

HISTORY OF ECONOMIC DEVELOPMENT IN U.S.S.R

The **economy of the Soviet Union** was based on **state ownership** of the **means of production**, **collective farming**, and **industrial manufacturing**. The highly centralized **Soviet-type economic planning** was managed by the **administrative-command system**. The Soviet economy was characterized by state control of investment, a dependence on natural resources, shortages, public ownership of industrial assets, **macroeconomic stability**, negligible **unemployment** and high **job security**.

Beginning in 1928, the course of the economy of the **Soviet Union** was guided by a series of **five-year plans**. By the 1950s, the Soviet Union had rapidly evolved from a mainly **agrarian society** into a major industrial power. Impressive growth rates during the first three five-year plans (1928–1940) are particularly notable given that this period is nearly congruent with the **Great Depression**. During this period, the Soviet Union saw rapid industrial growth while other regions were suffering from crisis. Nevertheless, the impoverished base upon which the five-year plans sought to build meant that at the commencement of **Operation Barbarossa** the country was still poor.

A major strength of the Soviet economy was its enormous supply of oil and gas, which became much more valuable as exports after the world price of oil skyrocketed in the 1970s.

Early development

Both the **Russian Soviet Federative Socialist Republic** and later the **Soviet Union** were countries in the process of **industrialization**. For both, this development occurred slowly and from a low initial starting-point. Because of **World War I** (1914–1918), the **Russian Revolution** of 1917 and the ensuing **Russian Civil War** (1917–1922), industrial production had only managed to barely recover its 1913 level by 1926. By this time, about 18% of the population lived in non-rural areas, although only about 7.5% were employed in the non-agricultural sector. The remainder remained stuck in **low-productivity** agriculture.

David A. Dyker sees the Soviet Union of circa 1930 as in some ways a typical developing country, characterized by low capital-investment and with most of its population resident in the countryside. Part of the reason for low investment-rates lay in the inability to acquire capital from abroad. This in turn, resulted from the **repudiation** of the debts of the **Russian Empire** by the **Bolsheviks** in 1918 as well as from the worldwide financial troubles. Consequently, any kind of economic growth had to be financed by domestic savings.

The economic problems in agriculture were further exacerbated by natural conditions, such as long cold winters across the country, droughts in the south and acidic soils in the north. However, according to Dyker, the Soviet economy did have "extremely good" potential in the area of raw materials and mineral extraction, for example in the oil fields in **Transcaucasia**, and this, along with a small but growing manufacturing base, helped the Soviet Union avoid any kind of **balance of payments** problems.

New Economic Policy (1921–1929)

By early 1921, it became apparent to the Bolsheviks that forced requisitioning of grain had resulted in low agricultural production and widespread opposition. As a result, the decision was made by Lenin and the Politburo to try an alternative approach. The so-called [New Economic Policy](#) (NEP) was approved at the [10th Congress of the Russian Communist Party \(Bolsheviks\)](#).

Everything except "the commanding heights", as Lenin put it, of the economy would be [privatized](#). The commanding heights included [foreign trade](#), [heavy industry](#), [communication](#) and [transport](#) among others. In practice this limited the private sector to artisan and agricultural production/trade. The NEP encountered strong resistance within the Bolshevik party. Lenin had to persuade communist skeptics that "[state capitalism](#)" was a necessary step in achieving [communism](#), while he himself harbored suspicions that the policy could be abused by private businessmen ("[NEPmen](#)").

As [novelist Andrei Platonov](#), among others, noted, the improvements were immediate. Rationing cards and queues, which had become [hallmarks](#) of [war communism](#), had disappeared. However, due to prolonged war, low harvests, and several natural disasters the Soviet economy was still in trouble, particularly its agricultural sector. In 1921, [widespread famine](#) broke out in the [Volga-Ural region](#). The Soviet government changed its previous course and allowed international relief to come in from abroad, and established a special committee chaired by prominent communists and non-communists alike. Despite this, an estimated five million people died in the famine.

Stalinism

Starting in 1928, the five-year plans began building a heavy industrial base at once in an underdeveloped economy without waiting years for capital to accumulate through the expansion of light industry, and without reliance on external financing. The New Economic Policy was [rapidly abandoned](#) and replaced by [Stalinism](#). The country now became industrialized at a hitherto unprecedented pace, surpassing [Germany's](#) pace of industrialization in the 19th century and [Japan's](#) earlier in the 20th century.

After the reconstruction of the economy in the wake of the destruction caused by the [Russian Civil War](#) was completed and after the initial plans of further [industrialization](#) were fulfilled, the explosive growth slowed down until the period of [Brezhnev stagnation](#) in the 1970s and 1980s.

Led by the creation of [NAMI](#) and by the [GAZ](#) copy of the [Ford Model A](#) in 1929, industrialization came with the extension of medical services, which improved labor [productivity](#). Campaigns were carried out against [typhus](#), [cholera](#) and [malaria](#); the number of physicians increased as rapidly as facilities and training would permit; and death and [infant mortality](#) rates steadily decreased.

1930–1970

As weighed growth rates, economic planning performed very well during the early and mid-1930s, [World War II](#)-era mobilization, and for the first two decades of the postwar era. The Soviet Union became the world's leading producer of [oil](#), [coal](#), [iron ore](#)

and [cement](#); [manganese](#), [gold](#), [natural gas](#) and other [minerals](#) were also of major importance. However, information about the [Soviet famine of 1932–1933](#) was suppressed by the Soviet authorities until [perestroika](#).

To some estimations, in 1933 workers' real earnings sank on more than 11.4% from 1926 level, though it needs an adjustment due to elimination of unemployment and perks at work (such as inexpensive meals). Common and political prisoners in labor camps were forced to do unpaid labor and communists and [Komsomol](#) members were frequently "mobilized" for various construction projects. The German invasion of World War II inflicted punishing blows to the economy of the Soviet Union, with Soviet GDP falling 34% between 1940 and 1942. Industrial output did not recover to its 1940 level for almost a decade.

In 1961, a new redenominated [Soviet ruble](#) was issued. It maintained exchange parity with the [Pound Sterling](#) until the dissolution of the Soviet Union in 1991. After a new leadership, headed by [Leonid Brezhnev](#), had come to power, attempts were made to revitalize the economy through [economic reform](#). Starting in 1965, enterprises and organizations were made to rely on economic methods of profitable production, rather than follow orders from the state administration. By 1970, the Soviet economy had reached its zenith and was estimated at about 60 percent of the size of the United States in terms of the estimated commodities (like steel and coal). In 1989, the official GDP of the Soviet Union was \$2,500 billion while the GDP of the United States was \$4,862 billion with per capita income figures as \$8,700 and \$19,800 respectively.

1970–1990

The value of all consumer goods manufactured in 1972 in retail prices was about 118 billion rubles (\$530 billion). The [Era of Stagnation](#) in the mid-1970s was triggered by the [Nixon Shock](#) and aggravated by the [war in Afghanistan](#) in 1979 and led to a period of economic standstill between 1979 and 1985. Soviet military buildup at the expense of domestic development kept the Soviet Union's GDP at the same level during the first half of the 1980s. The Soviet planned economy was not structured to respond adequately to the demands of the complex modern economy it had helped to forge. The massive quantities of goods produced often did not meet the needs or tastes of consumers.

The volume of decisions facing planners in Moscow became overwhelming. The cumbersome procedures for bureaucratic administration foreclosed the free communication and flexible response required at the enterprise level for dealing with worker alienation, innovation, customers, and suppliers. During 1975–1985, corruption and data fiddling became common practice among bureaucracy to report satisfied targets and quotas thus entrenching the crisis. At the same time, the effects of the central planning were progressively distorted due to the rapid growth of the [second economy in the Soviet Union](#).

While all modernized economies were rapidly moving to computerization after 1965, the Soviet Union fell further and further behind. Moscow's decision to copy the IBM 360 of 1965 proved a decisive mistake, for it locked scientists into an antiquated system they were unable to improve. They had enormous difficulties in manufacturing the necessary chips reliably and in quantity, in programming workable and efficient programs, in coordinating entirely separate operations, and in providing support to computer users.

One of the greatest strengths of Soviet economy was its vast supplies of oil and gas; world oil prices quadrupled in the 1973–1974 and rose again in 1979–1981, making the energy sector the chief driver of the Soviet economy, and was used to cover multiple weaknesses. At one point, Soviet Premier [Alexei Kosygin](#) told the head of oil and gas production that "things are bad with bread. Give me 3 million tons [of oil] over the plan".

In 2007, economist and former [Prime Minister Yegor Gaidar](#) wrote the following about looking back to these three decades:

The hard currency from oil exports stopped the growing food supply crisis, increased the import of equipment and consumer goods, ensured a financial base for the arms race and the achievement of nuclear parity with the United States, and permitted the realization of such risky foreign-policy actions as the war in Afghanistan.

Comparisons with other countries

GDP per capita (1990 Int\$) comparison involving the area of the USSR, United States, and Western Europe from 1820 to 1990

	USSR	United States	Western Europe	USSR as a % of United States	USSR as a % of Western Europe
1820	689	1,257	1,232	55	56
1870	943	2,445	1,974	39	48
1913	1,488	5,301	3,473	28	43
1950	2,834	9,561	4,594	30	62
1973	6,058	16,689	11,534	36	53
1990	6,871	23,214	15,988	30	43

Evolution of GNP in comparison with European powers
(in millions of dollars of 1960)^{*[citation needed]*}

Country	1890	1900	1913	1925	1938
Russia/Soviet Union	21,180	32,000	52,420	32,600	75,964
Germany	26,454	35,800	49,760	45,002	77,178
United Kingdom	29,441	36,273	44,074	43,700	56,102
France	19,758	23,500	27,401	36,262	39,284

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