How had the Soviet economy decayed?

Task - Read the following article about Soviet economic problems and complete the three tasks listed below:

In 1990, Gorbachev told the Lithuanian Communist Party that '*it is politics that follows economics and not vice versa [the other way round]*'. It was the economic weakness of the USSR and the COMECON states that was a key factor in the collapse of communism and the disintegration of the USSR by 1991. Yet until at least 1960, the Soviet economy had performed relatively well. Similarly, when the COMECON states adopted the Soviet economic model, they too experienced rapid industrialization and impressive growth in their heavy industries until the 1960s. One reason for this was that the main industrial technology of the time was based on large productive units, such as car and tractor factories, and heavy industry, particularly coal and steel. These functioned effectively as large units controlled by a central planning system which set targets for production and maintained and managed Five Year Plans.

The 1960s

By the 1960s, the Soviet command economy had become very bureaucratic and inflexible. The system functioned well when it concentrated on a particular target, such as war production or post-Second World War recovery, but it was poor at adapting to supplying at competitive prices the multitude of consumer goods which were available to the capitalist states. In the early 1960s, Soviet economist Yevsei Liberman and Ota Sikin from Czechoslovakia put forward ideas for decentralizing the economy to allow decisions of production, design and pricing, etc., to be taken by local factory managers. In Czechoslovakia, these ideas began to be realized between 1965 and 1968:

- Greater freedom was given to the factory managers.
- Business troces were reduced to encourage production.
- Wage differentiation between skilled and unskilled workers was introduced.
- Wholesale prices were determined by the market.

After the termination of the Prague Spring in 1968, economic experiments aimed at modernization and increased economic competitiveness in the Soviet bloc were discouraged for fear that they might lead to growing demands for political concessions.

The 1970s

The 1970s were a period of great economic change and crisis for capitalist economies in the Western bloc. After the Yom Kippur War in 1973, oil prices were quadrupled by the Organization of Petroleum Exporting Countries (OPEC) in just a few months in protest against the West's support of Israel. This weakened the western economies and fuelled inflation. At the same time, the old coal and steel industries were contracting in western Europe and unemployment was growing. Western

Europe and the US responded to this challenge by modernizing and adapting their economies to take advantage of developing new industries and technologies.

By contrast, the USSR and COMECON continued with centralized governmental control of their economies, emphasizing heavy industry such as coal and steel. For a short time, this appeared to work well. Detente and Ostpolitik opened the way for generous Western loans to COMECON members. The USSR was also well placed to exploit the global oil crisis by selling its oil at a high price to the West, allowing them to import from the West. From July 1975 onwards, the USSR increased charges on oil exported to eastern Europe by 30 per cent on the assumption that Western loans would make the extra payment by their allies possible.

Task 1 - What information does Source H convey about the debts of the USSR, Poland and the GDR to the West?

SOURCE H

Total indebtedness to the West (in millions of US dollars) of GDR, Poland and USSR.

	1975	1980	1985	1989
GDR	5,188	13,896	13,234	20,600
Poland	8,388	24,128	29,300	41,400
USSR	10,577	23,512	25,177	52,392

Source: Table from *Dissolution: The Crisis of Communism and the End of East Germany* by C.S. Maier, Princeton University Press, Princeton, USA, 1997, p. 63.

1980-85

COMECON states negotiated loans with the West on the assumption that this money would enable them to modernize their economies. By 1980, it was increasingly clear that the USSR and eastern Europe had failed to develop the new industries based on information technology. They had amassed huge debt that had to be paid back with interest at the end of ten years to western European and US banks. At the same time, oil prices on the international market fell from $35 to $16 a barrel, resulting in a disastrous decline in the income for the Soviet Union. In fact, during the reign of Brezhnev between 1967 and 1980, the annual growth rate for Soviet industrial output had declined from 5.2 to 2 per cent.

This was the bleak economic scenario that confronted Gorbachev when he came to power in 1985 and contributed to the collapse of the Soviet Union and communism in eastern Europe.

Task 2 - From the information below, distinguish between the *causes* of the economic crisis and the *symptoms* of the economic crisis. Create a table to show your findings.

- By the mid 1980s, about 25% of the USSR's GDP was being spent on the military (in comparison to 4-6% in the USA).
- The economy was still based on the 'command economy' of Stalin's day and it was slowing down; between 1967 and 1980 the annual growth rate for Soviet industrial output declined from 5.2 per cent to 2 per cent.
- The fall in oil and gas prices hit the Soviet Union badly.
- The cost of ventures in Afghanistan and Africa and subsidies to Vietnam was a huge drain on resources
- The focus in the USSR was still on heavy industry. By 1981 the rate of growth in consumer goods had leveled at zero; there was also a fall in the quality of healthcare. Low morale amongst the workers also affected the economy.
- Poor harvests and continued droughts meant that agricultural output had fallen. Collective farms still existed though 3% of arable land was farmed as private plots - these produced 40% of meat, dairy goods and vegetables. In 1975 the Soviet Union entered a five year agreement to buy up to 8 million tons of grain from the USA; this was affected by the grain embargoes placed on the USSR after its invasion of Afghanistan.
- The USSR had not kept up with the west in terms of technology; it had failed to integrate its technical advances from space and military research into the civilian economy. The nomenklatura opposed new initiatives and so there was no one to be the driving force necessary for new ideas in the area of technology.
- The decline in the Soviet economy had a large impact on the East European satellite states. As growth in the USSR declined, so did its capacity to absorb manufactured goods from the satellite states in return for cheap fuel and raw materials; this collapse in the flow of trade undermined popular confidence in the communist economic system.

Task 3 - What does this table show about Soviet industrial production?

	1965	1975	1985
Iron (million tonnes)	66	103	110
Steel (million tonnes)	91	141	155
Coal (million tonnes)	577	701	726
Tractors (thousands)	355	550	585