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Stalin's Industrialization, Great Depression, and Western business: peculiarities of Russia's international economic relations in the 1930s

The Great Depression of 1929-1933 in the USA is pretty well studied and known to every economist and historian. Simultaneous economic troubles in the USSR at the beginning of 1930s some scholars also name a crisis, but of peculiar nature and without loud name. The main issue of the paper presented – brief description of the said Russian crisis and economic relations between the foreign firms and the Soviet state in the period, fateful for the future of capitalist and communist systems.

By the beginning of the XX century the capitalist world entered the age of industrial economy and society. For the United Kingdom, USA, Germany, France, pre-revolutionary Russia and other countries with factory industry it was organic, spontaneous continuation of the previous development, while the Soviet power started, in the end of 1920s, so-called forced industrialization, surpassing by tempo all earlier industrial revolutions. As Joseph Stalin commented, the Soviet industry must pace in ten years the way that the leading capitalist powers moved on through one century and a half, "otherwise they will crush us". It is noteworthy, that the program of Industrialization was to be fulfilled without outside financial aid or loans, hardly possible after Soviet refusal to redeem pre-revolutionary Russian debts. The prime goal and reasoning was political. Not only Russia borrowed foreign technical achievements, but her case was remarkable: the communist leaders took position of prophets and builders of new economic, political and social order in business partnership with foreign firms (public-private partnership).

Every formal and informal relation with foreign companies the Soviet government took upon itself. The state performed functions of business partner, customer, guarantor of completing transactions, and the owner of results and products of doing business with foreign counterparts. In accordance with technical assistance agreements and individual contracts, engineers and skilled workers from the USA and West Europe went to the Soviet Union to supervise and train Russians at the "great work-sites of socialism". Hundreds of Russian trainees were sent abroad to learn advanced know-how and master new techniques.

In spite of fundamental differences between the USSR and capitalist world, certain common criteria of economic progress did exist in the industrial era, such as growth and diversification of the material production, its scientific and technical support, improvement and strengthening the economic foundations of public security and defense capability. Both used mass production technologies, similar organization of manufacturing process, enjoyed benefits of scientific and technical progress. All that made ground for collaboration – at least, before the Cold War.

Concessions, granted in the USSR to foreign companies in the 1920s, embodied capitalism, alien to the Soviet regime, but the "neutral" machinery and know-how could be imported in quantities. It was thought that if they successfully worked to benefit capitalists, they would work for the laboring class even better. The Soviet economic executives were sure that in absence of such evils of capitalism, as "market anarchy", economic crises, unemployment and strikes, the highly productive big enterprises, built in the USSR, would help to lift the Soviet economy to unbelievable heights.

At a glance, so simple idea was convincing and logical. And the news about Great Depression sounded like a funeral melody for capitalism: the sudden panic at the New York Stock Exchange in October 1929, then the waves of bankruptcies and losses in financial and industrial spheres, distressed people standing in lines before the labor exchange offices, marches of unemployed, losing property bought in credit and money on bank accounts. Nothing of the kind happened in the Soviet Union. But...

The Soviet crisis: peculiar features

The USSR stood aside of economic crisis of capitalism, but Stalin's policy of forced industrialization ("whipping up" the country, by his expression), created enormous hardship and tension. In spite of setting up in 1921 the State planning committee (*Gosplan*) and introduction, since 1928, the sequent Five-Year plans, the national economy was not ready to work like a wound-up mechanism. Proper coordination and synchronization between various branches and industries was far from completion, if such an ideal is ever attainable by administrative methods. The Soviet enterprises were governed from above, by higher-standing hierarchies, and the birth of such system was accompanied by various discords and backlogs. So-called controlling or official figures of general Five-Year plans were subject to corrections by respective ministries and enterprises per year, quarter of the year, and even per month¹. It gave to the operative units some flexibility, but added discord in their work.

The main economic illness of the 30s – discrepancy between the planned targets and available resources, caused lack of supplies of all kinds – material, financial and human. The Soviet enterprises could not freely purchase what they needed. A market of supplies was absent. Gosplan not only determined for each enterprise the investment to be made in facilities and workers, but also its output, range of goods to be produced, wages and salaries, prices paid and prices charged. The trade was replaced by the state procurement and distribution system with numerous limitations and quotas, including hard currency allotments. High tempo of construction of a big plant required close cooperation with many dozens of suppliers, appointed by the state, but they also had their own tasks and resources, and reconcile all this proved to be a very complicated process. Any unforeseen setback could spoil the expected result.

Lack of transportation facilities, low capacity of port terminals and railroads, trifling automobile transport, poor state of roads, shortage of raw materials, were aggravated by the accumulation of supernumerary, above-plan stocks of materials, spare parts, fuels, and hiring additional workforce – to meet enlarged tasks in a near future. In centrally-planned procurement

system, operative units tried to “knock out” surplus funds by lobbying and exhortation. One more problem was training of engineers, technicians and workers able to master the most advanced know-how, and run successfully new enterprises. By the beginning of the Industrialization they were too few in numbers to complete ambitious tasks. The First Five-Year plan (1929–1933) became the hardest and most tense in the Soviet history.

The Soviet leadership shifted financial planning in favor of heavy industry, while export was blown up in order to receive hard currency for buying machinery and know-how in the West. The state monopoly for foreign trade allowed to sell abroad all what could be bought. The Soviet exports consisted of traditional Russian goods – grain, timber, oil products, manganese and zinc ores, furs, caviar, etc., plus confiscated items of cultural heritage – antiques, works of art and worship decorations from closed churches.

Lack of supplies for industry and construction works was aggravated by acute deficit of all necessities of life. Forced industrialization stimulated urbanization and sharp growth of the city population. Streams of migrants moved from rural areas to building sites and manufacturing enterprises to earn money. Their concentration in the industrial centers raised demand for food, housing, stores, municipal transport and consumer services. Small businesses, which provided a good part of local life support, had been liquidated not long before, while the respective state infrastructure was in embryo.

Speed-up collectivization of peasant households, and organization, under state pressure, of collective farms (*kolkhozy*) destroyed traditional village communities. Major agricultural producers – substantial peasants were expropriated and exiled with their families to the wilderness in the North and Siberia to work as timber cutters, diggers and other unskilled laborers. They replenished the ranks of those who needed supplies. The hardships of life were aggravated by the terrible famine of 1932-33, initiated by unhappy contingency of crop failures, abuses and calamities of collectivization, enforcement of export to earn hard currency for

Industrialization. In 1929–1931 exportation of grain increased from 200,000 tons to 5 millions, or in 25 times!².

The Soviet statistics show the dynamics of the state investment allocation in the main branches of the national economy in 1929-34. Average investments per year in agriculture were the biggest – 3243 million rubles, but they did not grow (0%). Zero growth of investments remained in the light industry (consumer goods), trade, education, health, housing, municipal services. They were financed, some of them substantially, but in fixed volumes. Meanwhile, yearly investments into machine building, iron and steel making, construction materials, wood cutting and logging grew up sharply – 86, 70, 60, 34 percents respectively. Other important industries – electrical power, petroleum, coal, communications, etc. received smaller additional capital³.

The heavy industry and other producer goods became, at least for a long time, the prime goal. 56% of investment went to metals, machinery, construction materials, chemicals and fuels, and only 6% was spent on housing and municipal services, including electrical distribution network in quickly enlarged cities. Although a part of such products as kerosene, wood, electricity were consumed, the underinvestment to urban development was a major factor behind the harshness of life. Peasants met even more problems with supplies of every kind which they could buy only in meager city stores. The collective farms were obliged to sell their production to the state for fixed prices, but peasants had the right to cultivate their small individual lots (kitchen gardens) and sell surplus at the cities marketplaces allotted for them. But bad roads and long distances often, especially in springs and falls, hampered the rural-urban economic ties.

Even with big cash one could buy a little, if any. People stood in long lines before closed stores since night to morning hours, just like Americans besieged the banks trying to take back their savings. Impossibility to buy producer and consumer goods without problems (lobbying and queues as alternatives) led to increasing transaction costs. Per head consumption curve became sliding down in 1929 to the bottom in 1932-33, and went up in 1934

and after⁴. The coincidence for time with Great Depression is striking, but the appearance and consequences of both crises were different.

To prevent the monetary hangover, or the pressure of saved cash on the scarce stock of goods, which aggravated crisis of supplies, the Soviet power displayed a real entrepreneurial inventiveness. Besides the *Torgsin* operations (see below), the state introduced overestimate prices for the consumer commodities, growing of production and selling vodka, and compelling the population to subscribe for the long-term loans to the budget.

As there were no private property⁵, stock exchange, stock-jobbing, and notable cash savings in the USSR, plain Russians had nothing very much to lose. The Soviet economic crisis in the beginning of 30s resembled that of wartime or post-war years – extreme shortage of supplies, resulting in deficit of food products and other commodities in common trade network, the introduction of rationing system (1931-1935)⁶ with exceptions for the privileged few, and, on the other hand, black market with a variety of goods offered for enormous, speculative prices. A part of people which kept at home, in hiding places, some jewelry, gold coins or foreign hard currency, could survive by changing them at illegal “black” market, or in special state stores (*Torgsin*) for quality food and good wearing apparel. The socialist state made profit on such operations⁷. Social and human side of these scenes looked, perhaps, more awful than many financial panics in the West.

In the United States, the high unemployment rate – up to 25% in 1932, and decline in production were the most tangible indicators of Great Depression. In the Soviet Union unemployment was absorbed by great demand for labor to reconstruct the old and build the new plants, mines, canals and roads, and also by concentration camps (the *GULAG* system). Hired labor was not enough, and bonded work by convicts became a form of punishment and “social rehabilitation”.

As is known, the technical side of Industrialization could not be completed without Soviet state cooperation with Western manufacturing, engineering and machine-building companies, most importantly, with those

in the United States and Germany⁸. It was a historical example of public-private partnership, but in two different systems.

Technical Assistance in the time of troubles

In industrial sphere, the main task of the First Five-year plan was aimed at the creation of basic capital-intensive enterprises, like aircraft, automobile, tractor, chemical, electrical, machine-building plants, electric power stations, and place a part of them in less developed eastward areas – the Urals and West Siberia. By 1933 about 1,500 enterprises had to be built anew or reconstructed.

The contracts looked attractive to both sides: foreign companies were not obliged to make risky investments, and the Soviet engineers and workers got the best opportunity to take over Western technologies and skills. The USSR tried to establish favorable trade balance with every nation, and obtain long-term credits. In 1929-1933 the Soviet Union had favorable (to various grade) trade balances with France, Italy, the United Kingdom, and the smaller European countries, while trade with the United States before and during the Great Depression, and since 1930 with Germany, remained unfavorable⁹.

Technical assistance was not limited to the delivery of blueprints, patents and machinery, or advising and evaluating the Soviet designs. They had a number of purposes. The contracted firm either amended or finished the Soviet project, or prepared a detailed construction or technological design of the enterprise. The company was obliged to attach full descriptions (specifications) of materials, equipment, tools and machinery, all necessary know-how, patents, licenses, etc.; to send her best experts to the Soviet Union to provide supervision at the construction site and help to launch the enterprise; to admit a certain number of Soviet engineers and workers to study the production methods at the plants.

Soviet contracting agency had to compensate all expenses, including costs of design, fees and per diem allowances to employees, sent to the USSR, provide them with suitable lodgings, interpreters, stationery etc. The firm also received cash reward (as a profit) either a stipulated per cent of

general estimate of works, or a fixed sum. The Soviet organization supplied workforce, materials, and financed construction works. In absence of diplomatic relations before 1934, all negotiations with, and payments to the American firms went through the Amtorg trading corporation of New York – an intermediary, established in 1924 and secretly governed from Moscow.

Foreign firms worked in close contact with Soviet specialists, who formulated demands and tasks, made corrections, evaluated and approved prepared designs, selected equipment, tools and machinery according to received specifications. Purchase orders were placed at those companies, which gave better credit terms or sold cheaper; the designing firm was not necessarily a supplier. That was why the large Soviet industrial undertakings received drawings and equipment from a number of American and European companies.

In September 1927 the “Standing committee for technical and scientific links with America” was created in the top Communist Party authority, Politburo. A.C. Sutton enumerated 118 technical assistance agreements operated in 1920-1930 (mostly in 1928-1930), and 218 in 1929-1945, of which 64 and 139, or 54 and 64 percent respectively, were concluded with U.S. companies¹⁰. The largest enterprises in Europe, like the Dnieper hydro-power station, the Stalingrad, Kharkov, Chelyabinsk tractor plants, the Magnitogorsk iron and steel works, the Nizhniy Novgorod (Gorky) automobile factory utilized the newest American achievements.

All payments to foreign companies were under constant watch of influential “Hard Currency Commission” (*Valiutnaya Komissiya*) of Politburo, which controlled foreign exchange accumulation and spending. However, the industrialization burdens were also shared by the Western companies hired to render technical assistance. To comply with Soviet demands and accomplish projects tasks or orders, they bore additional costs. Managers and engineers, sent to the Soviet Union, had to overcome unforeseen and inadequate hardships of life and work. For example, group of specialists of the Austin company (Cleveland, Ohio) who lived in the American Village near the Nizhniy Novgorod auto plant under construction in 1930-31, felt the Soviet crisis to full extent – poor organization of work, lack of building

materials and other supplies, scarcity of food, of stationery, of interpreters, and, on top of it all, found themselves in the midst of disputes and quarrels between the Soviet state agencies responsible for the completion of the largest auto plant in all Europe¹¹. Even more difficult was the life of foreign workers on contract¹².

European industrial experience seemed applicable to many Soviet specialists. However, to produce cheaper and in larger volume, the Soviets needed giant enterprises of American size. U.S. technical assistance was preferred in hydro-power plants erection, mining, chemistry, metallurgy, electrical engineering, but mostly in automotive, tractor, aircraft motors and other standardized mass production¹³. Its significance was appreciated despite unfavorable trade balance – in 1929–1931 the Soviet exports in the USA-USSR trade balance went down sharply – from 19,4% to 8,9%, and in 1932-33 the import from the U.S. practically ceased¹⁴.

The Soviet Government was sure that economic troubles in the West would force capitalists to seek for any job at any conditions, but situation turned another. The downfall of world commodity prices and the protectionism of Germany, Britain and the United States made export-led economy infeasible. American interest to big Soviet orders increased, cash earnings and additional working hours could help companies to conduct business. However, their costs increased – designing bureaus and factories could not work in full capacity, introduced short weeks. Deteriorated business conditions prevented American companies from extending credits; even in better times most of them preferred cash payments, even with discount. Purchases of Soviet products diminished, which resulted in growing hard currency shortage in the USSR. Noisy political campaign against «Russian dumping», purge trials and convicts labor aggravated the situation.

On August 25, 1931 Joseph Stalin angrily demanded to stop seeking for new contracts in the USA, break negotiations under way and cancel, if possible, the orders already given, because of «hard currency troubles» and «unacceptable credit terms in America». Soviet orders were to be re-addressed to European and home plants, without exception even for the most important works¹⁵. Politburo was soon informed about impossibility of

canceling orders already given out in the United States¹⁶, but the Soviet contractors were forced to transfer many of them to European producers.

In October 1931 the Hard Currency Commission decreased expenditures, including contractual payments to the Ford Motor Company. Over a year the Politburo decided to cease auto parts imports and «curtail any negotiations with Ford». Only equipment purchases were permitted¹⁷. The company lost about \$578,000 probably because the Amtorg bought only half of agreed number of autos¹⁸. However, the Company suffered much more losses in Europe in the depression years.

In the second half of 30s the Western economy slowly recovered, while the USSR diminished foreign technical assistance to minimal extent. That from the USA was employed in aviation, radio, and, especially, in making high-octane petrol. The Soviet government turned to developing the gigantic industrial potential, gained during the First Five-Year plan. In 1928–1940 the share of industry in the total production advanced from 58,7 to 84,7 percent, and that of heavy industry – from 39,7 to 61,2 percent¹⁹. In the same years the share of personal consumption in GDP dropped from 79 to 49 percent²⁰. The people, not always willingly, sacrificed their well-being to the creation of modern heavy industry, so necessary in the Patriotic war against German invasion.

Conclusion

The Great Depression squeezed, but not destroyed business of the companies, which dealt with the USSR. Likewise the premature termination of technical assistance agreements did not ruin any of them. There was no firm wholly dependent on the Soviet contracts. Their obligations weren't too expensive and burdensome – the companies did just what they could by the moment of signing agreements. They designed plants resembling their own, and sold patents or machinery without significant changes or improvements. Heavily depended upon Western machinery and technologies, the USSR suffered from the Great Depression and European economic troubles more, than the Western world – from the Soviet troubles. The USSR lost hard currency receipts in a quantity sufficient for financing big orders abroad. **In**

brief, the Soviet crisis occurred in the sphere of resources for the Industrialization, which was conducted by arbitrary and crude methods. They provoked deficit, hunger and impoverishment of population.

Thereby appeared a stimulus for self-supporting work without foreign assistants and advisors. Politically, it permitted the Soviet leaders to boast of achieving such industrial might, which made further assistance unnecessary. It was partially true – the Soviet men roughly mastered the advanced construction and manufacturing methods, assembly line, oil cracking, etc., installed new equipment, gained basic professional skills. However, it was the first, vacillating steps. Launching new enterprises dragged out of the schedule, some were stopped for a while to cope with unexpected problems. They achieved full capacity too slowly, after long delay – more than a year. It was one of the causes of unfulfilling of the First and next Five-year plans. Had the technical assistance went on in accordance with the terms of the agreements, the imperfections and defects within the plants could be eliminated with the expertise and under supervision of specialists from the partner companies.

¹ Zaleski, Eugene. *Planning for Economic Growth in the Soviet Union, 1918-1932*, Chapel Hill, 1971; idem. *Stalinist Planning for Economic Growth, 1933-1952*, Chapel Hill, 1980; Markevitch, Andrei M. Was the Soviet Economy Planned? Planning in the Soviet Ministries in the 1930s. In: *The Economic History Yearbook, 2003*, Moscow, 2004, p. 20-54 (in Russian).

² Allen, Robert C. *Farm to Factory. A Reinterpretation of the Soviet Industrial Revolution*. Princeton University Press, 2003, p. 94.

³ *Socialist Construction in the USSR*. Moscow, 1936, p. 346 (in Russian). See also: Allen, *op. cit.*, p. 95.

⁴ Allen, *op. cit.*, p. 162, fig. 8,3.

⁵ An interesting discussion on the types of property in the Soviet system, see: L.H. Siegelbaum (ed.). *Borders of Socialism: Private Spheres of Soviet Russia*. New York, 2006, p. 1-21, *passim*.

⁶ Ration cards, valid only for those who worked in the state sector of the economy and their dependents, gave the right to buy a strictly limited quantity of bread, flour and cereals, and some goods for personal use – soap, matches, etc. Collective farmers (about 80% of population) were deprived of such cards. The hierarchy of preferences existed – depending on the status of the cities and their importance for Industrialization. Introduced in December 1931, the rationing system was step-by-step abolished in 1934-1935. However, the quantity, quality and variety of consumer goods remained non-comparable with those in the West.

⁷ Osokina, Yelena A. *Gold for Industrialization: Torgsin*. Moscow, 2009 (in Russian).

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- ⁸ Sutton, Antony C. *Western Technology and Soviet Economic Development, 1917–1930*. Stanford (Calif), 1968; *idem*. *Western Technology and Soviet Economic Development, 1930–1945*. Stanford (Calif), 1971.
- ⁹ *Foreign Trade of the USSR for 1918-1940*. Moscow, 1960, p. 21, 23, 25, 27, 37 (in Russian).
- ¹⁰ Sutton, *Western Technology..., 1917-1930*, p. 360-363; *Idem*. *Western Technology..., 1930-1945*, p. 363-372.
- ¹¹ Shpotov, Boris M. Businessmen and Bureaucrats: American Technical Assistance in the Construction of the Nizhniy Novgorod Automobile Factory, 1929-1931. In: *The Economic History Yearbook, 2002*, Moscow, 2003, p. 191-232 (in Russian).
- ¹² See, for example: Smith, Andrew. *I was a Soviet Worker*. London, 1937.
- ¹³ Sevostianov G. N., Tiurina E. A. (eds.). *Russia and USA. The Economic Relations, 1917-1933 Collection of documents*, Moscow, 1997, p. 247, 297-300, 317-324 (in Russian).
- ¹⁴ Furayev, V.K. *Soviet-American Relations, 1917-1939*, Moscow, 1964, p. 205-208 (in Russian).
- ¹⁵ *Russia and USA...*, p. 356-357 (in Russian).
- ¹⁶ *The Russian State Archives of Social and Political History (RSASPH)*. Record Group 17, Inv. 162, File 10, p. 173, 179; File 11, p. 2 (in Russian).
- ¹⁷ *RSASPH*. Record Group 17, Inv. 162, File 11, p. 36, 42; File 13, p. 121 (in Russian).
- ¹⁸ Nevins, Allan, Hill Frank E. *Ford: Expansion and Challenge, 1915-1933*, New York, 1957, p. 683.
- ¹⁹ Dziewanowski, M. K. *A History of Soviet Russia*, Englewood Cliffs, N.J., 1989, p. 190.
- ²⁰ Anikin, Andrei V. *A History of Financial Shocks. Russian Crisis in the Light of World Experience*, Moscow, 2002, p. 231 (in Russian).