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# The Soviet Growth Model

by Professor Dr Emil Küng, St. Gall/Switzerland

Until fairly recently, a number of students and politicians in the developing countries believed the Soviet Union to have set the great example for them to emulate. Was it not a fact that Russia, a backward agricultural country, had succeeded, in the course of a couple of dozen years or so, in developing one of the most powerful industrial economies of the whole world? Was it not true that the Soviet military organisation had managed to hold, and eventually to roll back and destroy, the highly mechanised armies of Hitler? And was not Soviet science capable of developing atom bombs almost through its own unaided efforts? Did not the same scientists manage to hold their own in the race for exploring cosmic space and to build the rockets required for this race even against the western nation which had advanced furthest in technological progress in the world, as the only serious competitor of the Soviets?

These were undeniable facts, not to be gainsaid by any objective contemporary, and indeed, they did not fail to make a deep impression on uncritical minds. In the majority of cases, the lesson learnt from them was the belief that there was a regime which had succeeded in discovering a magical formula for miraculously boosting the speed of industrial evolution to such an extent that a few decades proved sufficient for achievements which others had managed to register only after much longer periods of slower growth. The "great leap" ahead must surely be closely tied up with specific growth model which the Soviets had used. Ought it not to be possible to use this model also for guidance in the economies of equally ambitious developing countries?

## **A Similar Point of Departure**

In the first instance, it appears that such experiences could be profitably used because the countries that are being thus compared have started their economic development, by and large, from very similar points of departure. For both cases it seems a specific condition that they start with a more than prolific supply of labour, most of which is agriculturally employed though it can be utilised fully only for part of the year. There is a high growth rate of the population, whilst

basic industries provide only few additional places of employment for the workers whose numbers are growing. At the same time, productivity is exceptionally low and consumption goods are correspondingly scarce.

What else can such countries do but to enforce speedy industrialisation as powerfully as possible? It is not only their thirst for power and prestige which pushes the younger nations in this direction but also their intention to improve the lot of the starving masses, their jealous striving for independence, and their need for creating a multitude of new jobs for the unemployed or underemployed part of their population. For these purposes, an enormous rate of capital accumulation is indispensable—not only in the form of production plant construction and installation of new machinery and equipment but also through raising the level of "intangible" capital assets represented by trained brains and human skills. Development targets of this kind can only be attained by radical reconstruction of the traditional social order and by a complete change in the prevailing mental attitudes; and all this has to be done as swiftly as possible. To achieve all this, would it not be best to adopt as a new ruling ideology the dogmatic belief in progress in all fields, which may, in case of need, even be imposed by brute force against the resistance of the objects of such changes?

## **What Really Happened in Russia**

However, if we look at the Russian model more closely, the impression we gain is rather confusing. After the revolution of 1917, communism was imposed on virtually all the branches of the economy, but the nationalisation of all the means of production had an extremely adverse effect: Economic activities shrivelled and finally almost ceased. Supplies of consumption goods became miserably poor. Admittedly, the continued military struggle for power also contributed to this state of economic decay. Anyway, supplies for the population at large became so attenuated that even Lenin, who cannot be accused of being unprincipled, was compelled to change course and call for a temporary retreat.

The early 'twenties then saw the introduction of "N.E.P." (the New Economic Policy) re-establishing the market mechanism and also creating the pre-conditions for its operation. The results were amazing: a similar economic miracle occurred in Russia then as was admired in the countries with a marvellously revived and reinvigorated economy without parallel after the second World War, in both cases as a result of freeing private initiative from the shackles which had chained it. The speedy revival, of course, was not due to the communist system but, on the contrary, to a deliberate deviation from it,—and it would be highly beneficial to developing countries if their governments realised this fact. Not before the quantity of supplies produced by this deviation from strict communism had expanded sufficiently in the late 'twenties could the Soviet government afford to decree a new turn of the rudder, in order to introduce a true planned economy.

### **Priority Rating of Heavy Industry**

Among the uncontested guiding ideas of all the Five Year Plans was the determination to give top priority to creating an industrial basis in heavy industry. One of the main reasons for this decision was the foreign policy of the Soviets. Soviet Communism believed that it was threatened by encirclement through the imperialists. This caused the Soviets to strive for strengthened armaments, which were to be based on a powerful steel industry. The German attack of June, 1941, supplied the justification post factum for this approach. Incidentally, Soviet industrialisation had to be carried out without any investment aid from abroad, because the expropriation of production assets without compensation had naturally deterred foreign creditors from further investments. Moreover, every economy that is comprehensively planned is tending towards autarky, because fluctuating world market prices will be a disturbing influence which can hardly be allowed for by the plans.

One of the most injurious side-effects of this policy, however, is the fact that especially any heavy industry requires comparatively vast amounts of capital for creating new jobs. This means that the problem of capital accumulation becomes a particularly thorny one through this method of industrialisation. How did the Soviet Union master this problem? This was done, for the first time in history, with the aid of ideology, because the accumulation of capital, no matter whether it is achieved in a capitalist or in a communist economy, implies the postponement of consumption and foregoing present use of goods. In the Soviet Union, deprivations of this kind were made more or less acceptable by being described as an indispensable foundation upon which a glorious future may be built, for erecting the edifice of Socialism. The sacrifices demanded of

the masses were thus infused with some significance which was lacking in the model of a competitive market economy during the nineteenth century, as visualised by its victims.

### **Collectivised Farming**

Leaving aside these considerations, it must not be forgotten that Planned Economy, from its very start in 1928, was based on genuine exploitation of the countryside by the towns, of primary production by the rest of the economy. In fact, after the economy had recovered sufficiently under the N.E.P. dispensation, the ideologists came again to the fore and ruled the roost: the State started to collectivise farming and to exterminate the "kulaks". Crops were confiscated. Low prices were accorded to producers on the farms for their products, whilst consumers were made to pay much higher prices for this produce. The profit margin was pocketed by the government; it contributed to the forced savings used for expanding industry.

However, the peasants reacted in a different way from the urban population: they did not mutely accept their expropriation. On the contrary, they preferred to destroy their property, e.g. by slaughtering their collectivised cattle and to eat the meat, to handing it over to the State. The numbers of livestock in the Soviet Union thus declined steeply, and in 1932/33 famine ravaged the country and killed off millions of peasants and their families. Clearly, only a totalitarian government is able to treat its own subjects in this way. Indeed, an enforced reduction of the standard of living had to be imposed on the masses by the use of deportation camps and forced labour, by the ravages of the secret police and of terror, by purges and mass liquidations. Guns instead of butter, enormous government power instead of prosperity—this was the basic prescription for success. Light industry and the production of consumption goods were insufficiently endowed with capital, and it was self-understood that these sectors of the economy were not able to fill the requirements of the consumers (including the peasants) more than scantily.

### **Should Developing Countries Adopt Soviet Methods?**

When visualising all these facts, no great depth of penetration is needed in order to be persuaded that the growth model provided by the Soviet Union is hardly suitable—except in very few points—for being adopted by the developing countries. In the first instance, the manner how farming and the farmers have been treated by the Soviet government can surely not be used as a pattern for emulation. To this day, the Soviet Union is compelled to employ for food produc-

tion about thirty-five per cent of its gainfully employed population, whilst only ten per cent of all productive labour used in the United States is needed for operating its farms. And yet, Soviet harvests have never yet covered Soviet food requirements reliably and steadily, whereas the Americans have proved to be able to supply enormous surplus crops for export.

In view of this conspicuous failure, nobody who is serious in any developing country can possibly intend to imitate the Soviet "model" in this respect. However, the lessons to be learned from this experience go far beyond the realm of farming. They hold true for all sectors of production and marketing where small and medium size business units operate most efficiently. Owners of such businesses play the decisive part in their operations, being their prime movers and the sources of initiative who will always be superior in adaptability and performance to state-owned or cooperative organisations, unless these succeed in offering highly attractive incentives which appeal to the self-interest of operators. Yet it will always be private ownership of the means of production which will offer the optimal way of meeting these requirements.

#### **Are Soviet Methods a Suitable Basis for Industry?**

How should we treat the second characteristic trait of the "leap forward" in communist economies, viz. the priority treatment of heavy industry? Should it indeed be indispensable to safeguard ample local supplies with coal and steel, petroleum products and cement, machines and machine tools, before it is thought admissible to expand the manufacture of consumption goods? Single-track dependence on an economic development programme of this type, however, is required only by countries where autarky is desired inadvertently or by conscious design. Naturally, the aim of autarky cannot be prescribed unless the country concerned has sufficiently ample raw material deposits. Such natural resources, as is well known, are certainly found within the vast Soviet empire but hardly in any of to-day's developing countries. This means that emulating the Soviet example is virtually impossible for them, for purely material reasons. But even if this were not the case, copying Soviet methods would still be economically absurd for developing nations.

As has been stressed earlier on, creating a heavy industry requires investment of a particularly big size per additional worker employed. Yet capital is woefully scarce in developing countries. If they want to act rationally, their small investment funds ought to be used for attracting to the new sections of manufacture the possible maximum number of people willing and able to work. Consumption goods industries are those which will meet these requirements most faithfully. It is, of

course, impossible for countries choosing to tread this path to become economically independent of foreign countries swiftly. But, on the other hand, such countries will be spared the need for enormous losses in prosperity and popular welfare which the Soviet Union had to accept precisely because it opted out of world markets. It is, by the way, hardly possible to persuade populations of developing countries to accept the method of achieving economic greatness through starvation.

#### **Financing from Profit or Through Government-enforced Saving?**

When holding the Soviet model against that for growth adopted in the West, it is easy to see that both have implied restrictions of consumption for accumulating the required capital sums. The only difference was in the method how savings were mobilised and piled up. In the East, it was the State which has imposed sacrifices on its subjects, whilst in the West, market forces supplied the required pressures. In the last analysis, it is a question of political conviction, of the "weltanschauung" adopted, which of the two methods is to be preferred. Those who are not prepared to grant the State and its government totalitarian omnipotence will probably fall for a solution which gives private enterprise free rein. Admittedly, this method does not guarantee success under all possible circumstances. Where there is a lack of private enterprise by businessmen willing to risk their fortunes and profits, to invest and to create new employment, it will be difficult to give well-balanced advice. Where profits are used mainly for financing the luxury consumption of the businessman and his family, or for salting away hard currency reserves in foreign banks, economic growth will be slowed down considerably or prevented. In other words, development countries need a class of entrepreneurs of a truly enterprising cast of mind. Where such a class does not exist, some understanding will be required for a country's leadership casting around for different solutions capable of boosting economic growth. That such methods are always wedded to highly injurious side-effects has been shown by the Soviet example. In fact, the men who were originally responsible for instituting a planned economy have undoubtedly also been prone to self-delusions about the anticipated effects of their system.

#### **"Development Dictatorships"?**

Convinced western liberals and democrats will therefore have to practise some forbearance with the widespread contemporary takeover of political power in developing countries by the military. The officer corps, after all, may be the only body of men who can guarantee most efficiently law and order, which are indispensable for the normal economic processes. Perhaps it may be the

military who are capable of imposing upon the population the indispensable sacrifices, and at the same time of preventing local political explosions. If this bitter pill can then be sugar-coated with a suitable "ideology of economic growth", this would be only to the good, in the same way as it was in the Soviet Union. Perhaps it will be necessary to mobilise national pride for this purpose, whilst it seems hardly credible to hope for the creation of a messianic creed of similarly persuasive power as the Bolsheviks succeeded in

unleashing in Russia. But perhaps this is even better so, because it was the other side of the coin — that Soviet totalitarianism was granted full licence to destroy human lives indiscriminately if and when this seemed to fit its purposes. However, if more humane methods are to be used for carrying out industrialisation, this will mean that it will take more time. And if the sacrifices that will be imposed are not harsh enough, this might even mean that they cannot break the vicious circle of poverty always generating new poverty.

## **Industrialisation**

# Prospects for the Future Work of UNIDO

by Dr Walter Stermann, Vienna

When addressing the closing meeting of the second session of UNIDO (United Nations Industrial Development Organization), which took place in Vienna from April 17 to May 14 of last year, the organisation's President, the Australian Ambassador Dr Standenat, said inter alia: "The tasks that confront us are very extensive; it will therefore be years before we can say in all conscience whether our achievements have measured up to what is needed to further industrial development." The problems UNIDO is supposed to solve are indeed exceptionally extensive and complex. This latest organisation of the United Nations, which was created as an organ of the UN General Assembly, started its activities on the first of January, 1967. Its task is to further the industrial development of the Third World, to assist in the establishment of new undertakings, particularly in the finished goods sector, and beyond that, to coordinate all the measures already taken under the auspices of the United Nations in the field of industrial development. The organ has thus taken over the functions of the UN Centre for Industrial Development.

### **Organisational Structure**

The executive organ of UNIDO is the Industrial Development Board. The Board determines the lines on which UNIDO is to function and approves its working programme. It renders an annual account of its activities to the United Nations General Assembly via the Economic and Social Council. Its 45 members are elected from among the members of the United Nations and its organisa-

tions and are in office for three years. To ensure "adequate regional representation" the 45 seats are distributed in the following manner: 18 seats are reserved for African and Asian countries (including Yugoslavia), 15 for Western industrial nations, seven for Latin-American states and five for countries of the Eastern bloc (including Cuba which is not counted among the Latin-American countries). When the Board met for the first time in New York, in April 1967, it decided that the emphasis should be on helping the developing countries in their urgent need to achieve faster industrial growth, i.e. by direct promoting measures which should be supported by appropriate research work. The method the Board decided to adopt was in other words direct practical action, on the one hand, and a programme of studies and research with a view to subsequent action, on the other. The Board laid down in its rules that it would meet at least once a year. Extraordinary sessions may be called by the Economic and Social Council of the UN, by the President of the UNIDO Council or by ten representatives of the UN or any of its affiliated organisations, irrespective of whether they are members of the Board or not.

The permanent secretariat of UNIDO was transferred to Vienna from New York where only a liaison office is kept to maintain contact with the United Nations. At the instance of U Thant, the UN General Assembly appointed the Egyptian Dr Ibrahim Helmi Abdel-Rahman as the head of the secretariat—its Executive Director. He had formerly been UN Commissioner for In-