

# Lest they be forgotten: inequality in non-capitalist economies during the 20<sup>th</sup> century<sup>1</sup>

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## Abstract

Capitalism generates major inequalities which have important economic, social and political consequences. The transition to capitalism in the former USSR and Eastern Europe led to widespread impoverishment and an increase in inequality. The transition to capitalism in China and Vietnam also increased inequality. These facts have created the widespread impression that the state socialist system was more equal than capitalism. This paper examines whether this is really true. It draws attention to extreme forms of inequality in the Stalinist and Maoist periods. It also draws attention to important *intrasystem* differences in inequality, and important changes over time. It also points out that the data used in the existing academic literature is frequently incomplete (excluding part of the population, part of money incomes, non-monetary incomes, and does not take account of the impact of shortages). It also draws attention to the inequality created by position in the political hierarchy, and the caste-like system created in Maoist China. It concludes that revolutionary social change aiming to eliminate the role of money and the market economy may well fail to eliminate inequality but simply change its causes from ownership of wealth to position in the political and bureaucratic hierarchies and/or the need to manage complex economic systems effectively.

**Keywords** Inequality, socialism, USSR, income distribution

## Introduction

“it is worth stressing that... measures of monetary inequality... obviously neglect non-monetary dimensions of inequality, which may bias comparisons of inequality over time and across societies... Summarizing such inequalities with a single monetary indicator is clearly an over-simplification of a complex set of power relations and social domination, and [this] should be kept in mind when making historical and international comparisons” Novokmet, Piketty & Zucman (2018: 31-32).

Piketty’s *Capital in the Twenty-First Century* and the work of Gabriel Zucman in conjunction with the many researchers for the World Inequality Database has done a great deal to draw attention to the problem of wealth and income inequality. Much of this has focussed on the track record of capitalism and what capitalist states might do (individually and collectively) to

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<sup>1</sup> This paper results from a conference in Berlin in October 2017 organised by the Research Institute of the Dialogue of Civilizations institute (DOC-RI), on the theme “Inequality, Economic Models, and Russian October 1917 Revolution in Historical Perspective”, where a first draft was presented. I am grateful to the DOC-RI for agreement to its publication. I am also grateful to P. Ellman, G. Khanin, V. Kontorovich, D. Lane, J. Morgan, and B. Milanovic for helpful comments on the draft. The author alone is responsible for any errors of fact, and for the argument. This paper only considers the countries that described themselves as socialist and were referred to in the West as Communist and does not consider other types of non-capitalist economies. A small part of the material in this paper is taken from Ellman (2014).

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address inequality. (There has been some attention to the USSR but it has paid too little attention to the system-specific aspects of inequality in the USSR.) Furthermore, it is well known that the initial results of the collapse of state socialism and the transition to capitalism in the former USSR and Eastern Europe were widespread impoverishment and an increase in inequality (Milanovic, 1998; Ellman, 2000). However, in making inter-system comparisons it is important to keep the *full* historical experience of Soviet-type socialist states in the 20<sup>th</sup> century in mind (states typically referred to in the West as Communist). Inequality and its adverse consequences come in many forms. Though it is well known that reduction of the role of the market and increase of that of the state (e.g. in labour relations, medical care, education, housing, transfer payments) can reduce inequality in capitalist countries, it does not follow that revolutionary change aiming to eliminate capitalism will eliminate inequality.

Many people were surprised and disillusioned by the existence and importance of inequality under 20<sup>th</sup> century state socialism. However, 17 years before the USSR was established, the fact that inequality would persist under socialism was foreseen by the Polish revolutionary Machajski (1905). He argued that socialism would not bring equality and the rule of the workers, but would establish the rule of a group of socialist intellectuals, and that inequality and a ruling class would persist under socialism. This echoed some of the arguments of Bakunin and his critique of Marx. Lenin was aware of Machajski's work and was naturally hostile to it. In 1902-3, in an overview of the political-ideological situation in Russia, he included Machajski's followers as one of the 'non- Social-Democratic revolutionary and opposition trends'. In 1921 he criticised the Workers' Opposition (an opposition group within the Communist Party) for being a Makhaevist deviation from the Party line.<sup>3</sup> The experience of the twentieth century showed that some of Lenin's goals were utopian and some of Machajski's criticisms of socialism were accurate (consider also the well-known books of Orwell, 1946 and Djilas, 1957).

With the above in mind, it seems worth considering some important examples of *non-market* inequalities and adverse outcomes resulting from socialist experiments in the 20<sup>th</sup> century (even though some forms of inequality narrowed). The range is extensive: famine, political disenfranchisement, caste-like inequalities, and the role of non-market incomes and opportunities (e.g. privileged access to goods and services) and of non-state sources of income.

### **Famine resulting from political prioritisation**

A striking and not much known example of inequality in a non-capitalist economy is the famine in Kazakhstan in 1931-34.<sup>4</sup> It seems that it caused about 1.4 million deaths (Davies & Wheatcroft 2004: 415). This was about 36% of the Kazakh people, a much higher proportion of the population than that in the much-publicised Ukrainian famine of 1932-33. This disaster was *not* the result of a deliberate intention to kill a large part of the Kazakh population. It was a by-product of the political system. The leadership in Moscow launched a plan "to liquidate the kulaks as a class", and to collectivise agriculture, which was aimed at the grain-growing regions that produced the main wage good in the USSR (bread) and the main export item

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<sup>3</sup> See Lenin (1959, 1963). Makhaev was the Russian version of Machajski.

<sup>4</sup> Overviews of this famine can be found in Pianciola (2004) and Pianciola (2016). For a useful brief collection of documents about it, see Aldazhumanov et al. (1998). For the first two volumes of a more detailed document collection, see *Tragediya* (2013, 2018).

(grain). A large and continuous supply of grain to the towns and the army was essential for the implementation of the industrial and military plans of the leaders and to pay for the import of technology. The centre urged the local leaders all over the country to implement collectivisation quickly and meet the state's grain delivery targets. In Kazakhstan grain-growing was largely confined to Russian settlers. The indigenous Kazakhs (who comprised most of the population) were a pastoral people who predominantly practised transhumant – nomadic animal herding.

The leadership in Kazakhstan, eager to show their loyalty to Moscow, requisitioned animals from the Kazakhs (this was the local version of dekulakisation). This reduced the herders' means of subsistence. The local leadership also tried to organise large collective livestock farms, but, without fodder, water for the animals, and adequate veterinary services, and with inadequate food for the new collective farmers, this was a failure. In addition, the local leadership insisted on procuring grain from the Kazakhs, which forced herders to sell animals to buy the grain demanded. The requisitioning of animals from the herders was intensified by a Politburo decision of 15 July 1930 to respond to the meat shortages in Moscow and other cities (largely caused by the national decline in livestock numbers resulting from collectivisation and the peasant reaction to it) by stepping up livestock requisitioning in Kazakhstan (and some other rural areas). The purpose was to supply livestock products to the politically and economically crucial cities of Moscow and Leningrad, regardless of the consequences for the herders whose animals were requisitioned.<sup>5</sup>

The result of implementing these central policies of grain and livestock requisitioning was widespread extreme shortages of food for the herders. Food shortages led to mass flight from Kazakhstan to Siberia, European Russia, other Soviet republics such as Kyrgyzstan, and also across the border into China. The migrants were generally unwelcome and suffered from disease, unemployment, and starvation. Those who remained also suffered from disease, loss of income, and starvation.

This chain of events was a catastrophe for the affected population but did have an advantage for the state. Whereas previously the herders had consumed part of the grain produced in Kazakhstan (mostly by Russian peasants from whom the herders had obtained it by purchase or barter of animal products), after the famine that part of the grain harvest previously consumed by the now dead herders could be delivered to the state. The inequality resulting from the famine – between the living and the dead – was an extreme example of inequality. However, it did not result from a difference in money incomes, which were irrelevant, but from a difference in position within the political hierarchy.

The Kazakh famine was just part of the demographic disaster which resulted from the collectivisation of agriculture. It has been estimated (Nefedov 2017: 351) that the population of the USSR at the beginning of 1935 was 18 million less than it would have been had the

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<sup>5</sup> For a telegram of 22 July 1930 from a national leader (Central Committee Secretary Postyshev) to the regions (including Kazakhstan) which refers to this decision and instructs the localities to speed up their deliveries, see *Golod* (2011): 258. The same volume also includes, on pages 620-621, a telegram of 28 September 1931 co-signed by the head of the Soviet government (Molotov) containing monthly plans for the delivery of meat to Moscow and Leningrad by various regions, with the plans for deliveries by Kazakhstan being the largest. In the months preceding the 15 July 1930 decision, the leadership received numerous reports from the OGPU (the state security service) about dissatisfaction and unrest among industrial workers all over the country as a result of the poor state of food supplies (*Sovershenno* 2008: 110-386). For the leadership, minimising dissatisfaction among workers in the two main cities was much more important than saving the lives of "backward" herders.

New Economic Policy of the 1920s been continued (about two-thirds of this demographic loss resulted from the decline in the birth rate.) The disaster of 1930-34 was not the only example of a famine in a non-capitalist economy. The USSR itself experienced another (much smaller) famine in 1947. However, the largest famine (by number of victims) in the world in the 20<sup>th</sup> century was that in China in 1958-62 (with a peak in 1960). Its ultimate cause was the extreme inequality which resulted from the rule of the Communist party and collectivisation of agriculture. One man at the head of the ruling party was able to enforce policies which damaged agriculture and the welfare of the rural population and reject sensible criticism. The inequality between the living and the dead was not caused by differences in money income but was due to the victims and survivors occupying different roles in the politically-determined national hierarchy.

### **Position in the political system**

A similar, but less extreme, case of inequality resulting from the political system is that of the *lishentsy* (a Russian word which describes people who are deprived of something – in this case of the right to vote). This was a group of several million people who from the 1920s down to 1936 were excluded from the Soviet political community (symbolised by their not having the right to vote and thus the possibility of demonstrating their loyalty to Soviet power – Soviet elections were not about deciding who was going to rule, but about demonstrating political loyalty). This could have serious repercussions, such as the loss of housing or of a job, and being excluded from the rationing system when food was rationed.<sup>6</sup> The difference between the *lishentsy* and the rest of the population was not caused by differences in money incomes (although job losses may have led to them), but was the result of a difference in position in the political hierarchy which had many of the consequences that in a capitalist economy would be caused by differences in money income.

If one looks at the situation in the USSR under late Stalinism, there was great inequality between different layers of the population, but the inequality was not primarily a matter of money incomes but of position in the political system. At the bottom were the Gulag prisoners (about 2.5 million at the time of Stalin's death), followed by the "special settlers" (almost 3 million), whose situation, while not good, was better than that of the Gulag inmates, since they could live in family groups and could often determine their own work, but who were confined to rather inhospitable areas and supervised by state security officials. Then followed the collective farmers, who comprised a large but declining proportion of the total population. In 1940 collective farmers comprised 44% of the working population and in 1960 they still comprised 30% (*Narkhoz* 1987:411<sup>7</sup>). Collective farmers were, in principle, tied to their native villages (they did not have internal passports and required permission to move away) and had low living standards. The inequality between them and the better-off groups in society was partly monetary (they had very low money incomes) but mainly socio-political (their inherited status, the restrictions on their mobility, the poor amenities of their villages, their low consumption levels, the taxes they had to pay, and the work they were compelled to do for

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<sup>6</sup> For a survey of the situation of the *lishentsy* in one province, see Belyakov (2017): 192-201. For a monograph about the situation in the whole country, see Alexopoulos (2003).

<sup>7</sup> This source gives two somewhat different figures (one explicit and one implicit) for both years. This seems to result from definitional differences (e.g. collective farmers by birth and place of permanent residence who did some work for their collective farm but actually mainly worked for state forestry, mining or manufacturing enterprises could be counted either as collective farmers or as workers). The figures in the text are the explicit figures from the table at the top of page 411.

the collective farms for little reward, were all a result of the political system).<sup>8</sup> The next layer was the mass of the urban population. This was divided by location.

There was a hierarchy of supply and amenities, with Moscow at the top, followed by Leningrad and the capital cities of the Union republics, with peripheral cities, small towns and rural areas lagging behind. A dramatic example of the importance of this hierarchy of supply was the Kazakh famine mentioned in the previous section, in which the lives of Kazakhs were sacrificed to facilitate the meat consumption needs of Moscow and Leningrad. The urban population was also divided by housing (much of the urban population lived in communal apartments, but some in worse conditions and some in better). Other divisions concerned access to the distribution of goods at the place of work and money income. Despite these significant inequalities, the inequality of the urban population was not large by the standards of capitalist countries at the stage of early industrialisation. At the top of the hierarchy were the elite, i.e. the senior figures in the Party, state security, the military, industrial management, and intellectual institutions such as the Academy of Sciences and Union of Writers. They often enjoyed state-provided dachas, domestic servants, and access to better quality food and other consumer goods than most urban inhabitants, and both higher salaries and, in some cases, bonuses (known in the USSR as 'packets' since they were paid in cash in packets filled with notes). Their higher real incomes were partly monetary and partly non-monetary. However, their living standards were modest compared with those of millionaires in capitalist countries.

However, in the post-Stalin period there was a sharp decline in inequality in the USSR. The Gulag was closed down (although imprisonment for criminals and some political dissenters naturally remained), and the system of 'special settlements' was ended. The position of the collective farmers was greatly improved by: the abolition of taxes on the output of their household plots; the issue of passports to them; improved facilities in rural areas; higher incomes; and eligibility for state old age pensions. Nevertheless, the differentiation of the mass of the urban population (by location, housing, access to closed distribution<sup>9</sup>, and income) remained. However, it was reduced by the (re)introduction of a minimum wage, and increases to it. Another equalising factor was the development of a pension system. Another was the reduction in piecework. Yet another was the growth in food subsidies (to the extent that food was actually available at the subsidised prices.) The elite (senior Party officials, senior military and state security officers, large-enterprise managers, and senior intellectuals)<sup>10</sup> enjoyed state-provided dachas, relatively good housing, better consumer goods than those available to the rest of the urban population (provided at place of work or in special shops or parts thereof), and access to better quality clinics, hospitals, and holiday resorts. They also had privileged access to the best schools and higher education institutions. Although much better-off than the mass of the population, they were not well-off compared with Western millionaires of that period. As Wiles (1974: 25) long ago pointed out: "the statistical record since Stalin is a very good one indeed. I doubt if any other country can show

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<sup>8</sup> For a description of the position of the collective farmers in the late Stalin period, see Popov (2002) chapters 3 & 4. Curiously, although Novokmet, Piketty & Zucman (2018: 31-32, 36) are aware of the importance of the limited rights of the rural poor in increasing inequality in Tsarist Russia, they ignore the same phenomenon in the Soviet period. For some critical comments on the 2017 version of the analysis of Soviet income distribution in Novokmet, Piketty & Zucman (2018), see Harrison (2017).

<sup>9</sup> By "closed distribution" is meant distribution to restricted categories of the population. Examples are the sale of goods at the place of work, or sales in special shops or parts thereof only accessible to members of the elite.

<sup>10</sup> This group was estimated at about 250,000 by Matthews (1975: 13). That was about 0.2% of the working population.

a more rapid and sweeping progress towards equality.” Later data showed that this reduction in inequality did not persist indefinitely. Atkinson & Micklewright (1992: 88 & 132-33) estimated that Soviet earnings inequality increased in 1968-76 and in the 1980s, and that income inequality increased in the 1980s. It should be noted that the growth of the informal sector during the 1970s and 1980s probably also had the effect of increasing income inequality.

### **“Castes” and the social hierarchy**

While the USSR in the 1950s, 1960s and 1970s gradually expanded access to consumer goods (one-family apartments, refrigerators, televisions) and increased welfare provision (minimum wages and old age pensions), China moved in a different direction. Maoist China developed what was essentially a caste system. There were five red castes and eight black castes. The five red castes were: workers; poor and middle peasants; soldiers; cadres (i.e. officials); and relatives of revolutionary martyrs. The eight black castes were landlords; rich peasants; counter-revolutionaries; bad elements; Rightists; renegades; enemy agents; and capitalist roaders. In 1966-76 there was an additional black caste, the “stinking ninth” (i.e. intellectuals). Those born into a black category were discriminated against from birth, and the person’s spouse, family and children were similarly affected. An example of what this meant has been given by Lee (1978: 39).

“A friend of ours was staying at a farm in northern Guangdong for six years. He met a man by the name of Chan there. This young man was by nature taciturn and clumsy, and smiles and talks little. He was conveniently classified as ‘backward’ for his father was a schoolteacher, an intellectual. His parents were struggled against and denounced in the Cultural Revolution. But he remained quiet, kind, solitary and ‘backward’. And he developed secret sentiments towards a girl in the herding brigade. When he could contain himself no longer, he wrote a fiery letter of love to this girl. The girl was a ‘poor peasant’ and therefore of impeccable family history. She was startled and scared and immediately showed the letter to her brigade (all girls). Their leader arranged for her to shame Chan in public, and the incident spread. All the farm marvelled at his recklessness. A man in his position daring to touch the daughter of a poor peasant family! The local party branch secretary saw fit to warn him in person, this was a grave violation indeed.”

The idea that an intellectual (i.e. the son of a school teacher) could marry a poor peasant (i.e. the daughter of a poor peasant) was an unacceptable breach of the socialist caste system. The differences in social position that determined possible choice of marriage partners was not one of money income but of position in the politically-determined social hierarchy.

### **Differences in non-monetary income**

It can be seen from the above that money income, although important, was less important in determining inequality in state socialist economies (especially in the Stalinist and Maoist



periods) than in capitalist economies.<sup>11</sup> That is entirely understandable, since one of the goals of the socialist movement was precisely to reduce the role of money and increase that of non-monetary social provision. In a society in which housing, education, medical care and much public transport are provided free or at heavily subsidised prices, money plays a lesser role than in one in which the costs (in full or in part) of housing, education, medical care, and public transport have to be paid for out of personal incomes. In such a society money income is only a part of total income which also includes social income such as the goods and services provided free or at heavily subsidised prices. Hence the data for average incomes published in some issues of the Soviet annual statistical handbook included social income.

Furthermore, the role of money was also reduced by the importance of shortages. Even for people with money, goods were often unobtainable in ordinary state retail trade. Hence, access to place of work distribution, or special shops or parts thereof, theft from state enterprises, and personal contacts, were often more important than money income. Therefore, trying to compare the distribution of welfare in capitalist and state socialist economies using just data on the distribution of official money income, as is sometimes done, raises serious problems because of the importance both of unofficial incomes and of non-monetary factors in determining inequality in the latter. As a result, calculations based only on figures for the distribution of official money incomes are likely to give a misleading impression if used for inter-system comparisons.<sup>12</sup>

Despite these complications, a number of economists have attempted to incorporate estimates of non-monetary income into total income and to compare total income between capitalist and state socialist economies. This was long ago done for the 1970s by Morrison (1984). His calculations showed a mixed picture. Just taking Gini coefficients, Czechoslovakia – a state socialist country – appeared to be the most equal of the countries considered, and the USA – a capitalist country – was the most unequal. However, both the USSR and Poland had higher Gini coefficients than the UK or Sweden. The USSR and Poland also had a higher share of income going to the top decile than all the capitalist countries considered (which included the USA). On the other hand, the relative position of the lowest four deciles was relatively favourable in the state socialist economies. Morrison's paper is interesting, but it was just an initial study of a complex issue. Nevertheless, one important issue to which it drew attention was the difference in inequality *between* state socialist countries. This complicates the comparison of inequality between state socialism and capitalism. Bergson (1984) drew attention to the fluctuations in Soviet inequality over time, so that the outcome of comparisons of inequality between the USSR and capitalist countries depends very much on which periods are chosen for comparison.

A later comparison of inequality under state socialism and capitalism is Redor (1992). He compared the distribution of earnings (for full-time employees paid the full rate, i.e. excluding apprentices) and that of disposable income, in 1980, in Belgium, Denmark, the United States, France, West Germany, and the UK, on the one hand, and Hungary, Poland, East Germany, Czechoslovakia and the USSR, on the other. As far as official earnings are concerned, he found large *intrasystem* differences in the dispersion of earnings but no clear *intersystem* difference. He did, however, find that workers in the mining and steel industries were relatively well paid in the state socialist countries. He also found that the differential between manual workers and non-manual workers was lower in the state socialist countries than in the

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<sup>11</sup> This was less the case in East European countries such as Yugoslavia, Hungary and Poland in the 1970s and 1980s.

<sup>12</sup> For an example of this, see Ellman (2014: 274).

capitalist ones. Earnings in some service sectors (such as education and health) were also relatively low in the state socialist countries. He ascribed the similarity between the wage differentials in the two systems to the analogous processes (efficiency wages, internal labour markets) for managing the labour force in the two systems. He also considered the effect of including income from secondary activities and benefits in kind, and concluded that, while these increased inequality, the increase was quite small. However, it did change the relative position of some occupational groups, such as employees in trade (who were able to sell goods at market prices which they had bought at the lower state prices or simply stolen) and doctors (who in some countries benefitted from substantial “gifts”).

A classic comparison of income inequality under state socialism and capitalism is that of Atkinson & Micklewright (1992). This is marked by detailed attention to the sources. For example, it suggests (p.125) that Morrison’s data for the UK were misleading, and that actually inequality there was greater than Morrison had estimated. It also recognises the importance of subsidies, transfers, elite benefits, and shortages. However, its earnings estimates exclude collective farmers<sup>13</sup> so that a significant part of the population, with low money incomes, is not taken into account and nor are Collier’s (1985; 1986) estimates of the cost of shortages. Collier came to the conclusion that in 1977 shortages reduced the real income of East German families by 13%. This is a striking result when one bears in mind that the extent of shortages in East Germany in 1977 was considerably less than in the USSR in the 1970s and 1980s, or in Poland in the 1980s. It gives an indication of the kind of adjustment to the incomes of different layers of the population, according to the extent to which they were subject to shortages, that would be necessary to take full account of shortages. In addition to the differences in shortages between members of the *nomenklatura*<sup>14</sup> and ordinary citizens, and between the inhabitants of Moscow and provincial cities and small towns, there were also differences between those who owned hard currencies and those who did not. (In the USSR in 1931-36 there were special shops where consumer goods such as bread were readily available to those with gold or foreign currency. Such shops were reintroduced – with a wider range of goods — for those with foreign currency in the USSR and Eastern Europe in the post-Stalin period.) Atkinson & Micklewright (1992) do draw attention to the diversity between countries, the high level of equality in Czechoslovakia, the big differences between the Soviet republics, and the importance of changes over time (such as the reduction in inequality in the USSR in the post-Stalin period). They note (p.104) that, because of the diversity between countries and over time, it is ‘not easy to draw clear-cut conclusions about the comparison of earnings inequality under capitalism and Communism’. As for the *meaning* of the data on the distribution of incomes, they end their analysis of this (p.177) with the traditional academic conclusion that more research is required to reach a satisfactory result.

That conclusion is confirmed by the fact that even the adjustments to the published official data made by Redor and Atkinson & Micklewright fail to capture important inequalities in state socialist economies that do not exist in market economies. For example, in the USSR, travel to capitalist countries was restricted to people whom the authorities regarded as

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<sup>13</sup> Atkinson & Micklewright: 264. As noted on the same page: “Those employed by ‘social organisations’, usually taken to mean the Communist Party and its close affiliates, were also excluded.” Atkinson & Micklewright: 266-268 also point out that their data on incomes mainly comes from a source (the family budget survey) which was unrepresentative of the Soviet population. In addition (ibid, pp. 268-269), there are problems with its income concept, which includes the value of benefits in kind from employers, such as meals and transport, and values agricultural production for self-consumption at state prices rather than collective-farm or market prices.

<sup>14</sup> For a pre-perestroika discussion of the role of the *nomenklatura* in the USSR, see Voslensky (1984).



reliable. People regarded as actually or potentially unreliable were unable to travel to capitalist countries. This contrasts with the situation in capitalist economies where international travel is normally available to anyone with the money to pay for it. This kind of inequality (between those permitted, and those not permitted, to travel abroad) is an important inter-system institutional difference in welfare between groups but one which is not captured by income distribution statistics.

### Differences in non-state money income

Besides non-monetary income, there was also money income earned from non-state sources. Recently, the Central Bank of Russia has published archival estimates for this income (derived from the records of Gosbank, the former state bank of the USSR) for the whole Soviet period (*Denezhnoe* 2010:19-83). These estimates show that this non-state income (which was not taken account of in most Western analyses of Soviet income distribution since they lacked data for it) existed throughout this period but that its relative importance fluctuated sharply. Some data from this source is set out in Table 1.

**Table 1** Non-state income of the Soviet population as a percentage of income from state sources, according to Gosbank

Year	Income <sup>a</sup> from state sources <sup>b</sup>	Income <sup>a</sup> from non-state sources <sup>c</sup>	Income from non-state sources as a percentage of income from state sources
1929	18.9	5.2.	27.5
1930	23.9	6.1	25.5
1931	36.0	9.9	27.5
1932	51.9	15.4	29.7
1933	58.2	13.2	22.7
1934	71.1	11.4	16.0
1941	198.2	19.0	9.6
1942	153.9	86.2	56.0
1943	184.7	238.8	129.3
1944	236.3	303.2	128.3
1945	271.9	212.2	78.0
1946	315.6	187.5	59.4
1947	393.2	175.6	44.7
1952	521.6	45.0	8.6
1960-64			<3.0 p.a.
1965-89			<2.0 p.a.

Source: *Denezhnoe* (2010):19-20.

Notes:

- a) The income figures for 1929 to 1947 are in billions of 1924 roubles, and for 1952 in billions of 1947 roubles.
- b) This consists mainly of wages, but also of payments to collective farmers, payments for the sale of food to state agencies, pensions and other transfer payments, and prizes from, and repayments of, state loans.
- c) This mainly consists of market sales of food products by the rural population.

Table 1 shows that income from non-state sources was particularly important before agriculture was fully collectivised (1929-33) and in World War II and immediately after it (this resulted from the extreme food shortages then and the resulting very high market prices of food). In 1943 and 1944 income from non-state sources even exceeded income provided by the state. Two years after the war, in 1947, it still amounted, according to these Central Bank estimates, to 45% of income from the state. However, from 1960 onwards, according to these estimates, it was not very significant, being less than 3% of annual income from the state for the rest of the Soviet period, and less than 2% from 1965. By far the largest item in these estimates of non-state income is income earned by the rural population by sales of food products at the legal urban markets.

For the last decades of Soviet power, the Gosbank estimates are not the only estimates of non-state incomes. For total non-state incomes in the last decades of Soviet power, there are a variety of unofficial estimates (Grossman 1987; Ofer & Vinokur 1992; Kim 2003). Kim, using data from official but unpublished family budget surveys, estimated average non-state income as a percentage of total household income in the years 1969 to 1990 at 16.3% (based on income data) or 22.9% (based on expenditure data). The majority of the non-state incomes estimated by Kim consisted of the value of own-consumption of self-produced food products (this seems to be excluded from the Gosbank estimates) plus the income from market sales of food products. However, the share of “other” (i.e. non-agricultural) income showed a steady increase from 3.2% to 4.9% of total incomes on the income measure and from 8.2% to 9.6% on the expenditure measure.

Since the data in the family budget surveys were derived from information provided by (an unrepresentative sample of) households to official bodies, they are unlikely to have included income from the wide range of non-state activities that in the USSR were regarded as illegal, and which are often referred to by Western economists as “informal sector” earnings. However, estimates for these incomes were published by Goskomstat (the official statistical body) for 1989 and 1990.

**Table 2** Informal income<sup>a</sup> in relation to legal labour income<sup>b</sup>

	1989	1990
Total legal labour income	406.8	464.3
Estimated informal income	59.0	99.8
...of which from production and sale of samogon <sup>c</sup>	23.0	35.0
Informal income as percentage of legal incomes	14.5%	21.5%
...of which from production and sale of samogon	5.7%	7.5%

Source: *Narodnoe khozyaistvo SSSR v 1990g* (Moscow: Finansy i Statistika, 1991): 36 & 50.

Notes:

a) Referred to in the source as “shadow economy income” (*dokhody tenevoi ekonomiki*).

b) All income figures are in billions of roubles. By “legal labour income” is meant wages and salaries paid by state institutions, the incomes paid by cooperatives and the income received by collective farmers from their collective farm.

c) Samogon is illegally distilled vodka. It is the largest single item in the estimate of informal incomes.

The Gosbank, Kim, and Goskomstat estimates measure different things (income from the sale of food products at the legal urban markets, the value of own-consumption of self-produced food products, income from informal activities), and hence their quantitative differences are understandable, but taken together they make it plain that non-state incomes were important in the USSR. Naturally, the exclusion of non-state incomes from the various published Western estimates of Soviet income distribution undermines their accuracy. Their exclusion also undermines their comparability with income distribution data for countries without a large informal sector (income distribution statistics for other countries also often exclude part or all of informal incomes and are therefore also misleading).

The distribution of wealth in the two systems differed substantially. A characteristic feature of capitalism is that it produces a small number of very rich people with large amounts of legitimate wealth.<sup>15</sup> These people have extensive economic and political influence. The absence of this group under state socialism was a major difference between the systems. (There were millionaires under state socialism, chiefly corrupt officials and second-economy operators, but their wealth was usually not legitimate, not in the form of means of production, and liable to confiscation with a change in the political situation.) However, control over the means of production, analogous to the control exercised by wealthy capitalists under capitalism, was exercised under state socialism by senior Party and state officials and the directors of large enterprises. The relative position of tenants and owner-occupiers also differed. Whereas in the capitalist world the latter are generally better-off than the former, in the state socialist world the situation was reversed. For example, in the USSR the majority of houses in private ownership were traditional-style houses without modern amenities. The high income groups lived predominantly in flats (and dachas) with good facilities and low rents which were the property of the state.<sup>16</sup>

Considering inequality under state socialism from a sociological point of view, which is wider than just concentrating on the distribution of money income, Lane (1982:159) concluded that:

“In a relational sense there is inequality of control over wealth, inequality of political power, and in a distributional sense, there is inequality of income and inequality of status. The origins of such social stratification lie in the bureaucratic nature of political power, in the role structure created by the division of labour sanctioned by the educational system and perpetuated by the family. Such structural features give rise to a hierarchy in which some groups of men (and a few women) have power, prestige and privilege while others lack them. Politically, and not without internal conflict, the privileged acquire the means to help maintain and justify ideologically their advantage.”

## **Conclusion**

Because of institutional differences, existing estimates of income distribution in state socialist countries are frequently incomplete (excluding part of the population, part of money incomes, non-monetary incomes, and the effect of shortages and starvation), and are often not comparable between systems. This applies especially to the Stalinist and Maoist periods. Furthermore, there are important *intrasystem* differences, and important changes over time,

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<sup>15</sup> For some data on this, see Goda (2018).

<sup>16</sup> This paragraph is an edited version of a paragraph on p.278 of Ellman (2014).

which complicate *intersystem* comparisons. Nevertheless, it is clear that reducing the role of the market and increasing that of the state (for example, in labour relations, medical care, education, housing, or by introducing or increasing transfer payments) can reduce inequality in capitalist economies. Furthermore, major initial results of the transition from state socialism to capitalism in the former USSR and the former Eastern Europe were widespread impoverishment and an increase in inequality. However, experience also shows that revolutionary social change aiming to eliminate the role of money and the market may well fail to eliminate inequality but simply change its causes from ownership of wealth to position in the political and bureaucratic hierarchies and/or the need to manage complex economic systems effectively.

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