in Russia that was retained during the first years of Soviet power. In connection with the new geographic division of the USSR in 1924-1929, it was replaced by divisions called regions and districts.

"The Immediate Tasks of the Soviet Government"

This work by Lenin presents a plan for starting the building of socialism in Soviet Russia. It was written in the spring of 1918. It lays down the principles of the economic policy of the Soviet government in the transitional period from capitalism to socialism. Lenin indicated the need to create new socialist production relations on the basis of social ownership of the means of production. He considered one of the immediate tasks to be the introduction of the strictest accounting and control over production and the distribution of output, viewing this as the first step towards socialism, as one of the essential conditions for laying the foundations of the socialist economy.

Lenin considered the attainment of a higher labour productivity than under capitalism, organisation of socialist emulation and the introduction of a new, socialist labour discipline as the main conditions for the victory of socialism.

He also devoted considerable attention to the strengthening of the dictatorship of the proletariat and an all-round increase in the role of the state in socialist construction.

Under the guidance of the Communist Party, Lenin's plan for the building of socialism has been successfully implemented.

"Left-Wing Communists"

These formed a group hostile to the Communist Party. It arose in connection with the conclusion of the Brest Peace Treaty at the beginning of 1918 and supported a policy of drawing the young Soviet Republic into the war with Germany, which would have threatened the existence of Soviet power in Russia. The "Left-wing

Communists" were defeated by the Communist Party and the Brest Peace Treaty was concluded. The Soviet state won time to gain strength and consolidate its economic and defence power.

The Material and Technical Base of Socialism

This means large-scale machine-dominated production covering all branches of the economy and based on social ownership of the means of production. Advanced and rapidly developing technology, a high level of concentration, specialisation and co-operation in production and a steady growth of labour productivity are its inherent features. The material and technical base of socialism is created according to plan during socialist construction. Socialist industrialisation is a major means for building this base. The construction of the material and technical base of socialism ensures the complete domination of social ownership of the means of production and socialist production relations, the elimination of the exploiting classes and the reasons for the exploitation of man by man. It also ensures a growth in the cultural and technical level of the working people, a gradual increase in their welfare and a strengthening of the defences of the socialist state.

The technical foundation of the material and technical base of socialism is formed by electrification of the national economy, widespread use of mechanical power in production and a transition to extensive automation of production processes. In the USSR, the material and technical base of socialism was constructed in the main during the first (1928-1932) and the second (1933-1937) five-year plans.

The Monetary Reform, 1922-1924

This was reformation in the monetary system put through by the Soviet state to improve the running of economic activities in the country, strengthen the socialist sector and improve the welfare of the working people. It consisted of devalued paper money being replaced by stable credit money—*chervonets* (10 rubles) and by stable exchangeable Soviet tokens. The reform led to a stabilisation of the ruble and consolidation of the system of money circulation in the country. It contributed greatly to the smooth running of the New Economic Policy, to the strengthening of the socialist sector and organisation of economic relations between industry and agriculture.

New Economic Policy (NEP)

NEP was the economic policy of the socialist state during the period of the transition from capitalism to socialism. It was intended to create the foundation for a socialist economy using commodity-money relations, to develop socialist industry and to strengthen its links with agriculture in order to involve the toiling peasantry in socialist construction.

NEP envisaged the restriction, ousting and then the elimination of capitalist elements. NEP was adopted in the spring of 1921 after the end of the Civil War and foreign military intervention. The main task of this policy was to establish the economic union of the working class and the peasantry in the interests of the victory of socialism.

The main measures in the transition to NEP were the substitution of a tax in kind for food requisitioning and permission to conduct private trade, while the leading spheres in the economy were retained in the hands of the socialist state. The decision to replace requisitioning with a tax in kind was approved by the Party's Tenth Congress in 1921 at Lenin's suggestion.

The restoration of the economy after its destruction during the war would have been impossible by developing only the socialist forms of economy; it required a revival of private capital, a slight temporary retreat. The transition to NEP did not signify the peaceful coexistence of capitalism and socialism, but a class struggle according to the principle of "Who will beat whom". The outcome in favour of the socialist forms of economy was determined by the fact that the proletarian state concentrated in its hands the key branches of the economy in the form of large-scale industry, the banking system, transport and foreign trade. The new economic policy helped strengthen the firm union of the working class with the toiling peasantry and, consequently, the dictatorship of the proletariat—the major weapon in the struggle for socialism.

Socialist industrialisation and co-operation in agriculture and the development of Soviet trade ensured the economic victory of the socialist forms of economy over the capitalist. Once the foundations for socialism had been laid and complete dominion of the socialist economic forms was ensured, NEP had outlived its usefulness. The main principles of the economic policy of the transitional period from capitalism to socialism are applied in other countries building socialism.

"On Co-operation"

This work was written by Lenin in 1923. In it, Lenin gave a broad plan for the socialist transformation of agriculture by involving the toiling peasantry in socialist construction through co-operation on a voluntary basis.

One-man Management

One-man management is one of the major principles of management under socialism, requiring subordination of the workers' collective of the industrial enterprise or establishment to the will of a single individual—the head (director and so on), and his personal responsibility for the task entrusted to him.

In socialist society, one-man management is combined with the wide-spread participation of the working people in management, discussion and solution of problems connected with the development of social production.

People's Commissariat

This was a central authority for an individual branch of state management in the RSFSR, then in the USSR and Union and autonomous republics. People's Commissariats were set up in October 1917 after the victory of the Great October Socialist Revolution. In March 1946, they were reformed into Ministries.

Private Ownership

This is the form of appropriation under which the means of production and consumer goods belong to private individuals. Private ownership emerged during the period of the disintegration of the primitive-communal structure and the emergence of the slave-owning society. The slave-owning, feudal and capitalist modes of production are based on private ownership. On the average, it is most developed when the great bulk of the social wealth, and above all the means of production, are concentrated in the hands of a small group of owners exploiting huge masses of working people. Under capitalism, the growing socialisation of production takes place in antagonistic contradiction with private ownership: productive forces reach a level at which they outgrow their limits and necessitate the establishment of social ownership of the means of production. The need to eliminate private ownership becomes more and more pressing. Clear proof of the historically transient nature of private ownership is provided by the Great October Socialist Revolution in the USSR. After the socialist revolution, private ownership of the means of production is withdrawn from the capitalists and is turned into social ownership through nationalisation. The private property of peasants and artisans based on personal labour is transformed into socialist property by means of co-operation of their farms on a voluntary basis.

The Reconstruction Period in the USSR (1921-1925)

This was the period over which the country's economy, ruined during the First World War and then during the period of foreign military intervention and Civil War, was restored.

Nationalisation of industry, the banks, transport, foreign trade and the implementation of the economic union of the working class and the peasantry created favourable conditions for a rapid rehabilitation of the national economy. The reconstruction of industry was based on the New Economic Policy, without foreign assistance. The

socialist sector soon squeezed private capital out of industry and trade; the peasants combined voluntarily into co-operatives; the living standards of the working people improved. As a result, the conditions were prepared for socialist industrialisation.

*Russian Communist Party (Bolsheviks);
All-Union Communist Party (Bolsheviks)*

These were the names given to the Communist Party at different periods. Up to March 1918, the Communist Party was called the Russian Social-Democratic Party (Bolsheviks). At the Seventh Congress of the Party in 1918, it was renamed the Russian Communist Party (Bolsheviks). After the formation of the USSR, the Fourteenth Party Congress in 1925 approved the new name, the All-Union Communist Party (Bolsheviks).

Self-Sufficiency (Self-Financing)

Self-financing is a method for the planned running of socialist enterprises based on economic independence and commodity-money relations. It presupposes assessment of the enterprise's outlays and the results of its economic activities in money terms, the covering of outlays from the enterprise's own income, operation at a profit, material interest and responsibility of the enterprise and its workers.

Self-financing enterprises possess a certain economic and day-to-day independence within the framework of the state plan. They are allotted specific material and monetary resources needed for their production activities, they are made responsible for fulfilment of the production plan and economical use of resources available. Material incentives for the workers are introduced at self-sufficient enterprises. The individual material interest of each worker is combined with the interests of the entire collective. Self-sufficiency envisages a constant struggle to reduce production costs and distribution overheads. The relations between the enterprise and the state are based on the principle of a combination of centralised planned management with initiative on the local level.

Socialist Industrialisation of the USSR

This is the process by which the economic backwardness of the country is eliminated and it is turned into an advanced industrial state by the creation and development of the branches of heavy industry as first priority—the foundations of the material and technical base. In the course of its construction, the victory of the socialist form of economy over the capitalist and petty-commodity forms was ensured, as was the restructuring of the economy on the basis of scientific and technological progress, the overcoming of the technical and economic dependence of the country on the capitalist countries and the strengthening of the USSR's defence potential.

Socialist industrialisation was directed at overcoming the contradictions of the transitional period from capitalism to socialism and raising the material and cultural standards of the working people. It made it possible to supply agriculture with the most advanced technology, created the conditions for its reformation along the new lines of voluntary co-operation of the peasants' holdings and strengthening of the union of the working class and the peasantry. The main sources for socialist industrialisation were the incomes of nationalised industry and the accumulations of agriculture, the banking system, internal and foreign trade.

Socialist industrialisation proceeded at a rapid rate. Owing to the advantages of the socialist system of economy, the USSR was able to industrialise in a very short time. During the first two five-year plan periods (1928-1937) the USSR was transformed from a primarily agricultural backward country into an industrial power. The share of large-scale industry in the gross product of industry and agriculture increased from 42.1 to 77.4 per cent in the period 1913-1937. The creation of heavy industry was the basis for the growth of labour productivity and a constant increase in the welfare of the working people, and for strengthening the defence capacity of the country.

Socialist Nationalisation

Socialist nationalisation is the revolutionary expropriation by the proletarian state of the property of the exploiting classes and its transformation into socialist state property, i.e., the national wealth. Socialist nationalisation is an objective necessity, a major component part of the revolutionary process of the transition from capitalism to socialism. It eliminates capitalist property, destroys the economic domination of the exploiting classes and creates a socialist sector in the economy.

The ways, methods and rate of socialist nationalisation of the main means of production are determined by historical conditions. In the USSR, nationalisation of the main means of production began immediately after the Great October Socialist Revolution.

The nationalisation of bourgeois property took the form of confiscation, requisitioning and sequestration. Confiscation was of particular importance as the compulsory and uncompensated alienation of the property of the bourgeoisie by the Soviet state. Requisitioning was also wide-spread. In contrast to confiscation, it provided for the payment of compensation for nationalised property. In preparation for nationalisation of bourgeois property capitalist enterprises were sequestered, i.e., the owner's rights were temporarily limited and he was prohibited from disposing of his own property by a government act.

The nationalisation of large-scale industry, the banks, transport and foreign trade meant that the Soviet state undermined the

economic power of the bourgeoisie, took the key sectors of the national economy into its hands and created the socialist socio-economic structure within the economy.

Socialist Ownership

Social ownership of the means of production and consumer goods is called socialist ownership. It forms the economic basis of socialist society and its production relations. Socialist ownership emerges as a result of the socialist revolution through the socialisation of large-scale private capitalist property and the transformation of the petty private property of peasants and artisans by co-operation of their farms on a voluntary basis.

The domination of social ownership puts an end to the exploitation of man by man, liberates man from all forms of oppression and social dependence and creates wide opportunities for the planned and continuous development of social production, an increase in the productivity of social labour, a constant growth of the welfare of the working people and the all-round flourishing of the individual.

Socialist, Petty-Commodity and Capitalist Structures

These were the main socio-economic structures (sectors) inherent in the economy of the transitional period from capitalism to socialism. Apart from these structures, there existed in the economy of the USSR during the transitional period elements of the patriarchal peasant economy and state capitalism.

The socialist structure combines state enterprises arising through the socialist socialisation of the means of production that had been the private property of the exploiting classes, and also co-operative enterprises formed by the voluntary amalgamation of some of the peasants and artisans into different forms of co-operative.

The petty-commodity structure covers the economies of petty-commodity producers—peasants and artisans—whose production was based on private property and personal labour. In the USSR, the petty-commodity structure at the beginning of the period of transition from capitalism to socialism included the majority of the population and played a substantial role in the national economy.

The capitalist structure is composed of the enterprises of the bourgeoisie in the town and country. In the town, this sector is represented by the enterprises of private industry and in the village by kulak farms. As the problems of the transitional period from capitalism to socialism are solved, the socialist structure becomes completely dominant. The petty-commodity structure is gradually transformed into the socialist on the basis of co-operation of the small economies of peasants and artisans on a voluntary basis, while the capitalist structure is abolished.

Soviets of Working People's Deputies

These are representative organs of state power forming the political base of the USSR.

The Soviets emerged in Russia during the 1905-1907 Revolution as Soviets of Workers' Deputies. During the February bourgeois democratic revolution in 1917, Soviets of Workers' and Soldiers' Deputies were set up everywhere, as were Soviets of Peasants' Deputies. In 1918, at the Third All-Russia Congress of Soviets, the Soviets of Workers' and Soldiers' Deputies were merged with those of Peasants' Deputies. The Soviets of Workers', Peasants' and Red Army Deputies were reformed in 1936 by the USSR Constitution into Soviets of Working People's Deputies.

Lenin stated that the Soviet Republic was the state form of the dictatorship of the proletariat. Soviet power became the most mass organisation of the working people in the struggle for the socialist restructuring of society.

The State Bank

This is the bank of issue, the main bank for short-term crediting and the unified accounting and cash centre in the country. It was established by decree of the Council of People's Commissars in October 1921 and is now the largest bank in the world in terms of the volume of its operations, the sum of concentrated resources and the size of its network of branches.

The Supreme Economic Council (SEC)

This authority was set up in December 1917 to regulate the economic life of the country according to a plan, co-ordinate and combine the activities of all economic establishments and guide the local agencies. The SEC was empowered to nationalise enterprises and take other measures necessary in the organisation of production and distribution. Individual branches of industry were headed by chief and central administrations. On the local level, there were economic councils subordinate to the SEC and the Soviets of Workers' and Soldiers' Deputies. The SEC structure changed in accordance with the tasks of socialist construction. During the period of the First Five-Year Plan, the rapid growth of industry made it necessary to concentrate management in smaller units. On the basis of the SEC, people's commissariats were set up to manage individual branches of industry and this made it possible to concentrate the resources for creating the leading branches of heavy industry in the hands of the state and also created the conditions for rapid socialist industrialisation of the country.

Syndicate

A syndicate is one of the forms of capitalist monopolistic association. It constitutes an agreement between capitalist entrepreneurs on the sale of output. The syndicate undertakes to sell the goods of its enterprises, depriving them of their commercial independence; it determines the amount of output they are to produce, distributes profits among them, and so on.

During the NEP period, economic organisations combining groups of trusts producing a homogeneous product, for the purposes of wholesale trade, raw material purchases and the planning of trading operations were also called syndicates. The main task of these syndicates was to organise the sale of output of state industry.

Target Figures for the Development of the National Economy of the USSR

These constitute the first outlines for the annual plans for the development of the national economy between 1925 and 1930. Since during the transitional period from capitalism to socialism, capitalist and petty-commodity structures were still in existence, the target figures included, along with the plan targets for the socialist sector, measures for regulating the private sector through a policy of prices, taxes, credit, development of co-operation, etc. The target figures were laid down by Gosplan. As the socialist sector developed, they were gradually transformed into an annual national economic plan. In 1931, transition was made from target figures to a state annual plan for the development of the national economy.

The Transitional Period from Capitalism to Socialism

This is the period in history beginning from the time when the working class, in alliance with the peasantry, wins political power and takes the key branches of the economy into its hands, and ending with the construction of socialism. During the transitional period, the working class overcomes the resistance of the exploiters and fundamentally transforms the national economy, develops productive forces, builds the socialist economy, tempers itself as a force capable of running the country and re-educates the petty-bourgeois masses.

The economy of the transitional period results from the overthrow of capitalism, the establishment of the dictatorship of the proletariat and socialist socialisation of the main means of production. The major socio-economic structures of the transitional period are socialist, petty-commodity and capitalist. Along with these, the transitional period might include other forms of economy such as the patriarchal economy and also state capitalism. The classes corresponding to the main structures of the transitional period are the working class, the petty bourgeoisie (particularly the peasantry) and

the bourgeoisie. The main contradiction of the transitional period is that between moribund capitalism and growing socialism.

This period witnesses a battle between emerging socialism and capitalism that has been overthrown but has not yet disappeared. The socialist state pursues an economic policy aimed at building socialism on the basis of the union of the working class and the peasantry under the guidance of the working class. The transitional period comes to an end with the elimination of capitalist elements in industry and agriculture and the victory of socialism throughout the economy.

Trusts

A trust is one of the forms of capitalist monopoly, developing from concentration of production, under which its member enterprises lose their independence and are subordinate to a unified management.

In a socialist economy, a trust is one of the forms of the organisation of industrial production. During the transitional period from capitalism to socialism, trusts formed the intermediary link in the system of the centralised management of state industry. They combined a number of enterprises producing similar or complementary articles. The characteristic features of the trust were their legal isolation; economic independence within the framework of the established plan and in accordance with existing legislation; unity of production programme, administrative management, technical supervision, financing and material and technical supply. The trust form of organisation was not a stable one. It developed, improved and adapted to changing circumstances, acquiring new characteristic features.

Uyezds

The uyezds was an administrative, judicial and financial unit in Russia. Uyezds existed in the USSR up to 1929.

War Communism

The economic policy of the proletarian state during the period of the Civil War and foreign military intervention from 1918 to 1920, under conditions of economic ruin and shortage of resources. It was based on a military and political union of the working class and the peasantry in the struggle against their enemies. The War Communism policy was necessitated by the need to mobilise all the resources of the country for the needs of the army. Universal labour conscription was introduced for the able-bodied population; in order to supply the workers and the army food requisitioning was introduced under which the peasants handed over all their surplus produce to the state. All large and medium-scale industry and a part

of small-scale industry was concentrated in the hands of the state and it was controlled by central authorities supplying industry with fuel, raw and other materials and also distributing the finished products according to coupons rather than for money. The population in the cities was supplied with consumer goods according to ration cards, with the workers enjoying an advantage. Private trade in foodstuffs and other essentials was forbidden and a monopoly over grain sales was introduced.

The War Communism policy ensured the victory of the proletarian state in the Civil War. Once the war was over, the policy was abolished and the Soviet government went over to the New Economic Policy (NEP).

Workers' Control over Production and the Distribution of Output

This consisted of a system of measures by the working class of Russia aimed at preparing for the socialist socialisation of production. It was first applied after the overthrow of tsarism in the spring of 1917. During this period, the main task of workers' control was to protect industry from being destroyed by the capitalists who were thus attempting to stifle the imminent socialist revolution. Workers' control became generally wide-spread after the victory of the Great October Socialist Revolution as a measure aimed at limiting the economic power of the bourgeoisie and assisting the transition to nationalisation of large-scale industry, the banks, transport and foreign trade.

Workers' control was extremely important in maintaining production in the initial, most difficult period of the socialist revolution and in suppressing capitalist sabotage. In the organs of workers' control, the proletariat passed through a school of industrial management and gained experience in regulating industry. This was of great importance for the preparations for and actual nationalisation of large-scale industry.

Workers' Opposition

This was an anti-Party anarcho-syndicalist group that emerged in 1920. It rejected the guiding role of the Communist Party, the significance of the dictatorship of the proletariat in economic development and set the trade unions in opposition to the Communist Party and the Soviet state. The Workers' Opposition was routed by the Communist Party.

REQUEST TO READERS

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of small-scale industry and handicrafts in the country. The
new economic policy was a necessary step towards the building
of socialism. It was a policy of compromise, a policy of
flexibility, a policy of adaptation to the conditions of the
country. It was a policy of gradualism, a policy of
pragmatism, a policy of realism. It was a policy of
common sense, a policy of common sense.

The War Communism policy, which was a policy of
extremism, a policy of rigidity, a policy of dogmatism,
was a policy of failure. It was a policy of
disaster, a policy of disaster.

REPORT TO READERS

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Workers' Cooperative

This was an anti-Party newspaper, which was
published in 1920. It was a newspaper of the
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