

Russia

CPE

# Content

## I. Russia + USSR

- A. Russia before 1914
- B. Period from 1914 to WWII
- C. USSR during the war
- D. USSR after the war
- E. Russia today

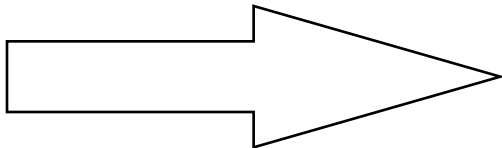
## II. Centrally planned economies

- A. Political development
- B. Economic development

Russia before 1914

# A. Russia before 1914

- underdeveloped + agrarian + feudal
- 19<sup>th</sup> century – worsening situation
- military defeats:
  - Crimean War (mid-19<sup>th</sup> century)
  - Japan (1904)
- revolution (1905)
- backward, BUT large population → large army



# Agriculture

- **backwardness** - technologies + feudalism + lack of capital ⇒ **low productivity**
- **1861 – emancipation of serfdom** BUT
  - need to **redeem**
  - **obshchina** instead of private ownership
  - ⇒ still **semi-feudal system**
- **Stolypin reforms 1906 – 1910**
  - **as a reaction on the revolution in 1905**
  - from obshchina to private ownership if the majority agree
  - **kulaks** – agricultural labourers
  - **land for sale and purchase**
- before WWI agriculture still backward

# Industry

- **industrialization**

- reforms of Peter the Great - 18<sup>th</sup> century
- 1830s – Moscow, Ukraine, Poland
- after 1861 – state support

- **construction of railway network**

- crop
- coal and iron

- **↑ industry**

- mainly at the end of the 19<sup>th</sup> century

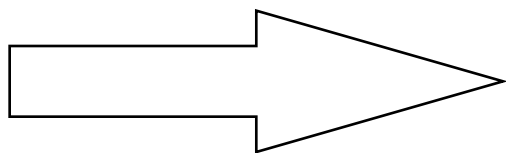
- **BUT before WWI industry only small portion**

# Investments

- before WW1 **1/2 of the capital from abroad**
  - + increasing tendency
  - **mainly FR and GB**
    - FR help of allies
  - **direction**
    - railways
    - industry
    - FR also government bonds

# Foreign trade

- **import** – manufacturing industry
- **export** – mainly natural resources
- 1897 joined the **gold standard**
- **did not join the Cobden-Chevalier treaty**
  - **return to protectionism**
    - 1868 – protective tarrifs
    - **further ↑ tarrifs** in 1891 + 1893 + beginning of the 20<sup>th</sup> century





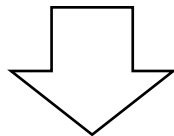
# Period from 1914 to WWII

1. political development
2. economic development
  - *War Communism*
  - *New Economic Policy (NEP)*
  - *Socialistic industrialization*

# B1. political development

- Sarajevo ... ⇒ ... **mobilization in Russia**
- **serious losses**
- positive impact of **captives**
  - technology and policy
- 1917 disobedience of generals ⇒ **Tsar abdicated = February revolution**
  - ⇒ **Provisional Government - Kerensky**
    - **freedom** of speech, print and worship
    - willingness to introduce a **land reform**
    - recognition of **obligations to the allies**
    - **BUT disintegration of the army**

- Germany ⇒ **Lenin**
  - all power to the soviets
- Bolsheviks' coup - 6/7. 11.1917
- only temporary?
- **democratic elections**
  - Bolsheviks defeated (Esers won) ⇒
- Bolsheviks disbanded the Assembly



- **Bolsheviks** ⇒ end of the war - **Decree on Peace**
  - support of navy and army
  - Brest-Litovsk peace – march 1918
    - very harsh conditions
- **foreign interventions**
  - **objectives:** to keep Russia in the war + X military equipment GER + X transporting of troops
- **civil war**
  - At the beginning success of the White Army ⇒ spring of 1919 turnover ⇒ early 1920s most of the former territory
- **1920 Polish–Soviet War**
  - Polish victory
- **Bolshevik state not recognized**
  - unacceptance of the tsarist loans

- 1<sup>st</sup> recognized by Germany (1922) – **Rapallo Treaty**
- the end in 1922 – establishment of the **USSR**
- **period of „peaceful cohabitation“**
- **1924 Lenin † ⇒ Stalin**
  - worsen relations with western countries
- **fascism**
  - ↑ tension (Anti-Comintern Pact + creation of the Axis)
  - ↑ threat
- **1934 USSR joined the League of Nations**

- 23.8.1939 Treaty of Non-Aggression with GER
  - division of Poland
  - Estonia, Latvia, Lithuania
- **November 1939 USSR attacked Finland**
  - expelled from the League of Nations
- 22.6. 1941 USSR **atacked by GER**
  - end of 1930s - Stalin **purges in the army**

# B2 . economic development

- **1<sup>st</sup> Revolutionary government** - November 1917
  - 80 % of the population on **agriculture + the majority illiterate + poverty**
  - ⇒ **gender equality + ↓ working hours**
- **land reform** = the Decree on Land
  - nationalization without compensation ⇒ **obshchinas, peasants and landless**
    - kulaks kept
  - fast implementation = + in civil war

## privatization:

- **State Bank** + gold and foreign reserves
- **private commercial banks** + merger with the State Bank
- nullification of claims from **shareholding**
- railway and ship **transportation + foreign trade**
- **industry:**
  - at first **property of emigrants**
  - mid- 1918 nationalization of **large-scale industry**
  - 11/1920 the rest with > **10 employees**

# *War Communism*

- **civil war**= „everything for the front“
- peasants obliged to **supply** their **production to the state**
- cities - **rationing**
- **obligatory employment**
- **hyperinflation** ⇒ **naturalization of the economy**
  - money as evil ⇒ to destroy ⇒ maximal printing
- **abolition of certain fees**
- **liquidation of the market system** ⇒ **planning**
  - economy organized by the state
    - Suppliers and customers prescribed
    - + no payments for materials+ no payments for products

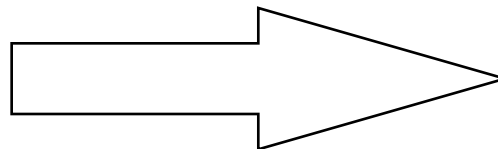


## results:

- **economic disaster**
  - ↓ production
  - ↓ motivation and effectiveness
  - **collapse of agriculture** – decrease of agricultural production ⇒ famines + migration from cities to countryside
  - foreign trade has perished

### The world industrial production, 1913-1925

	1913	1920	1925
<b>World</b>	100	93.6	121.6
<b>Europe</b>	100	77.3	103.5
<b>USSR</b>	100	12.8	70.1
<b>USA</b>	100	122.2	148
<b>Rest of the world</b>	100	109.5	138.1

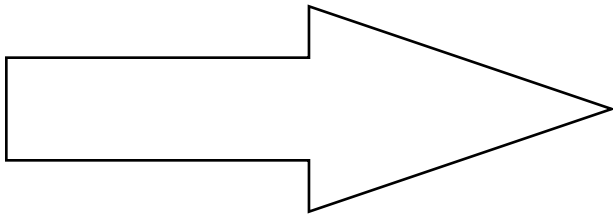


**change of policy**

# *New Economic Policy (NEP)*

- shift in March 1921
- **releasing**
- also international - “peaceful cohabitation”
- from natural to **market economy**
- **agriculture**
  - from foodstuff requisitions to fixed **foodstuffs tax**
  - possibility **to sell surplus production**
  - since 1923 again **EX crop**
  - **↑ production**

- **industry:**
  - **releasing** of the centralized management
  - supply and demand executed by **means of purchase and sale**
  - **khozrastchot** – motivation principles
  - **private ownership** accepted
  - BUT determining role of the **government**
  - rationing ⇒ **money wages**
    - 1924 monetary reform – new rouble
  - ↑ involvement to WE



**rapid recovery**

- since mid-1920s demand for industrialization
  - Stalin
  - goal: westward expansion ⇨ **militarization**
  - mainly heavy industry
- 1927 NEP abandoned
- October 1928 – **1<sup>st</sup> five-year plan** (1928 - 32)
- after 1929 - „ **Socialistic industrialization**“

# ***Socialistic industrialization***

- to **build heavy and power industry** at any cost
- **agriculture:**
  - **mass collectivisation**
    - deportation of kulaks and others
  - **purchasing prices < production costs**
  - **administrative constraints - demotivation**
    - ↓ crop areas and killed off livestock
    - **famine 1931-32**
    - **lack of foodstuff in cities** ⇒ rationing
    - + restriction on EX -> lack of money for IM
- changes in **power engineering** since 1920s
  - GOELRO – electrification plan
- ↑ **industry**
  - administratively **directive management**
  - ↑ **centralization** ⇒ administrative costs
  - from quality to quantity

## 2<sup>nd</sup> five-year plan 1933 - 37

- ↓ **efficiency + further shift from market mechanisms**
- **consumable goods  $D > S$**
- emphasis on **engineering**
- **agriculture** – full collectivization
  - low productivity

## 3<sup>th</sup> five-year plan 1938 - 42

- goal: shift to **consumer industry** BUT change in the international situation ⇒
  - armament + reallocation of the production to the East



## Level of industrialization per capita in 1880–1938 (UK in 1900=100)

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		1880	1900	1913	1928	1938	
<b>1</b>	<b>UK</b>	<b>87</b>	<b>100</b>	<b>115</b>	<b>122</b>	<b>157</b>	<b>2</b>
<b>2</b>	<b>USA</b>	<b>38</b>	<b>69</b>	<b>126</b>	<b>182</b>	<b>167</b>	<b>1</b>
<b>3</b>	<b>France</b>	<b>28</b>	<b>39</b>	<b>59</b>	<b>82</b>	<b>73</b>	<b>4</b>
<b>4</b>	<b>Germany</b>	<b>25</b>	<b>52</b>	<b>85</b>	<b>128</b>	<b>144</b>	<b>3</b>
<b>5</b>	<b>Austria-Hungary</b>	<b>15</b>	<b>23</b>	<b>32</b>	<b>-</b>	<b>-</b>	
<b>6</b>	<b>Italy</b>	<b>12</b>	<b>17</b>	<b>26</b>	<b>44</b>	<b>61</b>	<b>5</b>
<b>7</b>	<b>Russia</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>20</b>	<b>38</b>	<b>7</b>
<b>8</b>	<b>Japan</b>	<b>9</b>	<b>12</b>	<b>20</b>	<b>30</b>	<b>51</b>	<b>6</b>

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USSR during the war

# C. USSR during the war

- initially **GER victories**
- **turnover** after the battle of Moscow and mainly Stalingrad
- **labour shortage**
  - women + youth + pensioners + involuntary work + ...
- ↓ **industrial production**
  - since 1942 again ↑
  - reallocation of the production behind the Urals
- serious ↓ **agriculture**
  - ⇔ **rationing**
- very large portion of **military expenditures**

USSR after the war

## D. USSR after the war

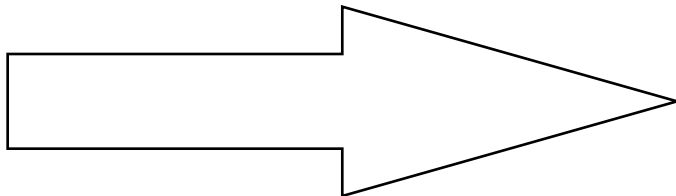
- enormous losses
- conversion of military production + ↓ army
- disassembles
  - Manchuria and GDR
- **after-war aid**
  - August 1945 end of the program „Lend and Lease“
  - BUT UNRRA
  - Marshall Plan NO

# 4<sup>th</sup> five-year plan (1946 - 50)

- shift to **consumption**
- 1946 crop failure ⇒ **famine**
- BUT already in 1947 – **rationing abandoned**
  - common retail prices
  - monetary reform
- after 1948 **hardening of the system** ⇒ **ensorship**
- ↑ **production**
  - **heavy industry** (Stalin)
  - **extensive** - ↑ inputs - no ↑ productivity
- 1953 **death of Stalin** → **N. S. Khrushchev**
- 1956 denunciation of **cult of personality**

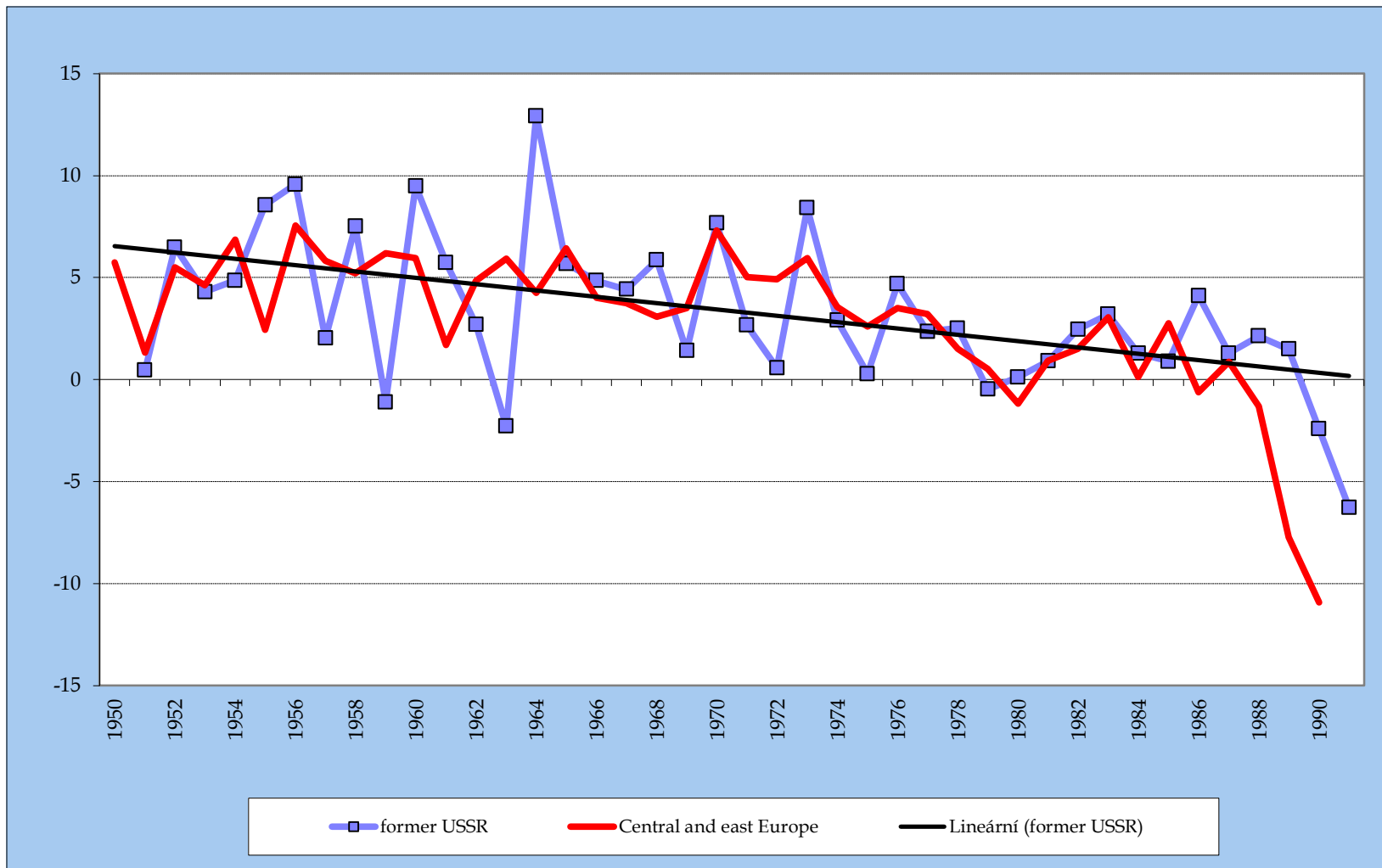
# Development under the next plans

- changes in EP - **agriculture**
- ↑ **industrial production**
- ↑ **real incomes**
- 1959-1960 **agricultural reforms - mistakes** → livestock elimination + shortage of grain
- + **Cuban Crisis**



**1964**  
**- Brezhnev**

# Growth rates of real GDP in 1950–1991



## Brezhnev

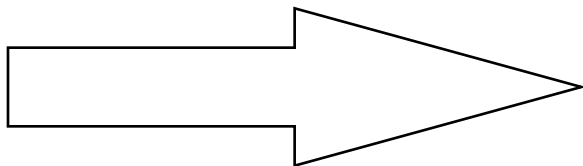
- changes in **agriculture**
- in mid-1960s – **attempt to make a reform**

## 1970s

- ↑ **production (BUT extensive)**
- 2<sup>nd</sup> ½ **poor results**
  - shortage of resources
  - moderation of the plans

## 1980s

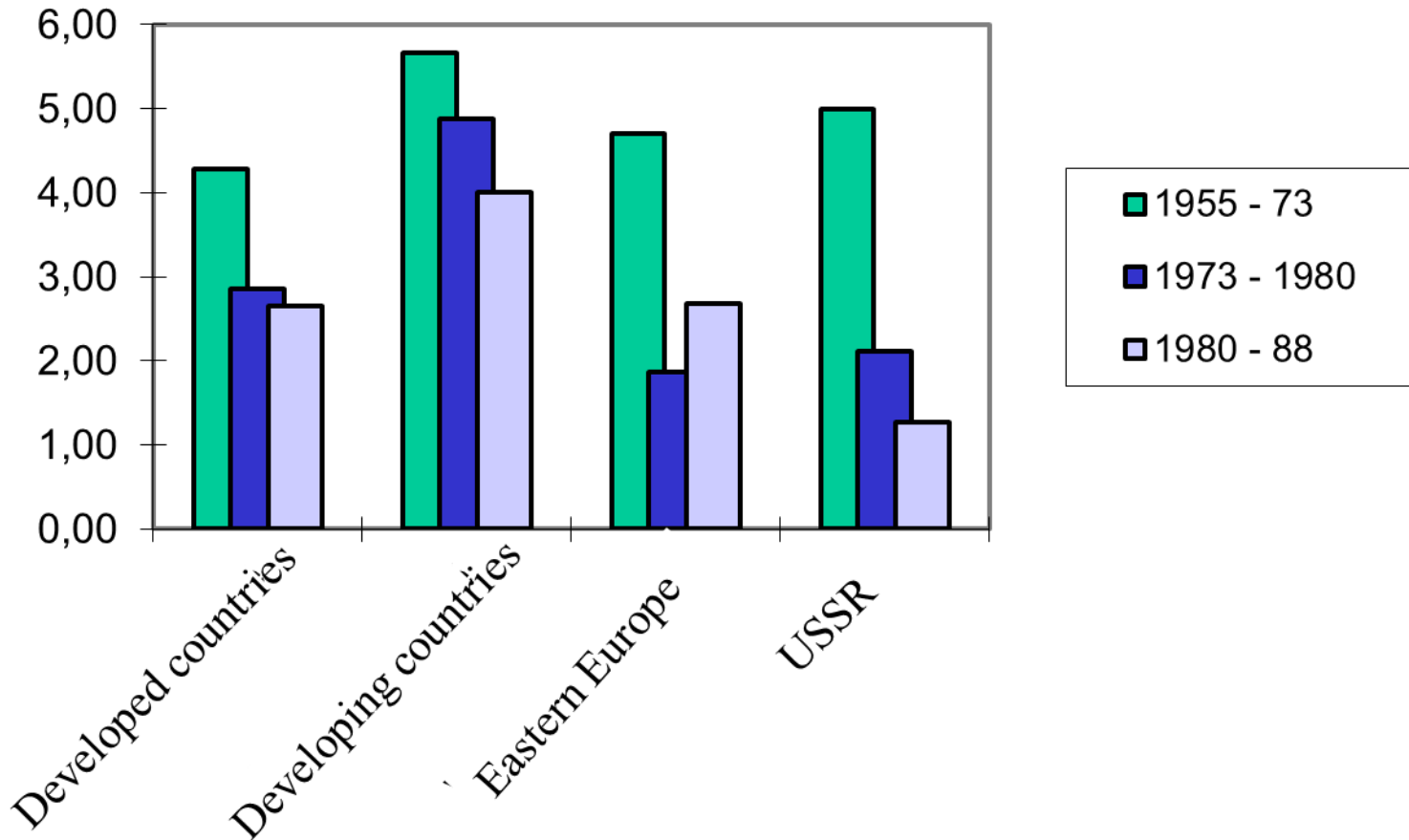
- stagnation + backwardness + debt + ↓ oil prices + Afghanistan + SDI → **weakness**



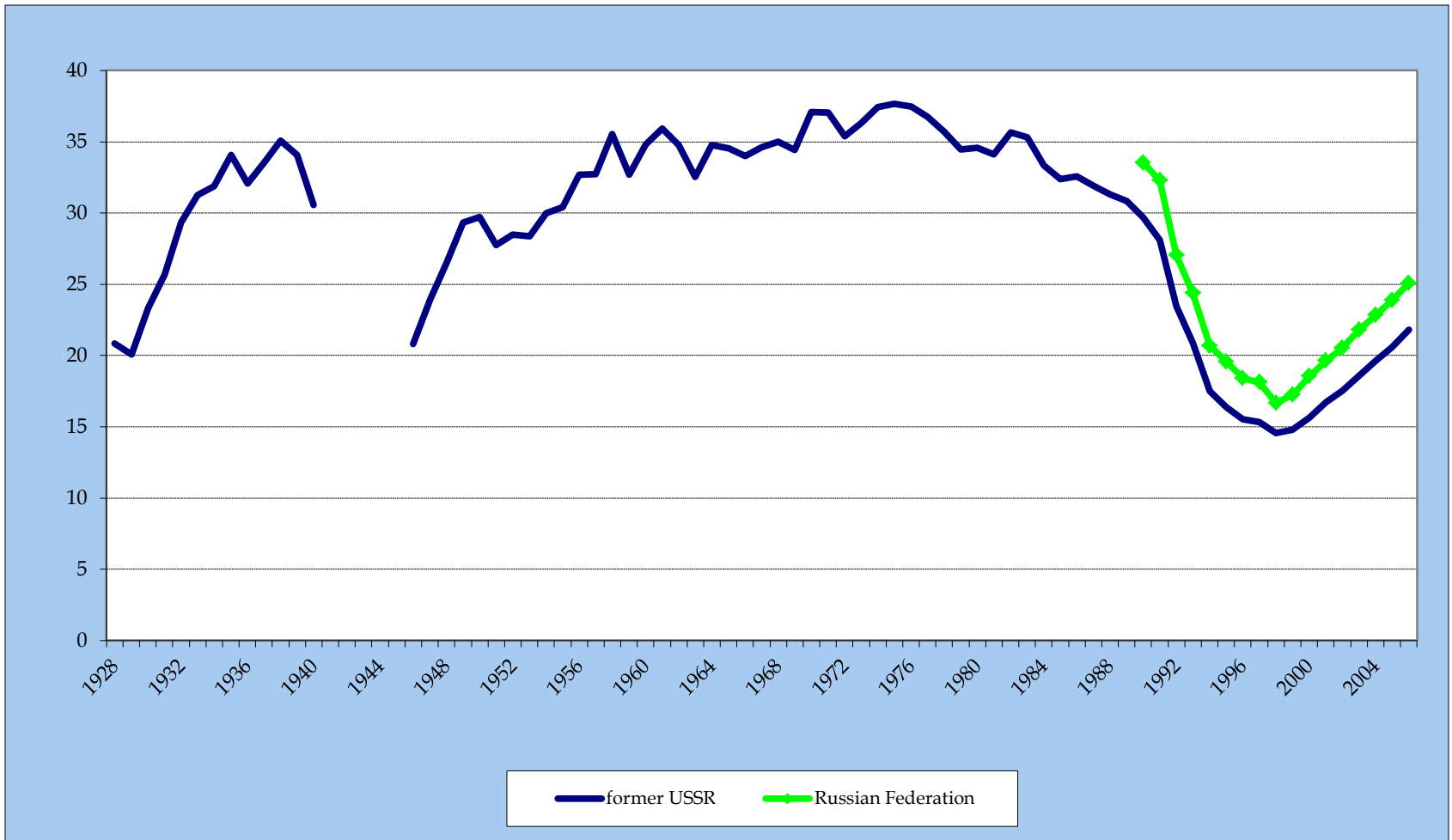
**Gorbachev + Perestroika**



# Real growth of GDP in 1955 – 1988



# Real GDP per capita (USA=100)



## Confrontation of official and alternative measures of Soviet growth performance (annual average compound growth rates)

	Official estimates			Alternative estimates		
	1913-50	1950-78	1978-90	1913-50	1950-78	1978-90
NMP*/GDP	6.1	7.7	2.4	2.1	4.4	1.2
Population	0.4	1.3	1.9	0.4	1.3	0.9
Product per capita	5.6	6.3	1.5	1.8	3.0	0.4
Labour productivity	5.6	6.0	2.1	1.7	2.7	1.0
			Agriculture			
Gross output/value added	0.9	3.5	0.8	0.3	2.4	-0.1
Product per capita	0.5	2.1	-0.1	-0.1	1.0	-1.0
Labour productivity	1.9	4.2	1.5	1.3	3.1	0.6
			Industry			
Gross output/value added	7.2	9.2	3.1	3.7	6.5	1.5
Product per capita	6.8	7.8	2.2	3.3	5.0	0.6
Labour productivity	4.5	5.9	3.2	1.0	3.3	1.5

## Economic productivity in the USSR (average annual changes in %) and GNP

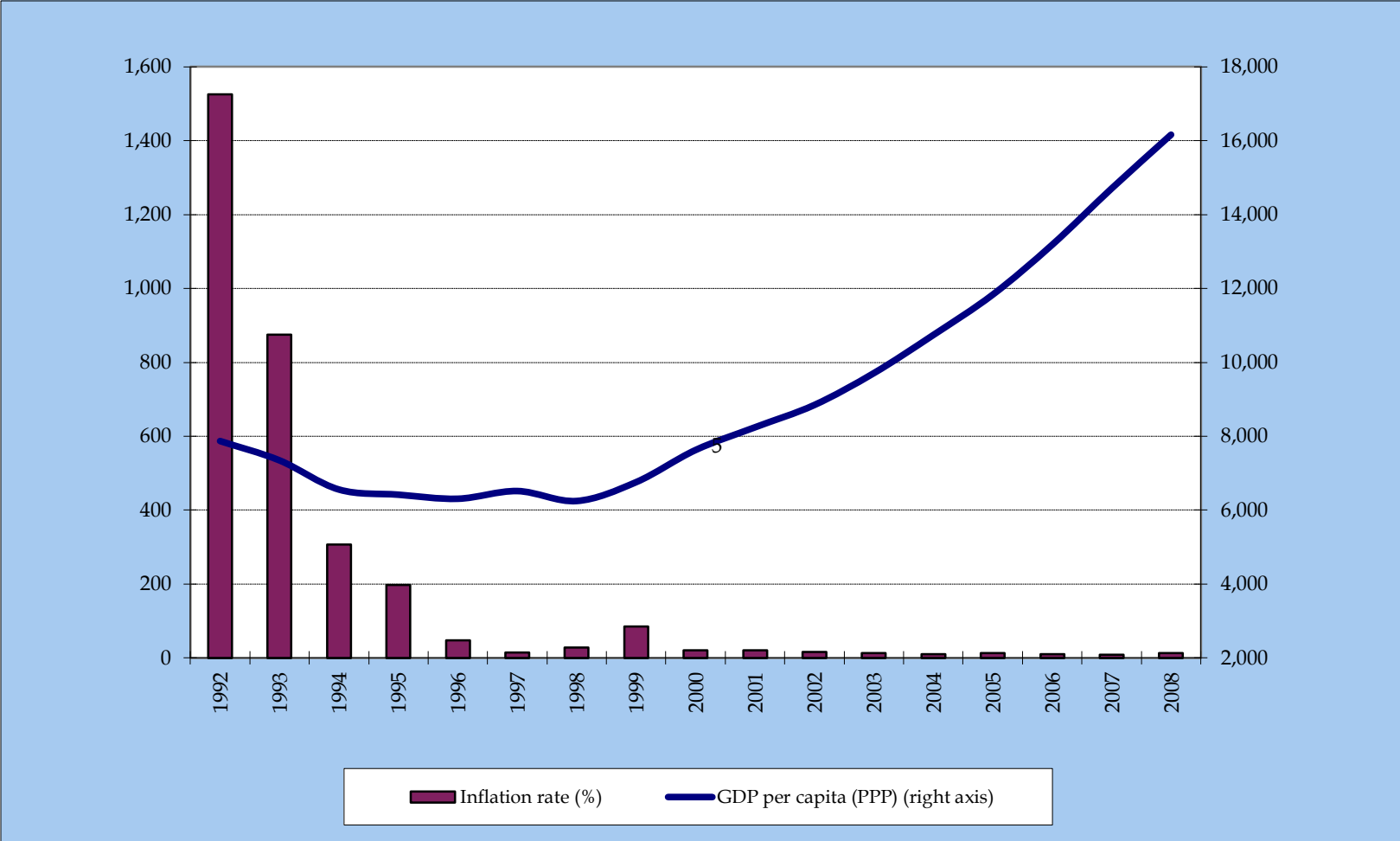
	1961–70	1971–80	1981–85
Labour productivity	3.1	2	1.2
Capital productivity	-2.3	-3.1	-3.5
Total productivity	0.2	-0.6	-1.2
GNP	4.8	2.4	1.7

Russia today

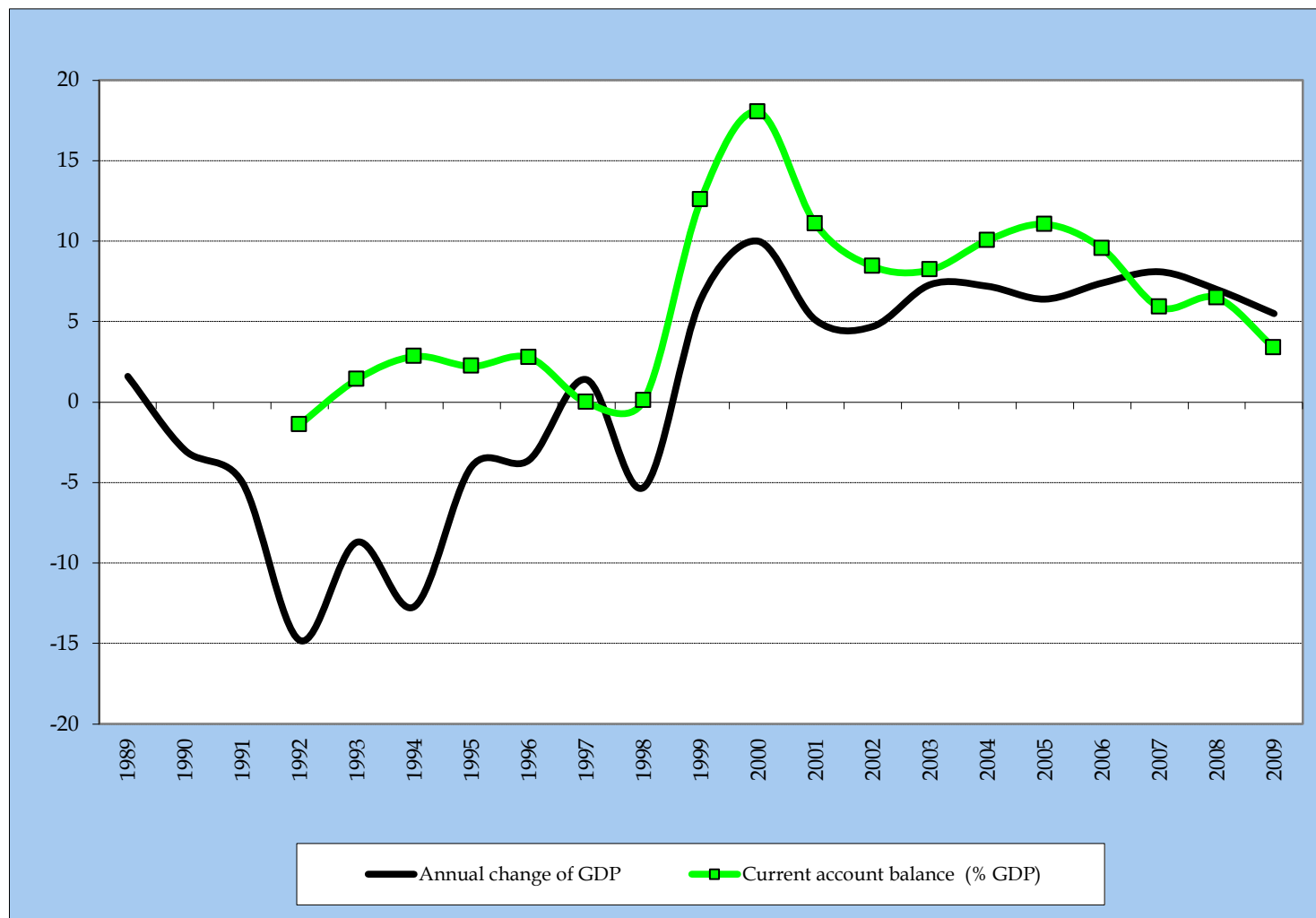
# E. Russia today

- 1991 collapse of the **USSR**
- attempts for **coup d'état**
- **presidential system**
- problems with **internal integrity**
- huge ↓ **production** – since 1999 ↑
- growing foreign indebtedness
  - 1998 debt moratorium = in practice national bankruptcy
- threat of **inflation**
- **distorted market mechanism**
  - oligopols ⇔ oligarchy
- **econ. growth** in recent years – high oil prices ... **X**  
nowadays **econ. crisis**

# Inflation rate (% of change) and GDP per capita according to PPP (USD)



# GDP and current account balance (% of GDP)





# Content

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## II. Centrally planned economies

- A. Political development
- B. Economic development

Political development in cPE

# A. Political development

- **deliberation** = sovietisation + influence of communist parties → **loss of sovereignty**
- very **harsh regimes** in Europe
- up to the end of 1948 totalitarian system = **European socialistic bloc (Eastern bloc)**
  - 1948 clash with **Yugoslavia**
  - **Albania** only up late 1960s
- **China 1949**
  - BUT clash at the turn of 1950s and 1960s

- dissatisfaction ⇒ **unrests:**
  - **GDR (1953)** – Eastern Berlin
  - **Poland (1956)** - greater freedom within the Bloc
  - **Hungary (1956)** – revolution suppressed by Soviet troops
  - **Czechoslovakia (1968)** – Prague Spring
  - **Poland (1981)** – movement Solidarity
  - since 1960s od 60. let independent policy in **Romania**

- **1955 Warsaw Pact**
  - under the control of USSR
  - only collective action = Czechoslovakia in 1968
  - officially dissolved 1.7.1991
- **1956** revealing of the **cult of personality**
  - impact on satellites BUT slow
  - **releasing** (also international)
- **Brezhnev 1964** – stricter policy x satellites
- **1975 Helsinki Protocol**
- **Perestroika**
  - liberalization BUT huge differences among the countries

# Economic development in CPE

# B. Economic development

- after WW **bad economic situation**
  - + soviet plundering
- **common features:**
  - **land reforms** - NOT nationalization BUT collectivization
  - **nationalization of industry** until the end of 1948
  - **planning** – reconstruction plans and later five-year plans
  - + **centralization**
  - **after-war inflation overcome**
  - „**maximal econ. growth rate** “ (extensive)

- **common features (cont.):**
  - gradual abandonment of the own ways of socialism = **adaption of the soviet model**
    - **fast industrialization**
    - emphasis on **heavy industry**
    - + preparation for war = **militarization of the economies**
  - **full dependency** (mainly on natural resources) **on USSR**
  - changes in **trade flows**
    - January 1949 – **foundation of Comecon**
      - **impulse = Yugoslavia**
      - **decline in activities** - mid-1950s **revival of the Comecon**
      - **mutual bilateral trade** – never a multilateral system



# Percentual portion of trade realized with the other side in 1938-53

Year	West	East
1938	9,5	73,8
1948	4,1	41,6
1953	2,1	14

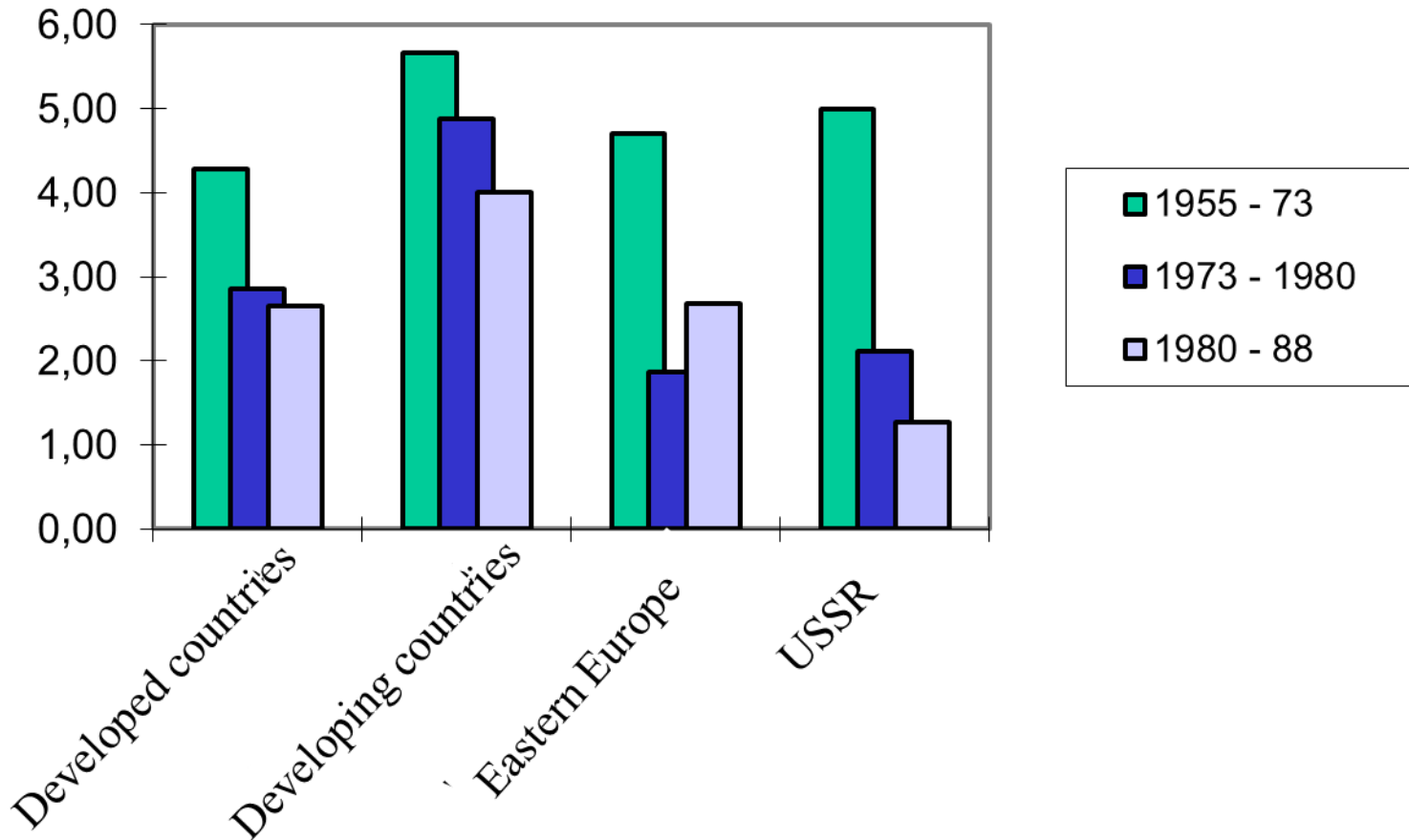
# The 1950s

- early 1950s **significant** ↑
  - heavy and arms industry
- **Khrushchev** ⇒ more balanced econ. growth
  - both agriculture and consumer goods
- 2<sup>nd</sup> 1/2 1950s **remarkable econ.** ↑
  - **extensive**
  - BUT inefficient system
  - no support for new technologies and industries (genetics)

# The 1960s

- **1<sup>st</sup> 1/2 1960s – econ. low down**
  - mainly more industrialized countries
- **2<sup>nd</sup> 1/2 1960s – more favourable**
- **attempts to reform**
  - to improve planning *zdokonalit plánování*
  - to allow certain degree of company self-management
  - market relations
  - to reduce administration
  - to improve motivation
- **1964 International Bank for Economic Cooperation + convertible rouble**

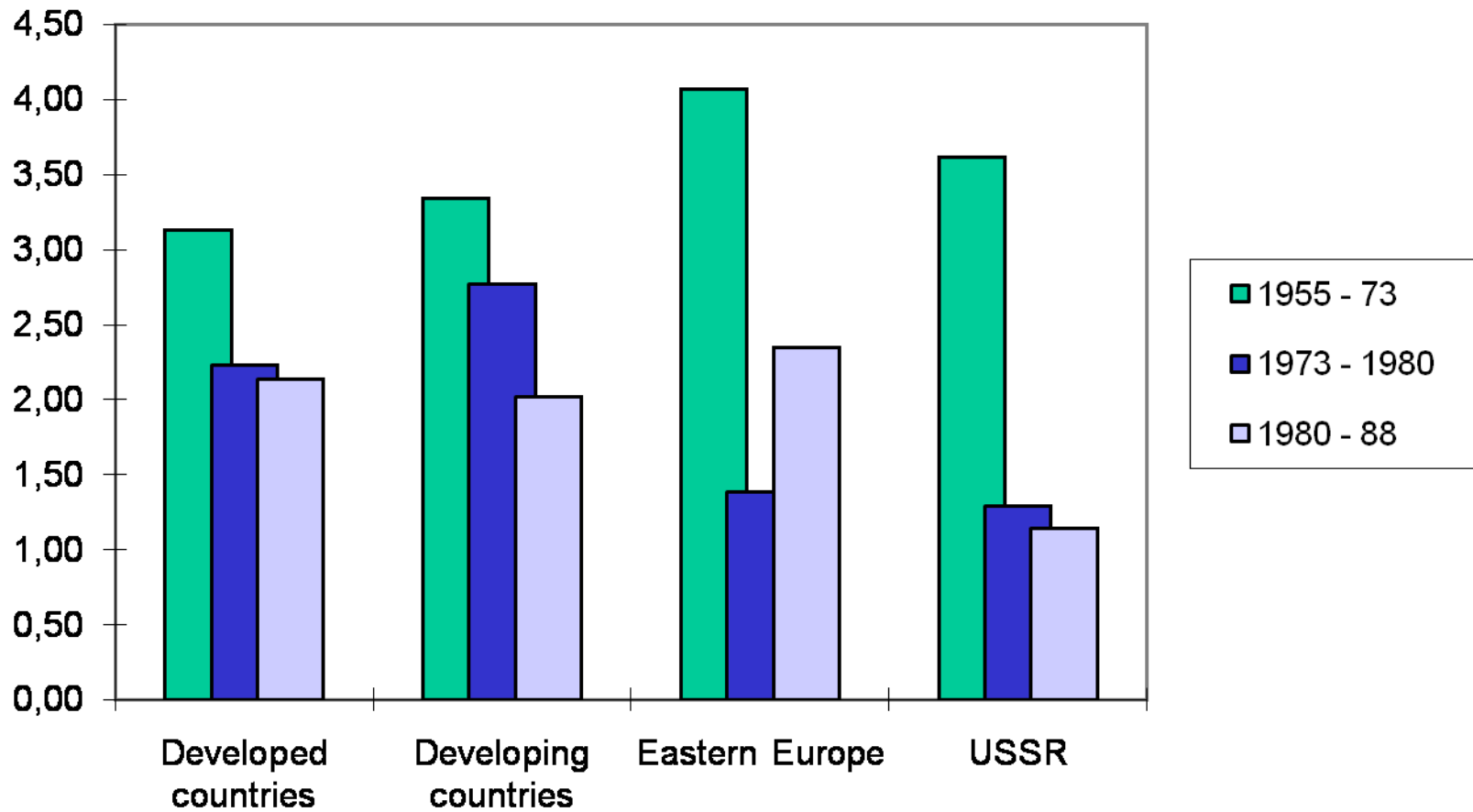
# Real growth of GDP in 1955 – 1988



# The 1970s

- integration in Europe ⇒ **program of socialistic integration**
  - objective = creation of an integrated economic bloc
  - failure
- significant differences among **RVHP member states**
  - ↓ differences in Europe
  - BUT new members
    - 1962 Mongolia
    - 1972 Cuba
    - 1978 Vietnam
- **backward technologies** ⇒ problems with balance of trade
- **inflation**
- ↑ governmental **debt**
- **oil crisis** ⇒ ↑ dependence on USSR
- **bad results** – mainly in the 2<sup>nd</sup> 1/2

# GDP p.c. growth in 1955–1988



# The 1980s

- **stagnation**
- problems with **indebtedness** ⇒ **need of EX**
  - need of convertible currency for technologies and repayments
- 2<sup>nd</sup> 1/2 1980s **almost bankruptcy** ⇒ reforms
  - Perestroika
  - differences among countries
  - introduction of market mechanisms into some sectors
  - **trade liberalization**
- **1990 – RVHP disbanded**

# To sum up

- 40 years = **economic catastrophe**
- **inefficiency of central planning** x markets
- **no ownership**  $\Rightarrow$  demotivation
- **isolation** = lack of the competition
- **decreasing dynamics** = lagging behind
- **price control**  $\Rightarrow$  suppressed  $\Pi$  + black market
- **extensive growth**  $\Rightarrow$  environmental destruction
- **economic and moral decay**



## Annual changes of net material product, 1951-1990 (%)

	Bulgaria	Czechosl lovakia	East Germany	Hungary	Poland	Romania	USSR
1951-1955	12.2	8.1	13.2	5.7	8.6	14.2	11.3
1956-1960	9.6	7.0	7.4	6.0	6.6	6.6	9.2
1961-1965	6.6	1.9	3.5	4.5	6.2	9.1	5.7
1966-1970	8.7	6.9	5.0	6.7	5.9	7.7	7.1
1971-1975	7.9	5.7	5.4	6.3	9.7	11.3	5.1
1976-1980	6.1	3.7	4.1	2.8	1.2	7.2	3.7
1981-1985	3.7	1.8	4.5	1.4	-0.8	4.4	3.2
1986-1990	-0.5	1.0	-1.8	-0.5	-0.5	-3.5	1.3

# Transformation

- **complicated proces**
- **necessary steps:**
  - equal ownership forms
  - privatization
  - price liberalization
  - demonopolization
  - two-level banking system
  - capital market
  - tax reform
  - removing barriers for foreign trade and capital

Thanks for your attention.