

# *History of the Russian Economy*



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# *Learning outcomes of this lecture*

Socio-economic development of the Tsar Russia:  
From Peter the Great to Nicolas II.

Socio-economic causes of Bolshevik revolution  
in Russia.

Soviet period of the Russian economy from  
Lenin and Stalin to Khrushchev and Brezhnev.

# *18th century*

- Peter the Great: 1672 (born) – 1682-1721 (co-reign)-1725 (reign).
- Before Peter: Russia is a backward country.
- Peter`s modernization of Russia.
- 1718 - 1788, Russia`s aggregate national income increased fivefold.
- Living standards have increased.



# *Early 19th century*

Russia exported large amounts of grain to Europe.

Export revenues were not used as capital to develop an industrialised economy.

Heavy industry was small when compared to Russia's imperial rivals: Britain, France and Germany.

Little technical innovation; most of Russia's new technologies were imported from the West.



## *19th century: second half*

The “Great reforms” of Alexander II in the early 1860s

→ modern capitalism and rapid industrialization.

- System of serfdom was abolished in 1861.

Sergei Witter (minister) reforms:

- 1870s: several large infrastructure programs, particularly the construction of railways.
- **Currency reform:** In 1897 the Russian rouble was moved to the gold standard.



# *The end of 19th century*

Trans-Siberian Railway  
was built (1891-1904).



Trade benefits:

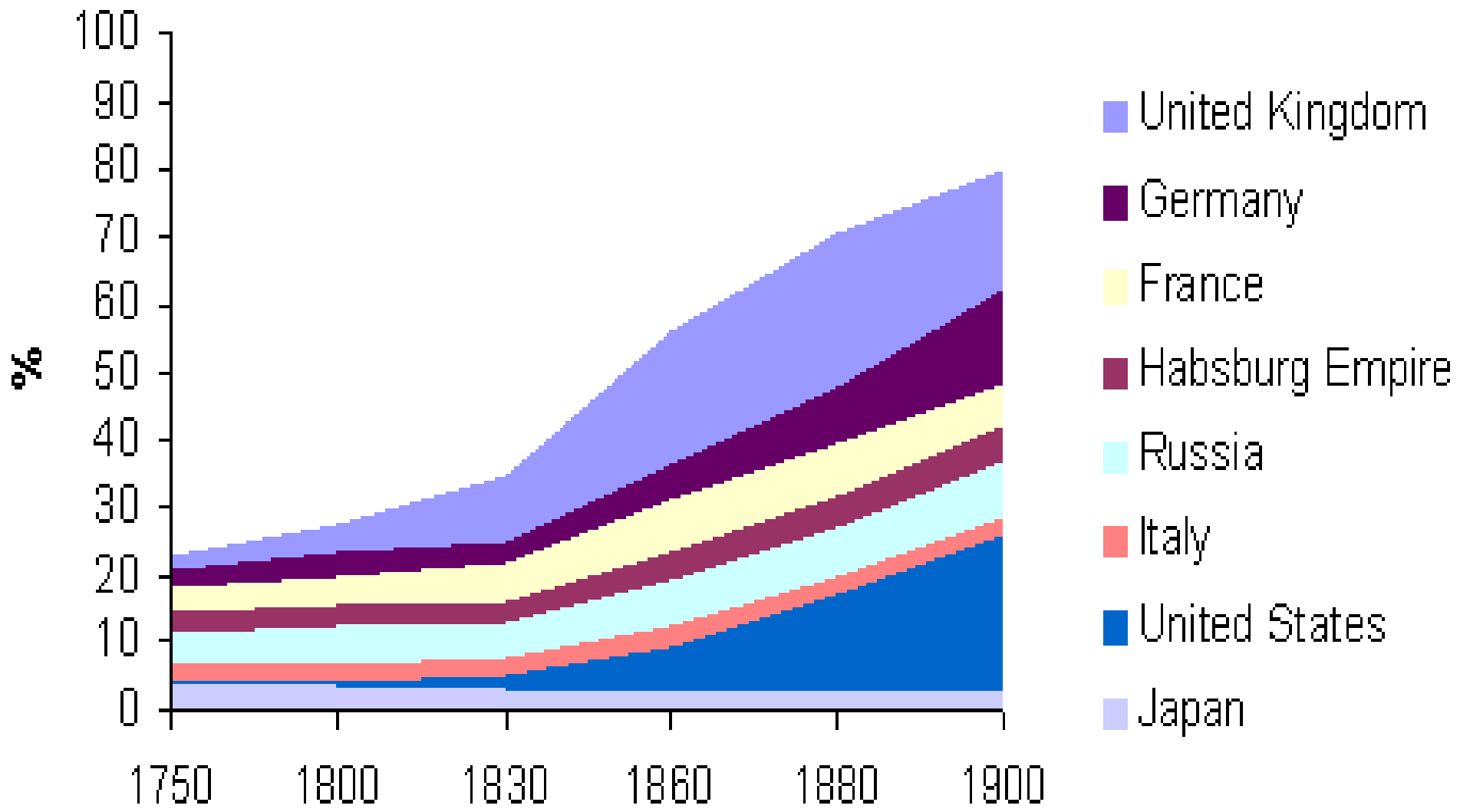
Russia started to trade with China and Japan.



The Russian economy **began to catch up with the leading industrial nations.**

Between 1860 and 1910: World industrial production increased by 6%, in the UK by 2.5%, in Germany by 6%, but in **Russia** it increased by **10.5%**. (Poliansky, 1960).

# Relative Share of World Manufacturing Output, 1750-1900



## *Early 20<sup>th</sup> century: Basic facts*

- Massive empire, stretching from Poland to the Pacific.
- In 1914: **165** million people of many languages, religions and cultures.
- Ruled by the **Tsar Nicholas II (in power: 1894-1917)** – the last before the revolution in 1917.





# Russian empire in 1914: European borders



# *Russian economy before revolution 1917 (Tsar Nicholas II)*

**Huge economic potential:** valuable natural resources and huge labour force.

Hybrid of traditional peasant agriculture and modern industry.

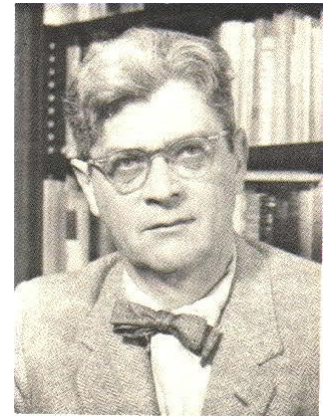
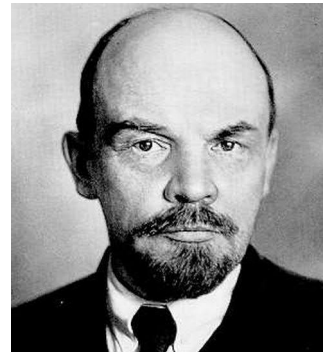
**Tsar command economy** versus **capitalistic economy** in the most part of the World.



# *Economic development of Russian Empire before revolution 1917*

Long lasting debate on economic development of the late Russian empire: causes of Russian revolution


*Pessimists:* Vladimir Lenin (1899) and Alexander Gershenkron (1966): relative backwardness of Russian economy and especially agrarian sector transferred into political unrest.



*Optimists:* Quantitative reconstruction of Russian national income between 1883-1913 by Paul Gregory (1983): Russian economic development looks rather favourable in international comparisons.



*Paul Gregory (1976): Basic characteristics of the Russian industrialization model in 1885-1913*

- 1) High rates of national saving plus significant foreign saving.
  - 2) Heavy indirect and other taxes to depress the consumption rate.
  - 3) Direct state expenditures to promote industrialization are not large (**major to defence, too little for human capital**).
  - 4) Heavy tax obligations on the rural population to force agricultural export surpluses.
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# *Soviet Union: Facts*

March 1917: Tsar Nicholas II abdicates/gives up in the face of demonstrations.

October 1917: Russian Revolution – Communists (Bolsheviks) seize power under Lenin's leadership.

1917-1922 – Civil war.

1922: Formal establishment of Soviet Union.

Consisted of 15 (more or less voluntary) republics; Russia being the leader.

Population almost 300 million.

*Soviet Union 1917-1991: Map showing countries included in the Former Soviet Union (FSU)*



# *War communism 1918-1921/1922*

A combination of emergency measures and socialist dogma:

- ❖ Nationalisation of factories, industries, land, banks and shipping;
- ❖ Foreign trade was declared a state monopoly;
- ❖ All forms of private capitalism have been ended;
- ❖ Most taxes had been abolished.



# *Six principles of War communism*

1. Production was run by the state.
2. State control over the labour of every citizen.
3. Extreme centralisation of economic life. Supreme Economic Council.
4. The state - the soul distributor as well as the sole producer.
5. War Communism attempted to abolish money as a means of exchange.  
BARTERING.

# *Consequences of War communism*

1. The economic strength of Russia fell below the 1914 level.
2. Peasant farmers only grew for themselves, as they knew that any extra would be taken by the state. The industrial cities were starved of food.
3. Between 1916 and 1920, the cities of northern and central Russia lost 33% of their population to the countryside; the number of those working in the factories and mines dropped by 50%.
4. Small factories were in 1920 producing just 43% of their 1913 total.
5. Large factories were producing 18% of their 1913 figure.
6. The Bolshevik hierarchy could blame a lot of Russia's troubles on the "Whites" (White army) as they controlled the areas, which would have supplied the factories with produce.

# *The New Economic Policy (NEP)*

October 1921, **Lenin:**

“We are in desperate straights. We must buy from whom we can and we must sell to whom we can. The party would have to learn to trade.”

**Lenin:** “...direct transition to communism had been a mistake...

...had to be the acceptance of small-scale production with state capitalism...

...Russia would then proceed to socialism and then to communism. “

# *The New Economic Policy (NEP) or State capitalism: 1921(1922)-1928*

Not a permanent policy but a temporal retreat:

- State retained ownership of large industries.
- Private enterprise allowed in small industries and retail trade.
- Peasants freed from forced requisitions:

**Prodnalog – tax on food:** Had to pay tax in kind to government but were otherwise free to sell rest on free market.

The first years of NEP were years of terrible famine in Soviet Russia, but by 1923-1924 the economy started to recover.

# *Lenin death. Stalin rise.*



In January 1924 Lenin died.

A great struggle for power in the Communist Party:

- 1) The desire for personal power.
- 2) A struggle over what policies the party and state should follow.

**Joseph Stalin`s victory**



# *Stalin versus Lenin*

Was "Stalinism" is just a follow-up of "Leninism" or "bad" Stalin "bumbled a job" of "good" Lenin?

Richard Pipes, well-known American historian:

"Stalin was a true Leninist in that he faithfully followed his patron's political philosophy and practices. Every ingredient of what has come to be known as Stalinism save one – murdering fellow Communists – he had learned from Lenin."

The Red Terror: a campaign of mass killings and systematic oppression conducted by the Bolsheviks during the Civil War (1918–1922). Estimates for the total number of people killed in the Red Terror range from 10 000 to 1 500 000.

# *Stalinism Before World War Two*

In 1929 Stalin ended NEP and nationalized all property in the USSR.

Stalin established **Soviet-style socialism**.

Rapid, forced collectivization of all agriculture and rapid industrialization.

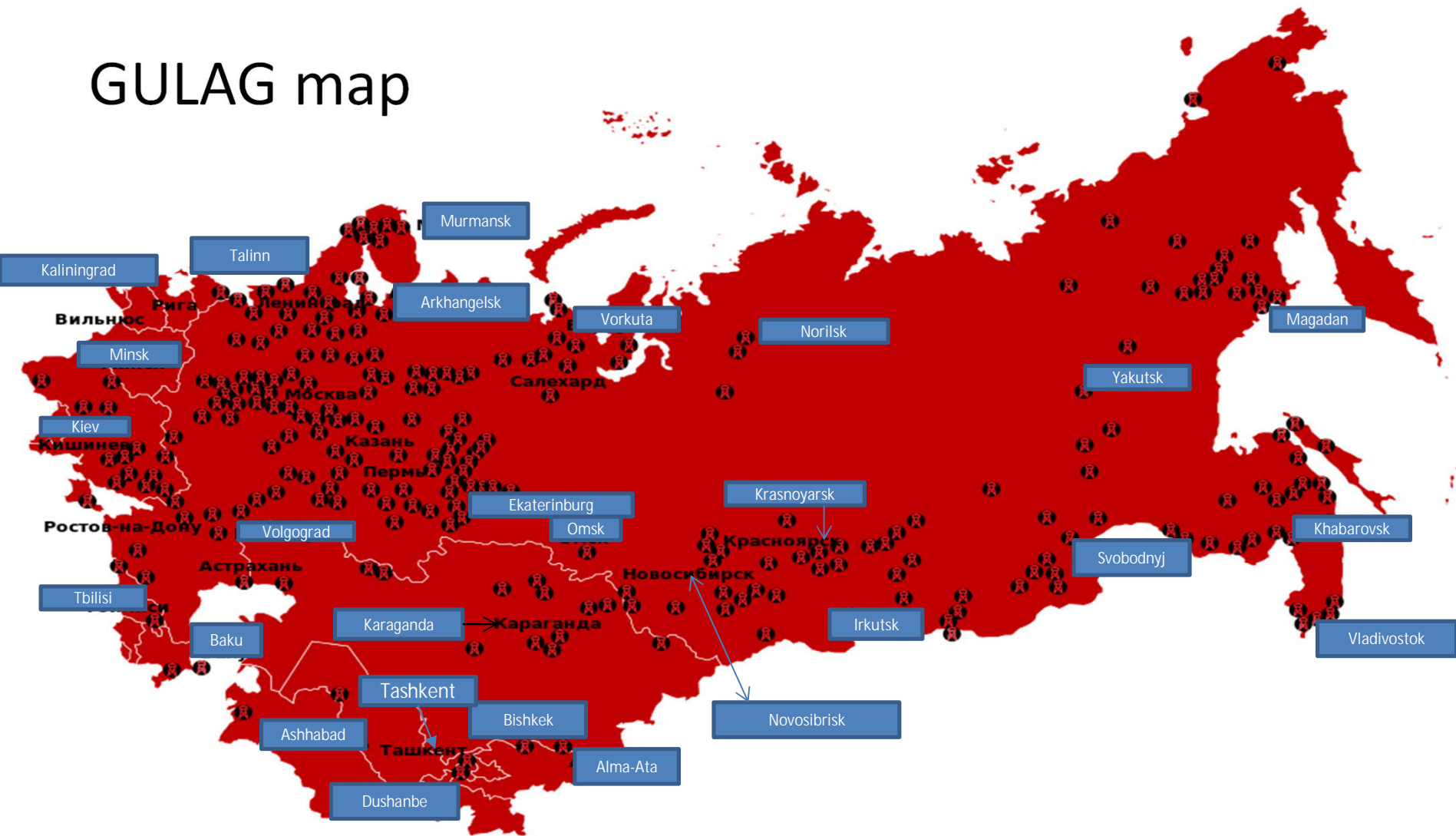
Heavy industry was a priority.

**"5 year plans"** that set targets for the entire economy.

Manager did not meet his or her target – enemy - would be arrested, sent to labor camps, deported to Siberia or Central Asia, or shot.

# *GULAG: labor camps across Russia existed between 1923 and 1960*

GULAG map





# *Central Planning Economy established by Stalin*

**Was based on two political imperatives:**

1. Control (state property and planning)
2. Economic growth (rapid industrialization)

**Principles of Soviet planning:**

- State ownership of basically everything.
- Political decision of what, to whom and how to produce.
- Planning based on mobilizing resources according to priorities: military, heavy industries, resources.
- Actual production based on short five year plans.

# *Stalin`s five year plans*

Video:

<http://www.youtube.com/watch?v=oXGThPeOJu4>

# *Results of Stalin policy for the Russian economy*

## *Achievements:*

In **1930-1941**, the USSR did **industrialize**:

It **caught up** with the **capitalist industrial powers**.

**Increased literacy rates** and **improved health care** for most of the population.

## *Costs:*

**People killed** in **Stalin's terror**: Some estimates are as low as **a million**, some as high as **ten million**. (A conservative estimate is **3 million**).



# *Soviet economy during World War II*

The **War remodeled** Soviet economy to insure **victory** in the War.



By the time of the Battle of Stalingrad in 1942, the Germans occupied more than half of European Russia.

- Stalin decision shortly after German attack: **The move** of more than 1,500 large **industries** to the **East** (Siberia => why million cities are there now!).
  - **3,500 new industries** were established, most of them related to **wartime production**.
- ➔ production of huge quantities of arms.

# *Post-War Soviet economy 1*

A quarter of the country's capital resources had been destroyed;

Industrial and agricultural output in 1945 fell far below of pre-war levels.

**However!**: The Soviet economy and polity returned quickly to their previous form: renewed political and economic mobilization.

The rigid hierarchies of party and state control were reinforced while their frontiers were pushed outward to the shores of the Baltic and into central Europe.

A large backlog of unexploited economic potential and more efficient repression → post-war Soviet economic resilience.

# *Post-war Soviet economy 2*

The Post-war economy was more militarized than before:

---the Soviet defence industry began to grow again with major boosts from programs for atomic weapons, rockets, jets, and radar.

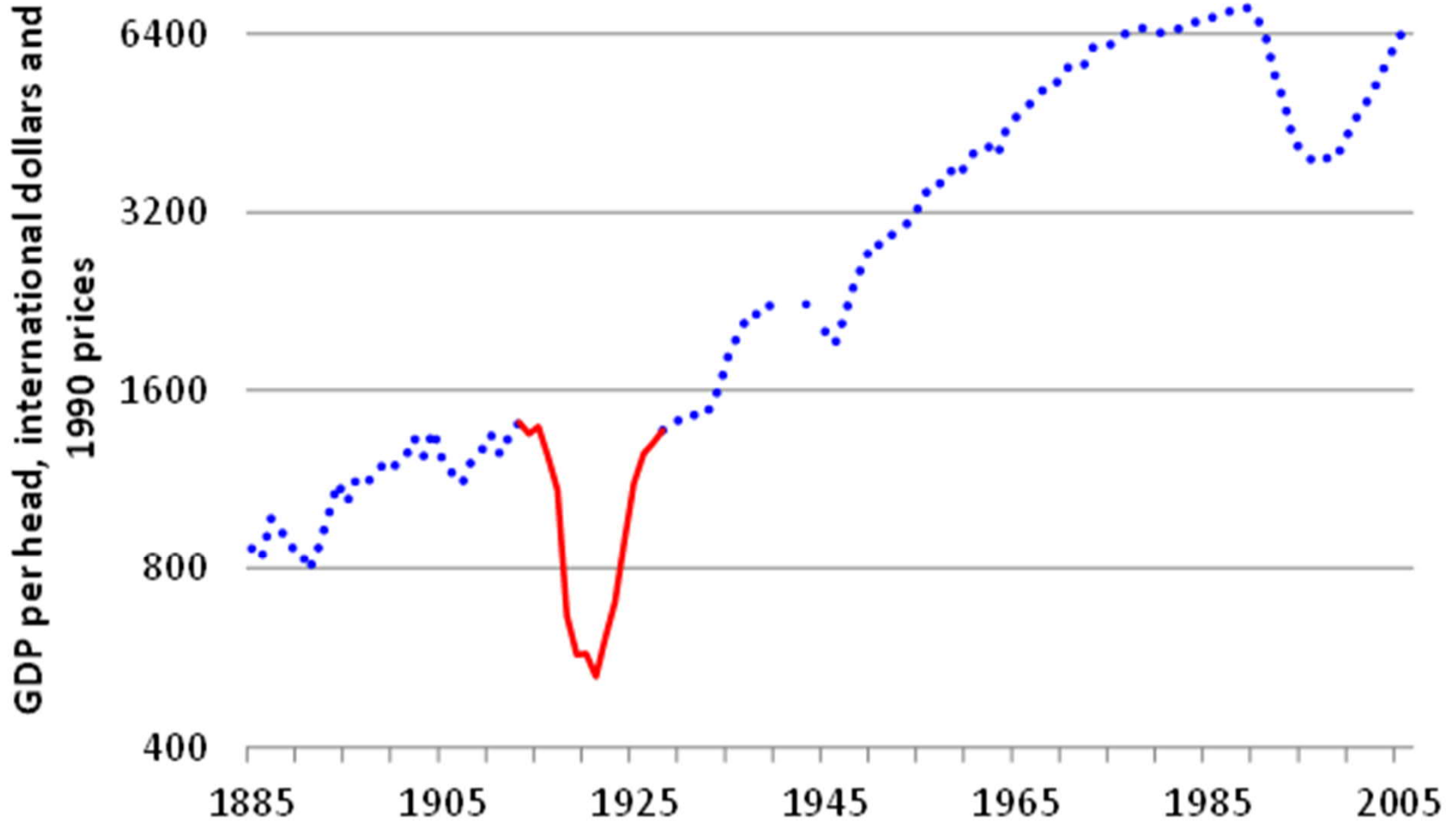
---heavier burden to GDP than in USA (due to a smaller GDP).

The dispersal of the population into the remote interior of the Urals and Siberia:

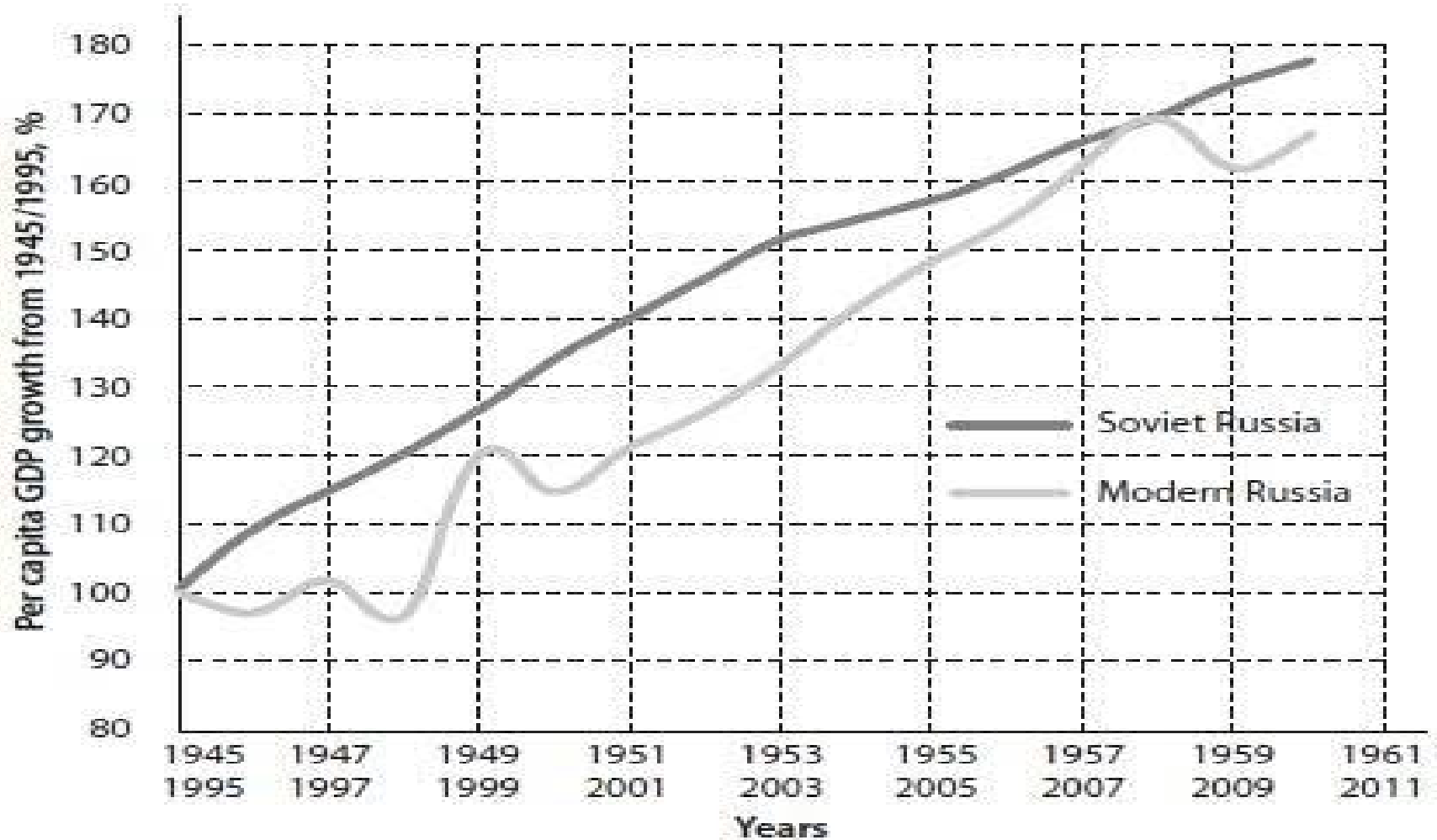
--- Until World War II, the Soviet defence industry was concentrated in European USSR. Wartime evacuation shifted its centre of gravity to the East.

Centralization of the economy, temporarily disrupted by invasion and war mobilization, was restored well before the war ended.

# *Post-War GDP per capita*

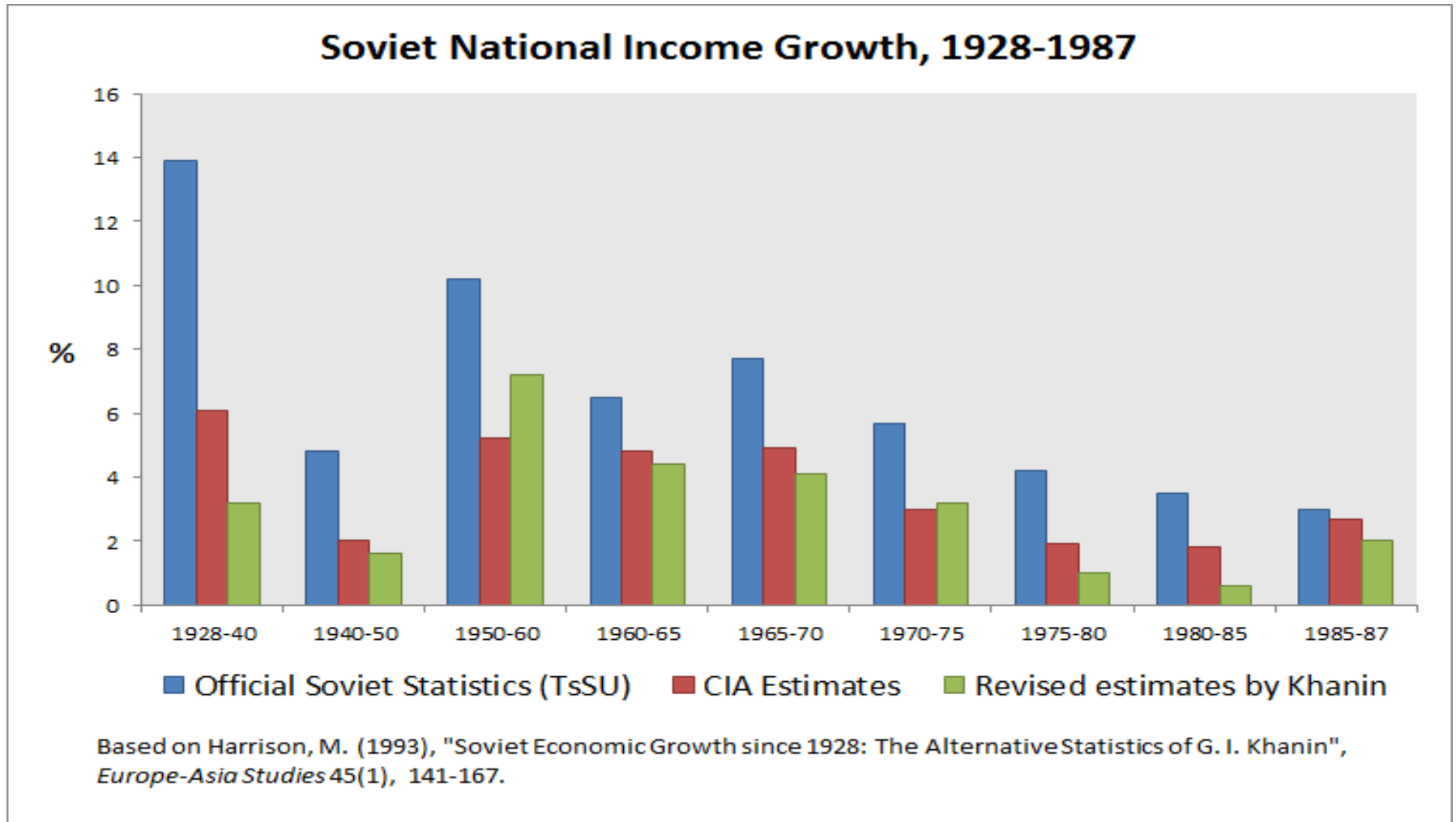


# *Post-War GDP per capita growth, %*

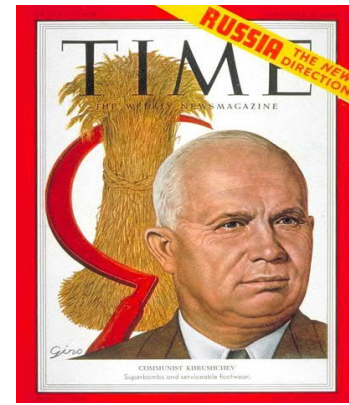




# Soviet National Income growth, %



# The Khrushchev "thaw" (1953-1964)



Khrushchev, an agricultural specialist, had grown up in Ukraine.

Policy of "Reform Communism" to humanize the Soviet system:

- public disavowal/rejection of Stalinism;
- the greater flexibility in Soviet leadership after a long period of monolithic terror;
- Rehabilitation of repressed.

A greater emphasis on consumer goods.

# Socio-economic development



Basic concepts and slogans:

- “The current generation of Soviet people will live under communism”
- Sovnarkhoz (советы народного хозяйства)
- “virgin soil”
- “Catch up and overtake America ...”
- “Queen of fields – Corn”.
- Construction of affordable housing
- Pensions – to kolkhozniks

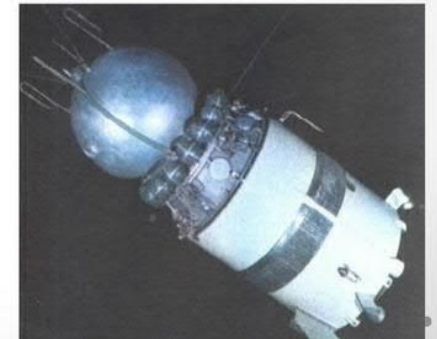
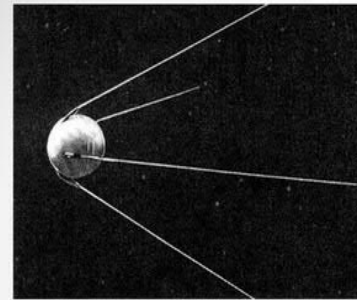
# Most known achievements in Khrushchev term

## Mass housing construction



"Khrushchevka" - panel or brick two five-storey apartment blocks, massively constructed in the Soviet Union during Nikita Khrushchev's period and received his name among soviet people.

## "Conquering space"



# Results of the Khrushchev term

"+":

- Softening domestic and foreign regime;
- Raising living standards;
- Scientific and cultural achievements.

"-":

- His plans for growing corn and increasing meat and dairy production failed.
- His reorganization of collective farms into larger units produced confusion in the countryside.
- Inconsistency, incoherence, populism.
- The decentralization of industry → led to disruption and inefficiency.

# *End in power*

By 1964:

Industrial growth had slowed;

Agriculture showed; no new progress.

In October 1964, while Khrushchev was vacationing in Crimea, the Presidium voted him out of office.

# *Leonid Brezhnev`s Era (1964-1982).*

## *Basic facts*

- Brezhnev was born in 1906 in the Ukraine. Ukraine-Russian origin.
- Brezhnev led the USSR as the Cold War developed throughout the 1960's.
- It was a dangerous era as a result of the nuclear arms race between the USA and USSR.
- Leonid Brezhnev died on November 10th 1982.



# *Leonid Brezhnev`s Era (1964-1982). Socio-economic achievements*

Under **Brezhnev**, **Russia dominated** the U.S.S.R. as never before.

**Three-fourths of the defence industries**, the priority sector, were **in Russia**.

Russia accounted for about **three-fourths of the Soviet gross national product**.

The rapid **expansion** of the **chemical, oil, and gas industries** boosted exports →  
Russia earned most of the union's hard-currency income.

The **middle class grew in size**, as did its **average salary**: more than **doubled** in **two decades**.

Ownership of consumer goods, such as **refrigerators and cars**, became a **realistic expectation** for a growing part of the population.

The availability of **medical care, higher education, and decent accommodation** reached **levels unprecedented** in the Soviet context.



# *Brezhnev`s failures*

Income from the sale of **Russia's natural resources** → no need of structural economic reforms.

By the mid-1970s, **growth in the non-natural resource sector** of the economy had **slowed** greatly.

The Soviet economy suffered from **a lack of technological advances**, poor-quality products, low worker productivity, and highly inefficient factories.

The **agricultural sector** of the economy was in **crisis**. → The government was spending an increasing amount of its money trying to feed the country. → **Radical reforms required**.

By the 1970s, **continued economic stagnation** posed a **serious threat** to the world **standing of the U.S.S.R.** and to the regime's legitimacy at home.

# *The end of Brezhnev Era – beginning of the collapse of Soviet system*

**Crisis in agriculture** continued in the 1980s: Necessity to buy grain in the international market:

While the price of petroleum was high - financing the purchase of grain from internal sources was possible.

When the price of petroleum fell in the last 1980's → the Soviet Union needed to borrow the funds from Western banks to purchase the needed grain. →

This severely restricted the international activities of the Soviet Union.

**HYPOTHESIS:** The reason for the decline in petroleum prices in the late 1980's: the Soviet Union invasion of Afghanistan. →

**Saudi Arabia** increased its production of petroleum drastically (to punish SU) and consequently the price of petroleum fell.