



1
The Former Soviet Union: The Myth and Reality of the Command Economy and Russia's Economic Transition

2
Introduction
• The demise of the Union of Soviet Socialist Republics (USSR) raised numerous questions about its collapse:
- why did countries switch to theories of the socialist economic system of the former Soviet Union (not), the centrally planned command economy;
- institutional validity of socialist (private) market rules of governance; and how to manage business beyond rubber-stamping the Communist Party's direction;
- the non-existent "market" and the ultimate disappearance of theories of the republics based on a kind of populism.

3
Introduction
• The collapse of the USSR was brought about by the imperative need for an open economy and the slowdown in the arms race that imposed a heavy financial toll on the USSR.
• The historical inadequacy of the country's existing economic structure with regard to volatile international markets was revealed.
• A series of reforms were devised to prop up the existing socialist system with regulated but controlled markets.

4
HISTORICAL BACKGROUND OF THE SOVIET ECONOMY
• Until December 25, 1991, the USSR was the largest country in the world, occupying one-sixth of the earth's inhabitated land area, twice the size of the United States.
• Its population of about 270 million, the third largest in the world, was comprised of 120 ethnic groups.
• The history of the Soviet state starts with the October 1917 revolution, led by Vladimir Lenin and the Bolsheviks, as well as peasant and proletarian communists, as implemented by Karl Marx and Friedrich Engels.
• Formed in 1922, the Union of the Soviet Socialist Republics was made up of the Russian Soviet Federative Socialist Republic (RSFSR), the Ukraine, Belarus, and the Transcaucasian Federation (Georgia, Armenia, and Azerbaijan).

5
The Economy of the Russian Empire before 1917
• Prior to 1917, the Russian Empire was an intermediate case compared to underdeveloped Asia and to industrially developed Western and Central Europe.
• It represented a duality between traditional

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2
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• The demise of the Union of Soviet Socialist Republics (USSR) raised numerous questions about its causes:
– Western observers pointed to the crisis of the socialist economic system of the former Soviet Union (FSU), the centrally planned command economy
– historical inability of soviets (worker-elected bodies of governance) to perform socioeconomic functions beyond rubber-stamping the Communist Party's directives.
– secessionist movements and the ultimate disintegration of the union of the republics posed as a third possible cause.

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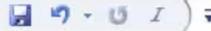
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HISTORICAL BACKGROUND OF THE SOVIET ECONOMY
• Until December 25, 1991, the USSR was the largest country in the world, occupying one-sixth of the earth's inhabitable land area behind the United States and China.
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• The history of the Soviet state starts with the October 1917 revolution by Karl Marx and Friedrich Engels.
• Formed in 1922, the Union of the Soviet Socialist Republics was made up of the Russian Soviet Federative Socialist Republic (RSFSR), the Ukraine, Belarus, and the three Caucasian Republics (Georgia, Armenia, and Azerbaijan).

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2 Introduction

- The demise of the Union of Soviet Socialist Republics (USSR) raised numerous questions about its collapse.
- Western observers pointed to the flaws of the socialist economic system of the former Soviet Union (SU), the centrally planned command economy.
- Historical validity of Soviet (post-war) Soviet of planned economy was questioned. Reasons beyond collapse: changing the Communist Party direction.
- The non-existent markets and the ultimate disappearance of the function of the republic posed as a third problematic.

3 Introduction

- The demise of the SU was brought about by the imperative need for an open economy and the slowdown in the arms race that imposed a heavy financial toll on the USSR.
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4 HISTORICAL BACKGROUND OF THE SOVIET ECONOMY

- Until December 25, 1991, the USSR was the largest country in the world, occupying one-sixth of the earth's inhabitable land area (excluding China).
- It had a population of about 293 million, the third largest in the world.
- It was comprised of 122 ethnic groups.
- The history of the Soviet state starts with the October 1917 revolution, which overthrew the Tsarist autocracy, as implemented by Karl Marx and Friedrich Engels.
- Formed in December 1922, the Union of Soviet Socialist Republics was made up of the Russian Soviet Federative Socialist Republic (RSFSR), the Ukraine, Belarus, and the Transcaucasian Federation (Georgia, Armenia, and Azerbaijan).

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2 Introduction

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 - economic causes related to the inefficiencies of the centrally planned command economy
 - political causes: conflicts between ethnic groups, the rise of nationalism, the formation of independent states
 - the economic measures and the subsequent disintegration of the union of the republics proved to be the main causes

3 Introduction

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4 HISTORICAL BACKGROUND OF THE SOVIET ECONOMY

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- Prior to 1917, the Russian Empire was an intermediate case compared to underdeveloped Asia and to industrially developed Western and Central Europe.
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- Inward-looking Slavophile traditionalists viewed industry as alien to Russian culture.

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6 The Economy of the Russian Empire before 1917

- In 1856, its initial implementation was driven by militarization in the aftermath of the Russian Army's defeat in the Crimean War with Turkey, Britain, and France.
- The majority of industries used serf labor before the emancipation of serfs came into effect in 1863...

7 COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted:
 - State-owned enterprises with state-wide ownership and state planning and regulation
 - Individual small businesses that produced for industry with state supervision
 - There were also privately owned large-scale enterprises (mostly in extractive and heavy industry) that by nature were socialist prototypes using direct administrative allocation of resources and assigned labor

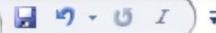
8 COMMAND ECONOMY: THE ONLY CHOICE?

- The economic plan produced political polarization on the ruling Communist Party:
 - Leon Trotsky advocated supercentralization in the Soviet Union that would lead to a worldwide permanent communist revolution.
 - The Mensheviks proposed "state capitalism" called for the elimination of domestic and international markets (Nikolai Lenin).
 - Centralizers proposed a greater role for trade unions in existing state enterprises (A. Tomskiy and N. Pyatakov).

9 COMMAND ECONOMY: THE ONLY CHOICE?

- Joseph Stalin supported an autarkic model of socialism in one country:
 - called for speedy industrialization, for which heavy, military buildup, and social transformation of the agro-industrial economy into an urban industrial zone centered on the industrial center

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COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted:
 - self-sufficient agriculture with barter exchange
 - state-owned enterprises
 - private and small businesses that produced for markets with limited state regulation
- There were also publicly owned large-scale enterprises (mostly in extractive and heavy industries) that by nature were socialist prototypes using direct administrative allocation of resources and assigned labor.

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COMMAND ECONOMY: THE ONLY CHOICE?

- The economic crisis produced political polarization in the ruling Communist Party:
 - Leon Trotsky advocated superindustrialization in the Soviet Union that would lead to a worldwide permanent communist revolution.
 - The "left communists" advocated "revolution from above" called the "liquidation of domestic and international markets" (Nikolai Bukharin).
 - Centralizers proposed a greater role for trade unions in existing state enterprises (A. Tsvetayev and N. Pyatakov).

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COMMAND ECONOMY: THE ONLY CHOICE?

- Joseph Stalin supported an autarkic model of socialism in one country:
 - called for speedy industrialization, for self-sufficiency, military buildup, and social transformation of the agro-industrial economy into an urban industrial one centered on the central cities

The Economy of the Russian Empire before 1917

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COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted:
 - Individual small-scale proprietorships and medium-sized businesses that produced for markets with the use of hired labor
- There were also publicly owned large-scale enterprises (mostly in extractive and heavy industries) that by nature were socialist prototypes using direct administrative allocation of resources and assigned labor

COMMAND ECONOMY: THE ONLY CHOICE?

- The economic planfulness produced political polarization in the ruling Communist Party:
 - Leon Trotsky advocated superindustrialization in the Soviet Union that would lead to a worldwide permanent communist revolution.
 - The Stalinists favored "economy by themselves" called for decentralization of domestic and international markets (Nikolai Bulganin).
 - Decentralizers proposed a greater role for trade unions in existing state enterprises (A. Torkay and N. Pyatakov).

COMMAND ECONOMY: THE ONLY CHOICE?

- Joseph Stalin supported an autarkic model of socialism in one country:
 - called for speedy industrialization for self-sufficiency, military buildup, and social transformation of the agricultural countryside into an urban industrial one ordered by the political center.
 - It disallowed market allocation of resources and was prone to unemployment. The state monopolized foreign relations, closed the economy through restrictions on foreign trade, currency inconvertibility, and limited trade specialization.

COMMAND ECONOMY: THE ONLY CHOICE?

- Accelerated industrialization, which heavily favored producer and military goods at the expense of agriculture, assumed unplanned economic growth.
- Pressure for superindustrialization was reinforced by the perceived hostility toward Communism by Britain, Japan, Poland, and the Weimar Republics.
- The First Five-Year Plan, initiated in 1928—ensured political control over the diverse republics, grouping them into economic regions to meet nationwide production needs.

Soviet Central Planning: The Beginning

- Centralized Stalin's command economy was central administrative planning eliminating the "flexibility" and "韌性" of market forces, thus putting structural and institutional rigidities into the economy.
- Central planners assigned individual sectors to assigned targets and instructed every enterprise, industry, and sector about what should its value, when, and how.

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COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted:
 - Individual small-scale proprietors and individuals owned businesses that produced for markets with little state intervention.
 - There were also publicly owned large-scale enterprises (mostly in extractive and heavy industries) that by nature were socialist prototypes using direct government direction, resources, and assigned labor.

COMMAND ECONOMY: THE ONLY CHOICE?

- The economic pluralism produced political splintering in the ruling Communist Party:
 - Leon Trotsky advocated superindustrialization in the Soviet Union that would lead to a worldwide permanent communist revolution.
 - The "peasants, enrich yourselves" called for liberalization of domestic and international markets (Nikolai Bukharin).
 - Decentralizers proposed a greater role for trade unions in existing state enterprises (A. Tomsky and N. Pyatakov).

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COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted with market exchange:
 - industrial small-scale production and
 - medium-scale businesses that produced for society with little or no profit motive.
- There were also military-owned large-scale enterprises (mostly in extraction and heavy industries) that by nature were socialist protofirms using direct administrative direction of resources and assigned labor.

COMMAND ECONOMY: THE ONLY CHOICE?

- The economics of Stalinism pursued political optimism on the subject of Command Theory:
 - Lev Trotsky advocated superindustrialization in the Soviet Union that would lead to a worldwide permanent communist revolution.
- The term of "command economy" was coined by the founders of Marxist theory, with their analysis markets (Marxist-Leninists).
- One researcher proposed a greater role for trade exports in building state enterprises (A. Tikhonov and N. Pyatnitsky).

COMMAND ECONOMY: THE ONLY CHOICE?

- Joseph Stalin supported an autarkic model of socialism in one country:
 - called for speedy industrialization for selfsufficiency, military buildup, and social transformation of the agro-industrial economy into an urban industrial one ordered by the political center
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- The First Five-Year Plan, initiated in 1928—ensured political commissars the diverse republics, giving them economic resources to meet nationwide production needs.

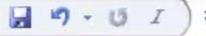
Soviet Central Planning: The Beginning

- Central planning is command economy was central administrative planning eliminating the "freedom" of market exchange, thus putting centralized control over all economic activity.
- Central planners assigned individuals to specific assigned targets and instructed every enterprise, industry, and institution what units to have, when, and how.

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- Joseph Stalin supported an autarkic model of **socialism in one country**:
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COMMAND ECONOMY: THE ONLY CHOICE?

- The centrally planned command economy was introduced into the Soviet Union, where several economic subsystems coexisted:
 - Individual small-scale proprietors and individuals owned businesses that produced for export, were self-employed, or worked in agriculture.
 - There were also publicly owned large-scale enterprises (mostly in extractive and heavy industries) that by nature were socialist enterprises using direct government direction, measures, and assigned labor.

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- The economic planism produced political polarization in the ruling Communist Party:
 - Leon Trotsky advanced superindustrialization in the Soviet Union that would lead to a worldwide permanent communist revolution.
 - The Stalinists favored "economy by themselves" called for "Revolutionization of domestic and international markets" (Nikolai Bulganin).
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- The First Five-Year Plan, inaugurated in 1928—ensured political control over the diverse republics, grouping them into economic regions to meet nationwide production needs.

Soviet Central Planning: The Beginning

- Gennaray Stalins's command economy was central administrative planning eliminating the "flexible" and "sovereign" of market forces, thus putting structural and institutional changes into motion.
- Central planners assigned individual sectors to assigned targets and instructed every enterprise, industry, and sector about what it must do, when, and how.

COMMAND ECONOMY: THE ONLY CHOICE?

- Accelerated industrialization, which heavily favored producer and military goods at the expense of agriculture, assumed *unbalanced economic growth*.
- *Pressure for superindustrialization* was reinforced by the perceived hostility toward Communism by Britain, Japan, Poland, and the Chinese Nationalists
- Central comprehensive planning—the *First Five-Year Plan*, inaugurated in 1928—ensured political control over the diverse republics, grouping them into economic regions to meet nationwide production needs.

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11 Soviet Central Planning: The Beginning

- Central to Stalin's command economy was *central administrative planning* eliminating the "frivolity" and "waste" of market forces, thus pushing structural and social reorganization of the economy.
- Central planners steered individual sectors to assigned targets and instructed every enterprise, industry, and region about what steps to take, when, and how.
- In every economy, the issue of proportionate allocation of resources is crucial.
 - Central planning established these proportions of production and exchange *a priori*, following the political and social decisions of the ruling party Politburo

12 Soviet Central Planning: The Beginning

- Soviet economists claimed that central socialist planning had superior foresight than the alleged myopia of short-term profit maximization of capitalist markets.
- The initial industry based growth was to be compensated for in the long run by future production increases in the deprivatized sectors of consumer and agricultural goods.

13 Soviet Central Planning: The Beginning

- The Central Planning Board of Statists was responsible for plan feasibility studies and for research on the methodology of balancing economic processes.
- But the task of obtaining adequate information posed a critical challenge.
- With limited markets this information was difficult to obtain, and the timely implementation of plans could not be guaranteed.
- This fact made planning intrinsically unstable, contrary to the commonly held belief about its superiority.

14 Soviet Central Planning: The Beginning

- A goal of the First Five-Year Plan was to catch up with capitalist industrial countries.
- The average rate of growth during the planned period was 10% per year.
- The success of the initial industrialization path cannot be attributed solely to central planning.
- It was also due to the favorable historical context of forced collectivization and a major decline in living standards.
- The shifting of consumer resources into investment increased the rate of private consumption below the historical standard of convergence with the same per capita GDR.

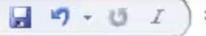
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- From 1928 to 1937 the share of private consumption declined from 64.7 to 52.5 percent; a decline that took 40 years. In Germany 50 years in England, 30 years in the United States, and over 50 years in Japan.

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COMMAND ECONOMY: THE ONLY CHOICE?

- Accelerated industrialization, which heavily favored producer and military goods at the expense of agriculture, assumed ultimate economic growth.
- Pressure for superindustrialization was reinforced by the political drive toward Communism by Belarus, Poland, and the Baltic states.
- Central comprehensive planning—the First Five-Year Plan, inaugurated in 1928—ensured political control over the diverse republics, grouping them into economic regions to meet nationwide production needs.

Soviet Central Planning: The Beginning

- Generalized a command economy was "central administrative planning eliminating the "futility" and "waste" of market-oriented planning decentralized and inefficient parts of the economy."
- Central planners instead individual sectors assigned targets and instructed every enterprise to meet them.
- In every economy the issue of proportionate allocation of resources is crucial.

Later a planning and statistical organization of operations developed following the initial and initial stages of developing party policies.

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- The Central Planning Board (Gosplan) was responsible for plan feasibility studies and for research on the methodology of balancing nationwide proportions.
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- It was also due to the individual cost of forced collectivization and a major decline in living standards.
- The shifting of consumer resources into investment was achieved through a massive reduction in the historical standards of other economies with the same per capita GDR.

15 Soviet Central Planning: The Beginning

- From 1928 to 1932 the share of private consumption declined from 54.7 to 52.5 percent; a decline that took 40 years in Germany, 50 years in England, 50 years in the United States, and over 50 years in Japan.
- This led to the shortage economy, with chronic plan underfulfillment in consumer and agricultural goods.

16 Soviet Central Planning: The Beginning

- Industrialization generated an extensive bureaucracy in planning and executive institutions interested in perpetuating their political and economic power and ultimately resulted in rent-seeking behaviors.
- Command Industrialization formed the basis for the

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- The success of the initial industrialization push cannot be attributed solely to central planning.

Soviet Central Planning: The Beginning

- From 1928 to 1937, the share of private consumption declined from 44.7 to 52.5 percent, a decline that took 40 years in Germany, 50 years in England, 50 years in the United States, and over 50 years in Japan.
- This led to the shortage economy, with chronic plan underfulfillment in consumer and agricultural goods.

Soviet Central Planning: The Beginning

- Industrialization proceeded at extensive bureaucracy,大陸化 and economic inefficiencies interested in perpetuating their political and economic power and ultimately resulted in rent-seeking behaviors.
- Command Industrialization formed the basis for the

Soviet Central Planning: The Beginning

- A goal of the First Five-Year Plan was to catch up with capitalist industrial countries.
- The average rate of growth during the planned period was claimed to be 21.6 percent
- The success of the initial industrialization push cannot be attributed solely to central planning.
- It was accomplished at the tremendous cost of forced collectivization and a major decline in living standards.
- The siphoning of consumer resources into investment dramatically lowered private consumption below the historical standards of other economies with the same per capita GDP.

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12 Soviet Central Planning: The Beginning
• Soviet economics claimed that central socialist planning had superior foresight than the alleged myopia of short-term profit maximization of capitalist markets.
• The initial industry based growth was to be compensated for in the long run by future production increases in the deprivileged sectors of consumer and agricultural goods.

13 Soviet Central Planning: The Beginning
• The Central Planning Board (Gosplan) was responsible for plan feasibility studies and for research on the methodology of balancing national economies.
• But the need to obtain adequate information posed a critical challenge.
• With limited markets the information was often incomplete and the implementation of plans could not be guaranteed.
• This fact made planning intrinsically unstable, contrary to the commonly held belief about its stability.

14 Soviet Central Planning: The Beginning
• A goal of the First Five-Year Plan was to catch up with capitalist industrial countries.
• The average rate of growth during the planned period was 10 percent per year.
• The success of the initial industrialization push cannot be attributed solely to central planning.
• The heavy emphasis on industrialization had a high cost of forced collectivization and a major decline in living standards.
• The shifting of consumer resources into investment and industrial expansion led to a sharp divergence from the historical standards of other economies with the same per capita GDR.

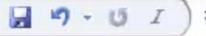
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Soviet Central Planning: The Beginning

- Industrialization produced an extensive bureaucracy in planning and executive agencies interested in perpetuating their political and economic power and ultimately resulted in rent-seeking behaviors.
- Command industrialization formed the basis for the merger between the party, the planners, and the ministerial and local government bureaucracies, resulting in the formation of a new class, which presided over this vertical hierarchy and engaged in rent-seeking behaviors.

17

SOVIET CENTRAL PLANNING AND ITS IMPLEMENTATION

- The counterposition of planning and the market as allocative mechanisms has a long history in economics.
- However, planning and the market are not perfect allocative substitutes.
- Planning can result in expanded reproduction and particular investment, with consumption deemphasized.
- In contrast, the market attends to individual consumer preferences.
- On average, planned investment to catch up with the West industrially and militarily.
- Therefore, planning ignored static efficiency in favor of high rates of economic growth.

18

Soviet Agriculture: The Peculiarity of the Soviet Model

- Once, Russia was the breadbasket of Europe. From 1909 to 1913, Russian grain exports amounted to around 30 percent of world grain exports.
- But after the October Revolution, agricultural output fell sharply.
- Three categories of agricultural producers survived: state, collective, and private farms.
- This sector had a special history of its own with regard to prices, incentives, planning, and policy policies.
- Stalin's industrialization was contingent on the mass collectivization of peasants and the elimination of the well-off peasants.

19

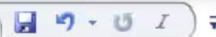
Soviet Agriculture: The Peculiarity of the Soviet Model

- The first category of the collectivizers, a paradescooperative, with elected management entity a supply of agricultural goods to the state at minimum cost. They were the most successful. These were known as "fascicles in the field" and were run under more favorable policies. When underpaid in delivery prices, these farms were compensated by subsidies. This format

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- Stalin's industrialization was contingent on the mass collectivization of peasants and the elimination of the well-off peasants.

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Soviet Agriculture: The Peculiarity of the Soviet Model

- The first category of the collectivizers is a parodio-cooperative, with elected management arranging a supply of agricultural goods to the state at minimum cost. This was the most successful form of collectivization. Then came "kolkhozes" and were run under more favorable policies. When underpaid in delivery prices, these farms were a non-viable institution. This format

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- Planning can result in misaligned incentives and particular investment, with constant overproduced.
- In contrast, the market seeks to satisfy individual consumer preferences.
- As a result, the planned economy failed to catch up with the West industrially and militarily.
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- This sector had a special history of its own with regard to prices, incentives, planning, and party policies.
- Stalin's industrialization was contingent on the mass collectivization of peasants and the elimination of the well-off peasants.

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Soviet Agriculture: The Peculiarity of the Soviet Model

- The first category of collectivization is pseudo-cooperative, with elected management entity a supply of agricultural goods to the state at minimum cost. This is called "state farms" or kolkhozes. These are "factories in the field" and were run under more favorable policies. When underpaid in delivery prices, these farms were a non-viable business. This format

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- The co-existence of planning and the market as alternative mechanisms has a long history in economics.
 - However, planning and the market are not perfect alternative models.
 - The market is concerned with expanded reproduction and particular investment, with consumption diversified.
 - In contrast, the market avoids safety individual consumer preferences.
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 - During the October Revolution, agricultural output increased.
 - Three categories of agricultural producers survived: state, collective, and private farms.
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 - Stalin's industrialization was contingent on the mass mobilization of peasants and the elimination of the well-off peasants.

- 19 Soviet Agriculture: The Peculiarity of the Soviet Model
- The first category was the collective farm, a pseudocooperative, with elected management ensuring a supply of agricultural goods to the state at minimum cost.
 - The second category was the state farm. These were set up as "factories in the fields" and were run under more favorable policies. When underpaid in delivery prices, these farms were compensated by subsidies. The farmers were state employees and got a guaranteed wage. They were given access to better inputs at wholesale prices.
 - Excessive taxation of agriculture led to a decline in productivity and in absolute production, on collective farms because of price discrimination and compulsory deliveries and on state farms because of subsidization.

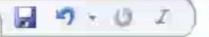
- 20 Soviet Agriculture: The Peculiarity of the Soviet Model
- Warning: collective farms & pressure against the individual farmer and family.
 - Economically, individual farms are generally located in the most fertile areas of the country. Thus, collective farms are less efficient than individual farms.
 - Land was owned by the state, not privately owned, it was cultivated only by peasants and state employees, no rural and urban families are involved, as privately owned but usually underexploited land is not used.
 - Individual work load on collective farms is heavier and caused more fatigue.
 - But they also worked for themselves or state enterprises, creating a tension dividing time between their private and collective enterprises.

- 21 Closed Economy: Command Trade Isolationism
- One reason the Soviet Union lasted as long as it did was that Stalin's initial model was the closed economy, reinforced much longer than most features of the system.
 - Its ideological underpinning was Stalin's idea of an authentic socialist country unctected by hostile

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- 17 SOVIET CENTRAL PLANNING AND ITS IMPLEMENTATION
- The centralization of planning and the market as alternatives met the same fate as a long history in economics.
 - However, planning and the market were not perfect alternatives.
 - Planning was concerned with expanded reproduction and productive investment, with consumption being displaced.
 - In contrast, the market was used to satisfy individual consumer preferences.
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 - The private had a ancient history of its own with no property prices. No rents, leases, and early practices.
 - Stalin's administration was converging on the mass collectivization and the elimination of the well-off peasants.

- 19 Soviet Agriculture: The Peculiarity of the Soviet Model
- The first category was the collectivized, a paraproletarian, with elected management; it gave a majority of agricultural goods to the state, administration and the collective.
 - The second category was the auxiliary household plots. These square "backyards in the field" and were run under more favorable policies. When compared to its delivery prices, the auxiliary household plots were given a discount. They were state employees and got a guaranteed wage. They were given access to better inputs at wholesale prices.
 - Finally, it was the sharecroppers, on collective farms and in individual plots, on collective farms because of price discriminations and company deliveries and on state farms because of subsidies.

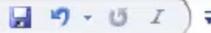
- 20 Soviet Agriculture: The Peculiarity of the Soviet Model
- The three categories of agricultural producers consist of the individual farmer and family.
 - Economically, individual farmers are generally found in the private sector; however, in the Soviet reality, they occupied a unique segment of economic activity.
 - Land in auxiliary household plots was not privately owned; it was cultivated only by peasants and state employees in rural and suburban areas. Livestock was privately owned but usually pastured on collective or state land.
 - Individuals worked on these plots for themselves and owned their produce
 - But they also worked for the collective or state enterprises, creating tension in dividing time between their private and collective enterprises.

- 21 Closed Economy: Command Trade Isolationism
- One reason the Soviet Union lasted as long as it did was that the State's initial model was the closed economy, which much longer than most features of the system.
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- One reason the Soviet Union lasted as long as it did was that Stalin's initial model was the closed economy, enforced much longer than most features of the system.
- Its ideological underpinning was Stalin's idea of an autarkic socialist country encircled by hostile imperialist countries.
- The anarchy of the world markets could undermine the effectiveness of central planning. Therefore domestic firms were "protected" from foreign competition and world prices.

22 Closed Economy: Command Trade Isolationism

- The state assumed authority over foreign trade and foreign currency transactions through state monopolies.
- The state monopoly of foreign trade was as old as the Soviet Union. Even during the NEP liberalization, this monopoly was maintained.
- Planners determined imports and exports by balancing domestic inputs with projected outputs and making up for potential discrepancies.

23 Closed Economy: Command Trade Isolationism

- Export producers were relieved from the need to pay for imports. Producers of exportable goods did not have direct relationships with foreign buyers but dealt exclusively with foreign trade bureaucracies organized at the industrial level.
- Domestic producers did not understand export revenues because official statistics showed them in ruble value, while actual exports were in foreign currencies converted into rubles at the official rate, which was notorious for its arbitrariness.

24 Closed Economy: Command Trade Isolationism

- Foreign trade relations were mostly bilateral and highly politicized.
 - In 1948, Yugoslavia had to import oil by 50 percent when the USSR cut off crude oil exports.
 - China took the largest part of Soviet petroleum from 1950 to 1953, but the USSR had to sacrifice sharply during the Korean War.
 - In 1958, oil imports to India were halted until the Indian government made its oil more acceptable to Moscow.
 - In 1960, oil imports to Cuba were held back when the USSR cut off sugar exports.

25 CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN?

- The Soviet command economy legitimated perverse prioritization and paternalism.
 - It was based on the principle of central planning and bickering through centralized subsidies.
 - They were not subject to financial discipline, and their

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20

Soviet Agriculture: The Peculiarity of the Soviet Model

- Farmers were categorized as producers or owners of the individual farms and families.
- Economically, individual farmers were hardly treated as the primary economic unit in the planned economy. Thus, emerged a unique segment of economic activity.
- Land was owned by the state, which was not privately owned, it was cultivated only by producers and state employees. In fact, the state did not own land, it was privately owned but usually passed on collective or state farms.
- Individuals worked on themselves for themselves, and owned nothing more than a dwelling house, kitchenware, their producer and collective ownership.
- But they also worked for the collective or state enterprises, so living expenses in dwelling houses exceeded those producer and collective ownership.

21

Closed Economy: Command Trade Isolationism

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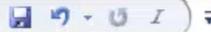
Closed Economy: Command Trade Isolationism

- Foreign trade relations were mostly bilateral and highly politicized.
 - In 1948, Yugoslavia held its first oil negotiations by SDI partners while the US was still a little away. This was the last time.
 - China has largely purchased oil products from 1958 to 1962. Soviet oil exports declined sharply.

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- were categories of agriculture & production concerned of the individual farmer and family
- officially, individual farmers were hardly involved in the production of agriculture. Rather, there existed a separate segment of economic activity
- agriculture was not a priority concern. It was cultivated only by producers and state employees, as well as by cooperatives. The latter were privately owned but usually purchased on collective or state land
- individuals worked on obligations for themselves and cooperatives
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 - Later, the largest purveyor of Soviet purchases from 1965 to 1984, found in exports outside the USSR

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 - China, the largest purchaser of Soviet petroleum from 1955 to 1961, found its imports curtailed sharply during the Sino-Soviet split.
 - In late 1958, oil deliveries to Finland were halted until the country came up with a president more acceptable to Moscow.
 - In 1968, oil shipments to Cuba were held back when the country became too independent.

25

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The Soviet command economy reformed periodically to protect workers and consumers.
 - Reform was aimed at reducing economic inefficiency and bankruptcy through centralized subsidies.
 - They were not subject to financial discipline, and their managers performed mainly on the basis of their connection with the government's plans.
 - The people were protected against economic fluctuations and the possibility of unemployment through coordinated public education and mandatory assignment of guaranteed jobs.

26

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The state monopoly of foreign trade protected domestic firms from external competition and from competition with foreign goods.
- The terms reform and reformism were the Soviet Union's main political weapons used to combat the West and distant past. They were interpreted as dangerous Western import-substitution policies.
- With the death of Stalin, a rethinking of Soviet economic accomplishments and their costs took place.
- The process of political democratization gradually shifted after Khrushchev's 1956 speech to the 20th Party Congress, in which he denounced the weaknesses and excesses of Stalin's totalitarian rule.

27

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated de-Stalinization, political and economic reforms.
- In foreign policy he endorsed the idea of peaceful coexistence and competition between socialism and capitalism, despite his dangerous bluff that led to the Cuban Missile Crisis.

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 - In 1948, Yugoslavia had to limit its exports by 50 percent when it successfully broke away from the Soviet bloc.
 - China, though a producer of Soviet purchases from 1950 to 1958, could not import Soviet goods freely during the Sino-Soviet split.
 - In late 1958, China's leaders were forced until the mid-1970s to buy what a producer needed at prices acceptable to Moscow.
 - In 1961, oil imports to Bulgaria fell back when the country became too independent.

25

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN?
Reluctant Reform Thinking

- The Soviet command economy epitomized pervasive protectionism and paternalism.
 - It protected domestic producers from insolvency and bankruptcy through centralized subsidies.
 - They were not subject to financial discipline, and their managers' performance was assessed on the basis of their compliance with the government's plans.
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- The terms reform and reformers in the Soviet Union's history are often forgotten, as they are in the more distant past. They were interpreted as dangerous Western imports.
- With the death of Stalin, a rethinking of Soviet economic accomplishments and their costs took place.
- The process of gradual de-Stalinization gradually called for change, especially after Khrushchev's 1956 speech to the 20th Party Congress, in which he denounced the weaknesses and excesses of Stalin's totalitarian rule.

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- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated decentralization, price reform, and economic reform.
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Reluctant Reform Thinking

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- They were not subject to financial discipline, and their managers' performance was assessed on the basis of their compliance with the government's plans.
- The people were protected against economic fluctuations and the possibility of unemployment through coordinated public education and mandatory assignment of guaranteed jobs

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Outline

24

Closed Economy: Command Trade Isolationism

- Foreign trade relations were mostly bilateral and highly politicized.
- In 1950, the USSR had a lower level of imports by 60 percent when compared to the USA from the Soviet Union.
- During the 1950s, purchases of Soviet purchases from 1955 to 1961, found its imports declined sharply during the 1950s.
- During the 1950s, oil imports to Poland were halted until the country came up with a producer income tax.
- In 1958, oil imports to Bulgaria fell back when the country became less independent.

25

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The Soviet command economy represented perverse incentives.
- Enterprises were shielded against bankruptcy and bankruptcy through centralized subsidies.
- They were not subject to financial discipline, and their performance was evaluated on the basis of their compliance with the government's plans.
- The people were protected against economic fluctuations and the possibility of unemployment through coordinated public education and mandatory assignment of guaranteed jobs.

26

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The state monopoly of foreign trade protected domestic firms from external shocks and from competition with foreign goods.
- The terms reform and reformism in the Soviet Union's parlance were ideologically unacceptable in the not so distant past. They were interpreted as dangerous Western imports.
- With the death of Stalin, a rethinking of Soviet economic accomplishments and their costs took place.
- The process of political destalinization gradually spilled into economics, especially after Khrushchev's speech to the 20th Party Congress, in which he denounced the weaknesses and excesses of Stalin's totalitarian rule.

27

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated de-Stalinization in domestic politics and economics.
- In foreign policy he embraced the idea of peaceful coexistence and cooperation between socialist and capitalist countries. He denounced the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing possible separate roads in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the political succession after Stalin's death through agricultural reforms:
 - collectivization of agriculture
 - increased procurement prices
 - increased mechanization of agriculture and industry
- To alleviate the burden of comprehensive control by central bureaucratic authorities, Khrushchev reduced

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN?

Reluctant Reform Thinking

- The state monopoly of foreign trade protected domestic firms from external shocks and from competition with foreign goods.
- The terms *reform* and *reformism* in the Soviet Union's parlance were ideologically unacceptable in the not so distant past. They were interpreted as dangerous Western imports.
- With the death of Stalin, a rethinking of Soviet economic accomplishments and their costs took place.
- The process of political destalinization gradually spilled into economics, especially after Khrushchev's 1956 speech to the 20th Party Congress, in which he denounced the weaknesses and excesses of Stalin's totalitarian rule.

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Slides

Outline



24

Closed Economy: Command Trade Isolationism

- Foreign trade relations were mostly bilateral and highly politicized.
- In 1950 Russia had less of imports by 60 percent when compared to 1940 level from the Soviet Union.
- USSR was the largest producer of steel, particularly from 1950 to 1961. Found its imports declined sharply during that period.
- After 1950, oil imports to Russia were halted until the country came up with a producer index.
- Imports of oil imports to USSR were held back when the country became more independent.

25

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The Soviet command economy implemented perverse incentives.
- Enterprises were shielded against bankruptcy and bankruptcy through centralized subsidies.
- They were not subject to financial discipline, and their performance was evaluated on the basis of their compliance with the government's plans.
- The people were protected against economic fluctuations and the possibility of unemployment through coordinated public education and mandatory assignment of guaranteed jobs.

26

CAN A COMMAND ECONOMY BE REFORMED FROM WITHIN? Reluctant Reform Thinking

- The state monopoly of foreign trade protected domestic enterprises from external shocks and from competition with foreign goods.
- The terms reform and reformation the Soviet Union's foreign policy were interpreted as a shift towards a distant past. They were interpreted as dangerous Western imports.
- With the death of Stalin, a rethinking of Soviet economic accomplishments and their costs took place.
- The process of political decentralization gradually gathered momentum. It was officially opened with the 20th Party Congress, in which he denounced the weaknesses and excesses of Stalin's totalitarian rule.

27

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated destalinization in domestic politics and economics.
- In foreign policy he embraced the idea of peaceful coexistence and competition between socialism and capitalism.
- He also rejected the dogmas that led to the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing possible separate roads in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the political succession after Stalin's death through agricultural reforms.
- collectivization of agriculture factors
- increased procurement prices
- increased commercialization of agriculture and economy
- To alleviate the burden of comprehensive control by central bureaucratic authorities, Khrushchev reduced

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated destalinization in domestic politics and economics.
- In foreign policy he embraced the idea of peaceful coexistence and competition between socialism and capitalism, despite his dangerous bluff that led to the Cuban missile crisis in 1962.
- Khrushchev revoked Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing possible separate roads in Eastern Europe.

Click to add notes



27

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated de-Stalinization in domestic politics and economics.
- In foreign policy he embraced the idea of peaceful coexistence and competition between socialism and capitalism, which was the disastrous bluff that led to the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing possible separate roads in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the political succession after Stalin's death through agricultural reforms
 - reduced taxes on private farmers
 - increased procurement prices
 - increased commercialisation of agriculture and incentives
- To alleviate the burden of comprehensive control by central bureaucratic authorities, Khrushchev replaced nearly all central ministries (save defense and nuclear power ones) in 1957 with regional economic councils (*sovnarkhozy*) that gave those regions and individual republics their first taste of partial economic autonomy.

29

Reform and Economic Stagnation

- Following the fall of Khrushchev, regional decentralisation was abandoned and in 1962 the re-centralisation of economy and of industrial management took place during the thirty years of Leonid Brezhnev's tenure (1964–1982).
- The ambivalence of reform practices led to the continuation of many features of the Soviet model and gross costs of reform proposals.
- The hierarchy of the Communist Party over political and economic decisions and state ownership were systemic obstacles to reforms.

30

Gorbachev's "Revolution"

- When Mikhail Gorbachev took over the Communist Party and the Soviet state in 1985, many people inside and outside the USSR pictured him as a radical reformer, even a revolutionary.
- With plummeting Soviet economic performance and a widening technological gap with the West, Gorbachev sought to forge greater political and economic links with the West. Price controls and price caps were relaxed, and prices were set by market forces.
 - Incentives made new incentives to attract foreign investment and achieve a new defense.

31

Gorbachev's "Revolution"

- The new thinking emphasized the importance of environmental protection and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries.
- During Gorbachev's first years, there were innovations that foreshadowed the radical reforms of the 1990s.

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the political succession after Stalin's death through agricultural reforms
 - Reduce levies on private owned farmers
 - Increased procurement prices
 - Increased commercialisation of agriculture and incentives
- To alleviate the burden of comprehensive control by central bureaucratic authorities, Khrushchev replaced nearly all central ministries (save defense and nuclear power ones) in 1957 with regional economic councils (*sovnarkhozy*) that gave those regions and individual republics their first taste of partial economic autonomy

Click to add notes



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First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953–1964, initiated decentralization in domestic politics and economics.
- In foreign policy he embraced the ideas of peaceful coexistence and competition between socialism and capitalism, which led to the disastrous rift that led to the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing greater regional autonomy in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the public sphere in reaction after Stalin's death through agricultural reforms:
 - increased production quotas
 - increased price realization of agriculture and industry
- To alleviate the burden of comprehensive central planning, Khrushchev established sovkhozes and nearly all central ministries gave defense and nuclear power areas in 1957 with regional economic councils (sovnarkhozes) that gave them some degree of economic autonomy.

29

Reforms and Economic Stagnation

- Following the fall of Khrushchev, regional decentralization was abandoned and in 1965 the reconversion to the branch principle of industrial management took place during the early years of Leonid Brezhnev's tenure (1964–1982).
- The ambivalence of reform practices led to entrenchment of the traditional features of the Soviet model and grass-roots distrust of reform proposals.
- The monopoly of the Communist Party over political and economic decisions and state ownership were systemic obstacles to reforms.

30

Gorbachev's "Revolution"

- When Mikhail Gorbachev took over the Communist Party and the Soviet state in 1985, many people inside and outside the USSR pictured him as a radical reformer, even a revolutionary.
- With planning, Soviet economic performance and a wading technological gap with the West, Gorbachev's initial strategy was to forge greater openness and reformism within the Party, economy and society, and to pursue a more peaceful, permissive and conciliatory foreign policy.
- Inclusive trade unions were allowed to strike, to take strikes and advise a new leadership.

31

Gorbachev's "Revolution"

- The new thinking emphasized the importance of democracy and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries.
- During Gorbachev's first years, there were innovations that foreshadowed the radical reforms of the 1990s.

Reforms and Economic Stagnation

- Following the fall of Khrushchev, regional decentralization was abandoned and in 1965 the reconversion to the branch principle of industrial management took place during the early years of Leonid Brezhnev's tenure (1964–1982)
- The ambivalence of reform practices led to entrenchment of the traditional features of the Soviet model and grass-roots distrust of reform proposals
- The monopoly of the Communist Party over political and economic decisions and state ownership were systemic obstacles to reforms.

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First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953-1964, initiated decentralization in domestic politics and economics.
- In foreign policy he embraced the idea of peaceful coexistence and competition between socialism and capitalism, which was the dangerous bluff that led to the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing possible separate roads in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the political succession after Stalin's death through agricultural reforms:
 - increased production quotas
 - increased price controls
- To alleviate the burden of comprehensive control by the central planning committee, Khrushchev allowed nearly all central ministries to have defense and nuclear power areas in 1957 with regional economic councils (sovnarkhozy) that gave those regions and individual republics their first taste of partial economic autonomy.

29

Reforms and Economic Stagnation

- Following the fall of Khrushchev, regional decentralization was abandoned and in 1965 the re-centralization of the economy and of industrial management took place during the three years of Leonid Brezhnev's tenure (1964-1982).
- The ambivalence of reform practices led to the stagnation of economic transformation of the Soviet model and grass-roots distrust of reform proposals.
- The majority of the Communist Party over political and economic decisions and state ownership were systemic obstacles to reforms.

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Gorbachev's "Revolution"

- When Mikhail Gorbachev took over the Communist Party and the Soviet state in 1985, many people inside and outside the USSR pictured him as a radical reformer, even a revolutionary.
- With plummeting Soviet economic performance and a widening technological gap with the West, Gorbachev's initial strategy was to forge greater political and economic unity with Warsaw Pact countries and proceed with concerted reforms
 - Gorbachev made new overtures to the West to relax tensions and achieve a new detente

31

Gorbachev's "Revolution"

- The new thinking emphasized the importance of innovation, of progress and the challenge of global problems like the burden of the arms race, environmental problems, and issues of less developed countries.
- During Gorbachev's first years, there were innovations that foreshadowed the radical reforms of the 1990s.

Gorbachev's "Revolution"

- When Mikhail Gorbachev took over the Communist Party and the Soviet state in 1985, many people inside and outside the USSR pictured him as a radical reformer, even a revolutionary
- With plummeting Soviet economic performance and a widening technological gap with the West, Gorbachev's initial strategy was to forge greater political and economic unity with Warsaw Pact countries and proceed with concerted reforms
 - Gorbachev made new overtures to the West to relax tensions and achieve a new detente

Click to add notes



27

First Attempts at Economic Reforms

- Nikita Khrushchev, Communist Party General Secretary during 1953-1964, initiated decentralization in domestic politics and economics.
- In foreign policy he embraced the ideas of peaceful coexistence and cooperation between socialist and capitalist countries, a more moderate shift than led to the Cuban missile crisis in 1962.
- Khrushchev revisited Stalin's idea of a bipolar world of two irreconcilable hostile camps and introduced "limited sovereignty of socialist states," recognizing greater regional autonomy in Eastern Europe.

28

First Attempts at Economic Reforms

- Khrushchev sought to increase his political stature in the public discourse after Stalin's death through agricultural reforms
 - increased production quotas
 - increased procurement prices
- He removed centralization of agriculture and introduced nearly all sectoral ministries, gave defense and nuclear power areas in 1957 with regional economic councils (decentralization) that gave regional regions and individual republics their first chance of partial economic autonomy.

29

Reforms and Economic Stagnation

- Following the fall of Khrushchev, regional decentralization was abandoned and in 1962 the re-centralization of economy began. of industrial management took place during the final years of Leonid Brezhnev's tenure (1964-1982).
- The ambivalence of reform processes led to stagnation, traditional features of the Soviet model and grave costs of reform proposals.
- The hierarchy of the Communist Party over political and economic decisions and state ownership were systematic obstacles to reforms.

30

Gorbachev's "Revolution"

- When Mikhail Gorbachev took over the Communist Party and the Soviet state in 1985, many people inside and outside the USSR perceived him as a political reformer, even a revolutionary.
- With planning, Soviet economic performance and a widening technological gap with the West. Gorbachev's initial strategy was to forge greater parity with the West, with a shift away from state control and towards market-oriented reforms
 - including greater free markets, to liberalize trade, industry and agriculture - a new doctrine

31

Gorbachev's "Revolution"

- The new thinking emphasized the interdependence of nations and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries.
- During Gorbachev's first years, there were innovations that foreshadowed the radical reforms of the 1990s.

Gorbachev's "Revolution"

- The *new thinking* emphasized the *interdependence* of nations and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries.
 - During Gorbachev's first years, there were innovations that foreshadowed the radical reforms of the 1990s
- Real socialism versus ideal (theoretical) socialism
 - Opened the economy and incentive to change
 - Eliminated state monopoly on foreign trade (wanted to duplicate China's success on trade)

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Gorbachev's "Revolution"

- When Gorbachev became General Secretary of the Communist Party and the Soviet state in 1985, many people inside and outside the USSR perceived him as a radical reformer, even a revolutionary
- While dismantling Soviet economic performance and a widening technological gap with the West, Gorbachev's initial strategy was to forge greater political and economic unity with Western Partnership countries, preserving the centralized reformist system
- Declaration of independence of Central Committee of the CPSU
- To ride the wave of change, to take advantage of the situation and achieve a safe distance

31

Gorbachev's "Revolution"

- The first major emphasis was on international relations and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries
- During Gorbachev's first years, there were some successes that foreshadowed the radical reforms of the 1990s
 - End isolation, westernization
 - Increased transparency and openness to change
 - Democratic state (independent foreign trade policy)
 - Decentralization, market economy, privatization

32

Gorbachev's "Revolution"

- The 1985 Chernobyl disaster, and the failure of the Soviet model to provide energy without jeopardizing the environment and endangering human lives
- Radical reforms started in 1990 with open debate about the future of the Soviet Union by dismantling central planning and introducing different kinds of property relations to promote individual entrepreneurship
- The decentralization of economic decision making stimulated the nationalist sentiment of individual republics and sped up secessionist movements

33

MOVING AWAY FROM THE CENTRALLY PLANNED ECONOMY: The Legacies of the Soviet Economy

- The Soviet economic system was based on the following principles:
 - State planning for state-owned industry, demand structuring by the state budget, and a state-monitored monetary policy with a one-tier banking system.
 - Production in a state-run system of mostly monopolistic firms, producing a narrow range of goods at state-administered prices and facing non-existent supplies

34

Legacies of the Soviet Economy

- Self-government by management committees, who were responsible for investment or production quality improvements and engaged in finding material factor inputs to easily fulfill quantitatively specified state plans.
- A lack of management guarantees and, as a consequence, the systemic bankruptcy of firms going bankrupt—a soft budget constraint policy

Gorbachev's "Revolution"

- The 1986 Chernobyl disaster and the failure of the Soviet model to provide energy without jeopardizing the environment and endangering human lives
- Radical reform started in 1990 with open debate over transition to a market economy by dismantling central planning and introducing different kinds of property relations to promote individual entrepreneurship
- The decentralization of economic decision making stimulated the nationalist sentiment of individual republics and sped up secessionist movements

Click to add notes

30

Gorbachev's "Revolution"

- When Gorbachev came to power in the Soviet state in 1985, many problems inside and outside the USSR pursued him as a radical reformer, even a revolutionary
- With planning, Soviet economic performance and a widening technological gap with the West, Gorbachev's initial strategy was to forge greater political and economic unity with Warsaw Pact countries and promote further economic reforms
 - declaration against nationalism, collectivism, to ride豪華 and achieve a sane balance

31

Gorbachev's "Revolution"

- The increasing importance of interdependence of nations and the challenge of global problems like the burden of the arms race, environmental problems, and issues of the less developed countries
- During Gorbachev's first years, there were important, but foreseen, radical reforms of the 1990s
 - kind socialist versus old (theoretical) socialist
 - opened frontiers and economy to change
 - liberalized state monopoly foreign trade (wanted to develop their own market)

32

Gorbachev's "Revolution"

- The 1985 Chernobyl disaster, and the failure of the Soviet model to provide energy without jeopardizing the environment and endangering human lives
- Radical reform started in 1990 with open debate about the future of the Soviet Union by demanding centralized planning and introducing different kinds of property relations to promote individual entrepreneurship
- The decentralization of economic decision making stimulated the national awakening of individual republics and sped up economic movements

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MOVING AWAY FROM THE CENTRALLY PLANNED ECONOMY: The Legacies of the Soviet Economy

- The Soviet economic system was based on the following principles:
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 - Production in a state-run system of mostly monopolistic firms, producing a narrow range of goods at state-administered prices and facing monopolistic suppliers

34

Legacies of the Soviet Economy

- Failure of the managers, who were relatives to investors or introduce quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified production plans.
- After the government guarantees went, as a consequence, the systemic inability of firms going bankrupt—a soft budget constraint policy

MOVING AWAY FROM THE CENTRALLY PLANNED ECONOMY: The Legacies of the Soviet Economy

- The Soviet economic system was based on the following principles:
 - State planning for state-owned industries, demand structuring by the state budget, and a state-determined monetary policy with a one-tier banking system
 - Production in a state-run system of mostly monopolistic firms, producing a narrow range of goods at state-administered prices and facing monopolistic suppliers

Click to add notes



34

Legacies of the Soviet Economy

- Risk aversion by managers/administrators who were reluctant to innovate or introduce quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified state plans.
- A full employment guarantee and, as a consequence, the systemic impossibility of firms going bankrupt—a **soft budget constraint policy**
- A state monopoly in foreign trade, administered prices, and exchange rates reflecting the inconvertibility of the domestic currency

35

Legacies of the Soviet Economy

- Fiscal measures generated stability by summoning state and industrial transfers of profits used to subsidize inefficient firms and prices for mass staple goods, as well as providing public goods.

36

Legacies of the Soviet Economy

- Monopolistic producers and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
- Full employment guarantees disguised hidden unemployment and favored labor-intensive production processes.
- The **soft budget constraint** policy resulted in wasteful resource allocation when the costs of nonprofitable projects were borne solely by the state.

37

Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a massive break with its economic legacies.
- The reform cycles in the FSU showed a pattern of surging waves of liberalization movements that were often interrupted by the rise of more conservative political allies asserting their vested interests:
 - “Your day forward, two steps backward!”
- Boris Yeltsin, the first democratically elected president of Russia, launched the fifth reform wave in an attempt to undo the legacies of the Soviet model.

38

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful and his biggest historical accomplishment was to destroy the Communist Party's monopoly politically and economically.
- However, he did not succeed in building a new pluralistic society, becoming mired in debts, while the economy and universities declined.

Legacies of the Soviet Economy

- *Risk aversion by managers/administrators who were reluctant to innovate or introduce quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified state plans.*
- A full employment guarantee and, as a consequence, the systemic impossibility of firms going bankrupt—a **soft budget constraint policy**
- A state monopoly in foreign trade, administered prices, and exchange rates reflecting the inconvertibility of the domestic currency

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Legacies of the Soviet Economy

- Bureaucrats by management style who were reluctant to innovate or reward quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified state plans
- And employment guarantees and, as a consequence, the systemic insolvency of firms going bankrupt—a soft budget constraint policy
- State monopoly in foreign trade, administered prices, and exchange rates, limiting the internationality of the domestic economy

35

Legacies of the Soviet Economy

- Fiscal revenues generated mainly by turnover taxes and mandatory transfers of profits used to subsidize insolvent firms and prices for mass staple goods, as well as providing public goods

36

Legacies of the Soviet Economy

- Monopolistic producers and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
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37

Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a residue break with its economic legacies
- The reform cycle in the FSU showed a pattern of surging waves of free market-oriented movements that were often mediated by the interests of one or more political elites asserting their vested interests – “one step forward, two steps backward”
- Boris Yeltsin, the first democratically elected president of Russia, launched the fifth reform wave in an attempt to end the legacies of the Soviet model

38

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to destroy the Communist Party's monopoly politically and economically
- However, he did not succeed in building a new pluralistic society, becoming instead a bully, with the consequences and outcomes dividing the state

Legacies of the Soviet Economy

- Fiscal revenues generated mainly by turnover taxes and mandatory transfers of profits used to subsidize insolvent firms and prices for mass staple goods, as well as providing public goods

Click to add notes



34

Legacies of the Soviet Economy

- Risk-averse managers/administrators who were reluctant to innovate or introduce quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified state plans.
- Full employment guarantees and, as a consequence, the systemic insatiable of firms going bankrupt—a **soft budget constraint policy**.
- State managers in foreign trade, administered prices, and exchange rates reflecting the inconvertibility of the domestic currency.

35

Legacies of the Soviet Economy

- Fiscal measures generated mainly by turnover taxes and mandatory transfers of profits used to subsidize inefficient firms and prices for mass staple goods, as well as providing public goods.

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Transition in Post-Soviet Russia

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- The reform cycle in the FSU showed a pattern of surging waves of free market-oriented movements that were often initiated by the actions of the political elites asserting their vested interests.
—“One step forward, two steps backward”
- Boris Yeltsin, the first democratically elected president of Russia, launched the fifth reform wave in an attempt to end the legacies of the Soviet model.

38

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to destroy the Communist Party's monopoly politically and economically.
- However, he did not succeed in building a new pluralistic society, becoming instead a bully, with the consequences and outcomes destroying the state.

Legacies of the Soviet Economy

- Monopolistic producers and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
- Full employment guarantees disguised hidden unemployment and **favored labor-intensive** production processes.
- The **soft budget constraint** policy resulted in wasteful resource use when the costs of **nonprofitable** production were borne solely by the state.

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Outline

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Legacies of the Soviet Economy

- Disincentives by management incentives who were reluctant to innovate or improve quality improvements and engaged in hoarding material factor inputs to easily fulfill quantitatively specified state plans.
- And employment guarantees and, as a consequence, the systemic impossibility of firms going bankrupt—a soft budget constraint policy
- Arms monopolies in foreign trade, administered prices, and exchange rates reflecting the internationality of the domestic currency

35

Legacies of the Soviet Economy

- Fiscal revenues generated mainly by turnover taxes and mandatory transfers of profits used to subsidize inefficient firms and prices for mass staple goods, as well as providing public goods.

36

Legacies of the Soviet Economy

- Monopolistic producers and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
- Full employment guarantees disguised hidden unemployment and favored labor-intensive production processes.
- The soft budget constraint policy resulted in wasteful resource use when the costs of unprofitable production were borne wholly by the state.

37

Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a resolute break with its economic legacy.
- The reform cycle in the FSU showed a pattern of surging waves of liberalization movements that were largely overridden by the pressure of the political elites asserting their vested interests.
— “One step forward, two steps backward”
- Boris Yeltsin, the first democratically elected president of Russia, launched the sixth reform wave in an attempt to undo the legacies of the Soviet model.

38

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to destroy the Communist Party's monopoly politically and economically.
- However, he did not succeed in building a new pluralistic society, because need in Russia, whether conservative and nonconformist, the traits

Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a resolute break with its economic legacy.
- The reform cycle in the FSU showed a pattern of surging waves of liberalization movements that were largely overridden by the pressure of the political elites asserting their vested interests.
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Click to add notes



36

Legacies of the Soviet Economy

- Monopolistic producers and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
- Full employment guarantees disguised hidden unemployment and favored slow-motion production processes.
- The soft budget constraint policy resulted in wasteful resource use when the costs of nonprofitable production were borne solely by the state.

37

Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a massive break with its past.
- The reform cycle in the FSU showed a pattern of surging waves of free liberalization movements that were largely overridden by the pressure of the political elite and the economic interests.
– “One step forward, two steps back”
- Boris Yeltsin, the first democratically elected president of Russia, launched the sixth reform wave in an attempt to undo the legacies of the Soviet model.

38

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to check the Communist Party's monopoly politically and economically.
- However, he did succeed in building a new pluralistic society, becoming mired in battles with the opposition and generally doubting the loyalty of his allies.

39

Transition in Post-Soviet Russia

- Yeltsin rid the country of the Communist Party's rule, the step that Gorbachev shied away from, and opened up the remnants of the command economic system.
- Yeltsin was also the first Russian leader to commit to a market economy. In 1992, he turned to a successor, Vladimir Putin, whose reform agenda has a strong commitment to centralism.
- Under Putin, 99 administrative regions were created instead of 21 provinces, with the president securing the right to have a greater say in appointing their governors.

40

Transition in Post-Soviet Russia

- Years of transition from a command to a market economy have seen successive periods marked by economic highs and lows, often accompanied by a dramatic deterioration in economic performance.
- Real output in 2001 was 72.5 percent that of 1991. This result put Russia into the group of laggards in economic transformation.
- The economic transition and the role of transition

Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to destroy the Communist Party's monopoly politically and economically.
- However, he did not succeed in building a new pluralistic society, becoming mired in battles with the opposition and generally doubting the loyalty of his allies

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Outline

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Legacies of the Soviet Economy

- Monopolistic producers, and risk-averse managers lacked the impetus to innovate, which led to technological backwardness.
- Full employment guarantees disguised hidden unemployment and favored labor-intensive production processes.
- The soft budget constraint policy resulted in wasteful resource use when the costs of noncompetitive production were borne solely by the state.

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Transition in Post-Soviet Russia

- After the collapse of the USSR in December 1991, the Russian Federation made a massive break with its past.
- The reform cycle in the FSU showed a pattern of surging waves of free-market movements that were largely overseen by the pressure of the political system and international investors.
– “One step forward, two steps back”
- Boris Yeltsin, the first democratically elected president of Russia, launched the fifth reform wave in an attempt to undo the legacies of the Soviet model.

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Transition in Post-Soviet Russia

- Yeltsin's efforts were far from successful, and his biggest historical accomplishment was to check the Communist Party's monopoly politically and economically.
- However, he did not succeed in building a new pluralistic society, becoming mired in battles with the opposition and generally doubling the loyalty of his allies.

39

Transition in Post-Soviet Russia

- Yeltsin rid the country of the Communist Party's rule, the step that Gorbachev shied away from, and initiated the remnants of the command economic system.
- Yeltsin was also the first Russian leader to successfully run for reelection in 1996, leading to a successor, Vladimir Putin. His reform agenda had a strong commitment to centralism.
- Under Putin, 89 administrative regions were regrouped into 7 megaregions, with the president securing the right to have a significant say in appointing their governors.

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Transition in Post-Soviet Russia

- Years of transition from a command to a market economy had seen a contraction period, marked by constant low rates of growth and a dramatic deterioration in economic performance.
- Real output in 2001 was 72.5 percent that of 1991. This result put Russia into the group of laggards in economic transformation.
- The economic transition and the initial transition

Transition in Post-Soviet Russia

- Yeltsin rid the country of the Communist Party's rule, the step that Gorbachev shied away from, and finished off the remnants of the command economic system.
- Yeltsin was also the first Russian leader to constitutionally relinquish power in 1999 to a successor, Vladimir Putin, whose reform agenda has a strong commitment to centralism.
- Under Putin, 89 administrative regions were regrouped into 7 megaregions, with the president securing the right to have a significant say in appointing their governors.

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Outline

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Transition in Post-Soviet Russia

- Years of transition from a command to a market economy have seen distinctive periods marked by constant ad hoc shifts of economic strategies and a dramatic deterioration in economic performance:
- Real output in 2001 was 72.5 percent that of 1991. This result put Russia into the group of laggards in economic transformation.
- The economic transition and the political transition proceeded at different rates, producing inevitable clashes and conflicts and inconsistent reform implementation.

41

Transition in Post-Soviet Russia

- Russia has built a quadrupleist economy that is neither fully market-driven nor obviously capitalist. It became largely a virtual economy because almost all of its parameters, such as prices, wages, taxes, and budgets, were set and controlled by the central planning of the soft budget constraints, as well as informal transfers to insolvent, understructured enterprises that effectively wasted resources and destroyed value in the name of protecting employment.

42

Transition in Post-Soviet Russia

- Russia started its economic transition with shock therapy, as did Poland, which has produced the most successful of the Soviet bloc economic transitions.
- However, Russia's initial economic conditions and implementation of reforms were very different from Poland's.
- In Russia, the urgency of shock therapy came from the pressing need to reverse economic collapse by introducing market forces and consolidate the political power of then President Yeltsin.

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Transition in Post-Soviet Russia

Economic Type/ID	Post-Soviet States and the Characteristics of Economic Reforms in 1990 and 1998			
	Bulgaria	Croatia	USSR 1990	Russia
Centralized state	0.1	0.2	49	72
Informal economy	0.1	0.1	49	49
Local economy	4.1	4.4	9.0	15
Market	4.4	4.6	10.0	12
State assets privat	0.1	0.3	7.8	13
State regulation	2.1	2.0	4.2	14
Transitional	2.1	2.0	4.2	14
Partisan	0.9	1.1	1.2	18
Capitalist	0.1	0.1	0.1	18
Central bank	4.1	4.1	0.2	18
Centralized state	0.9	0.9	1.5	17
Complex	2.8	3.8	2.2	18

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Outline

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Transition in Post-Soviet Russia

- Years of transition from 1991 until 2000 have seen massive periods marked by constant ad hoc shifts of economic strategies and a dramatic deterioration in economic performance.
- Revolts in 2001 was 72.5 percent that of 1991, Russia fell into the group of laggards in economic transformation.
- The economic transition and the political transition proceeded at different rates, producing inevitable clashes and conflicts and inconsistent reform implementations.

41

Transition in Post-Soviet Russia

- Russia has built a quasicapitalist economy that is neither fully market-driven nor obviously capitalist.
- It became largely a virtual economy because almost all of its parameters, such as prices, wages, taxes, and budgets, were illusory and mostly disguised the persistence of the soft budget constraint, as well as informal transfers to insolvent underrestructured enterprises that effectively wasted resources and destroyed value in the name of protecting employment.

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Transition in Post-Soviet Russia

- Russia started its economic transition with shock therapy, and Poland, which has produced the most successful of the Soviet bloc economic transitions.
- However, Russia's initial economic conditions and implementation of reforms were very different from Poland's.
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Transition in Post-Soviet Russia

Country Type/ID	State	1990		1995		1998		2000		2002	
		Initial	Final								
Non-economic stations	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	0.01
Gasoline stations	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	0.01
Local markets	0.1	0.4	0.05	0.15	0.05	0.15	0.05	0.15	0.05	0.15	0.05
Small towns	0.4	0.8	0.3	0.7	0.3	0.7	0.3	0.7	0.3	0.7	0.3
Small towns post	0.1	0.2	0.05	0.15	0.05	0.15	0.05	0.15	0.05	0.15	0.05
Large towns	0.2	0.4	0.1	0.3	0.1	0.3	0.1	0.3	0.1	0.3	0.1
Cities	0.2	0.4	0.1	0.3	0.1	0.3	0.1	0.3	0.1	0.3	0.1
Regions	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Central	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Periphery	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Urban	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Rural	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Total	0.1	0.2	0.05	0.15	0.05	0.15	0.05	0.15	0.05	0.15	0.05
Overall	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Capital	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Non-capital	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Urban	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Rural	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Coastal	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Non-coastal	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Industrial	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Non-industrial	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Highly developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Moderately developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Less developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Least developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Coastal	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Non-coastal	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Highly developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Moderately developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
Less developed	0.05	0.1	0.02	0.05	0.02	0.05	0.02	0.05	0.02	0.05	0.02
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Transition in Post-Soviet Russia

- Russia has built a quasicapitalist economy that is neither fully market-driven nor obviously capitalist.
- It became largely a **virtual economy because almost all of its parameters, such as prices, wages, taxes, and budgets, were illusory and mostly disguised the persistence of the soft budget constraint, as well as informal transfers to insolvent underrestructured enterprises that effectively wasted resources and destroyed value in the name of protecting employment**

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Outline



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Transition in Post-Soviet Russia

- Year of transition from central planning to market economy have been successive periods marked by continue ad hoc shifts of economic strategies and a dramatic deterioration in economic performance.
- Revoluptar in 2001 was 72.5 percent that of 1991, Russia had fallen into the group of laggards in economic transformation.
- The economic transition and the political transition proceeded at different rates, producing inevitable clashes and conflicts and inconsistent reform implementations.

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Transition in Post-Soviet Russia

- Russia has built a quadrupole economy that is neither fully market-driven nor obviously capitalist.
- It became largely a virtual economy because almost all of its parameters, such as prices, wages, taxes, and budgets, were set and controlled by the members of the soft budget constraints, rather than internal transfers to finance understructured enterprises that effectively wasted resources and destroyed value in the name of protecting employment.

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Transition in Post-Soviet Russia

- Russia started its economic transition with shock therapy, as did Poland, which has produced the most successful of the Soviet bloc economic transitions.
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Transition in Post-Soviet Russia

Characteristic	1990			
	Russia	US	UK	France
Gross domestic product	1.1	1.2	1.8	1.8
Inflation rate	10.1	4.8	1.8	1.8
Unemployment	4.1	4.4	9.0	1.2
Trade balance	-0.4	0.1	0.1	0.1
Trade exports growth	2.1	0.3	7.9	1.8
Trade imports growth	26.2	4.2	2.1	1.8
Foreign trade	2.1	1.1	0.8	1.8
Parity	3.9	1.1	1.1	1.8
Interest rates	14	12	20	18
Official reserves	4.1	1.2	0.2	1.8
Central bank interest rate	10.9	1.9	1.1	1.7
Corporate debt	2.8	3.8	2.2	1.8

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Outline



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Transition in Post-Soviet Russia

- Yearly transitions from one economic period to another have been successive periods marked by constant ad hoc shifts of economic strategies and a dramatic deterioration in economic performance.
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- Russia has built a quasi-platonic economy that is neither fully market-driven nor obviously capitalist.
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Table 10-1
Public Opinion about the Characteristics of Different Periods in the USSR and Russia

Characteristic	Russia before 1917	USSR under Stalin	USSR under Brezhnev	Present-Day Russia	Do Not Know
Grave economic situation	13.1	9.2	4.0	77.2	1.0
Fear of repression	2.6	67.8	1.9	30.9	0.9
Social security	6.2	6.4	78.0	7.5	3.2
Order	6.4	80.7	11.7	1.3	1.8
Speedy economic growth	21.1	42.5	27.8	7.3	2.9
Progress in agriculture	29.2	27.3	39.5	2.1	3.9
Crime	2.6	3.5	2.8	93.5	0.9
Patriotism	28.9	51.6	22.4	5.2	1.6
Bureaucracy	5.8	6.3	57.2	35.3	2.4
Overall crisis	6.3	3.4	10.4	82.2	1.6
Civil and political liberties	10.0	1.7	15.5	71.7	3.2
Respect for the Orthodox Church	65.0	1.9	3.5	32.4	1.7
Corruption	2.9	2.0	23.2	77.7	1.0

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Click to add notes