

# The soviet command economy economics essay

[Economics](#)



**ASSIGN  
BUSTER**

To what extent did the systematic planning of the command economy in the Soviet Union establish the economic conditions that resulted in the collapse of the Soviet Union in 1991? The following extended essay will investigate the command economy of the Soviet Union in the years 1960 to 1991, and its effects on the population of the USSR. Primarily, the essay focuses on the structure of a command economy, the theoretical issues associated with it, and the problems that were created in the way in which it was practiced.

Therefore, the essay will display that the command economy had flaws both within the theoretical and practical areas, and consequently did contribute to the fall of the Soviet Union to a large extent. Firstly, the essay will cover the structures of a command economy, and then further the way in which it was run in the USSR in terms of expenditure on different areas, and the result of this within a large deficit. Furthermore, the thesis of a historical economist (Mark Harrison) will be analyzed to depict the balance that must be retained between administration and producers within a command economy.

Moreover, the theories of the final leader of the USSR will be examined to determine whether there was anything done about the decline of the economy. Finally, the effects of the economy on the population and their living condition will be analyzed for determination of the public's choice of an altered governmental system. The sources that are used within this investigation are primarily secondary sources that offer alternate views on the possibilities of command economy governing, and its effects on a population. There are additionally a small number of primary sources utilized that show the beliefs of economists at the time which depicts whether the situation was an alterable one.

## Introduction

A command economy is defined as an economy in which production, investment, prices, and incomes are determined centrally by a government. [1]During the communist/socialist era in the USSR (1917-1991), a command economy, with contributions from the theories of a planned economy was employed to increase production of industry and agriculture.[2]The government provides the required economic production that must be attained within the different sectors of a nation's economic faculties such as agriculture, military, etc. Due to the communist nature of the USSR, a command economy was essential, and was based on the theory that it would create employment for people, and the products and money produced would go directly to the centralized government.[3]During the period between 1966 and mid 1970's the Soviet economy appeared to be one of the most stable economic entities globally, producing a Gross National Product (GNP) growth rate of 5.3%. [4]However, following 1975, the growth rate had dropped to around 2%, while other countries such as the USA were just increasing to growth rates of 7.6%. [5]Therefore, an investigation into the collapse of the Soviet economy which lead to the downfall of the USSR is nearly essential as it portrays the reasons for the rapid collapse of a nation that had before appeared to be meeting international standards in terms of economic growth and production. The investigation furthermore displays the mistakes, and errors in judgement that the administration of the period between 1975 and 1990 made within the ruling of the command economy therefore determining whether it was the form of the economy, or the mistakes that were made within the governing of the command economy that created a poor economic state. Therefore, the question to be studied will be to what <https://assignbuster.com/the-soviet-command-economy-economics-essay/>

extent did the systematic planning of the command economy in the Soviet Union establish the economic conditions that resulted in the collapse of the Soviet Union in 1991? The command economy evidently contained numerous faults and discrepancies within different areas of a nation's economic system. The command economy ultimately lacked the flexibility that was needed following the years after WWII . Throughout the years after WWII the Cold War had a major impact on the sustainability of a command economy. The Cold War was fought between the USA and USSR, and resulted within rising of military spending of both USA and USSR, creating a lack of consumer resources that were needed for domestic life.[6]However, unlike the USSR, the USA had a market economy based on capitalism which created the open relations with other countries that allowed for them to import needed goods. The Cold War further offset a polarization between communist and non-communist states, generating differing trade policies between countries, and furthering economic stagnation.[7]Finally, when establishing the context for the investigation the leaders that created the planned output for the economy altered the essential characteristics of the economy in order to fit the planned outcome of production and conclude in an eventual stagnation and fall[8]. As result of the former, the investigation will cover the technical aspects of the Soviet command economy which will investigate expenditure and revenue, and further depict a view on the incorrect governing of the command economy which caused for it to fail. Furthermore, the investigation will cover in depth the effects of the command economy on the lives of the USSR's citizens, and finally the coup that allowed for the collapse of the Soviet Union. Thus, it will be argued that the command economy caused the collapse of the Soviet Union as a result of <https://assignbuster.com/the-soviet-command-economy-economics-essay/>

improper governing, and a lack of flexibility to changing events of the world.

## 1. The Command Economy

### **1. 1 The Structure of a Command Economy**

A command economy functions through orders that are given by the governing body.[9]As Ericson (economist) states " The administrative means used include planning, material balances, quotas, rationing, technical coefficients, budgetary controls and limits, price and wage controls, and other techniques aimed at limiting the discretion of subordinate/operational units/firms." [10]It can be noted that as a result the administrative sectors of a command economy, specifically the Gosplan in the USSR, had absolute monopoly over the production of all faculties of the economy. Essentially the Soviet economy was organized into a set of plans. They consisted of 5-Year or 7-Year Plans which set goals for the nation as a whole.[11]Naturally, the latter, longer plans, were broken into sections that were shortened into years, months, and days, thus providing a scaled pathway towards the end result.[12]The expenditure and revenue was balanced by the Gosplan through a method that was called the material balances.[13]The material balances ensured that the administration based the planning from the available resources to facilitate a planned outcome from the available input. [14]This material balance which flowed vertically in between the administration and firms is essential in maintaining the Soviet economy, but the balance was corrupted due to failure of communication, and either a lack of or excessive centralization.[15]

## **1. 2 The Soviet Command Economy; a Look at Expenditure and Revenue in the General Financial Balance (GFB)**

The General Financial Balance of the state (material balance) governed the planning of the economy in the Soviet Union.[16] Before 1965 enterprises had no control over their profits, and did not receive any of them. However, in 1965 -1980 this was altered as the years progressed and enterprises were able to experience a small degree of freedom in production and profit which was called " incentive funds" (used to give incentive to workers).[17] In the 1980's a change was experienced with deteriorating stock resources, and the production sector grew increasingly centralized.[18] During the 1980's the expenditures of the state persistently grew, while the revenue produced by enterprises, and resources continued to decrease.[19] As a result the GFB expenditures rose to be equal to be 75% of the GNP, and nearly equivalent to the net material product (production of materials not including the resources used to make them).[20] In comparison with the USA, Russia had 3 times its deficit, which was already serious but supported by other capitalist nations.[21] As a direct result of this, the Soviet Economy experienced a growing dependence on the banking system, creating slowing tax revenue, and increasing debt as shown in Chart 1 below (120 Billion rubles[22]), which created a financial situation that once created, was extremely difficult to resolve without a change in the economic system and the Plan. Chart 1 (Source: Alexashenko, Sergey)

## 1.3 The Distribution of Resources in the Command Economy

1.3.1 Military Expenditure

The economic stagnation that is infamous for the collapse of the Soviet Union was as a result, in large part, of the military building that the USSR believed was a necessity to maintain its title as a super power throughout the Cold War, and be measurable against the US. The USSR was inferior to the USA in military supplies due to lack of resources, and money.[23] Knowledge of this caused for them to compensate for their lack of quality by producing significantly large amounts of war machinery and technology that was of a lower quality than that produced in the USA to allow for rapid growth.[24] The Central Plan that was issued during the years of 1960's and 70's regulated that every factory which produced industrial products would also have to have a military application that could be rapidly converted to war functions.[25] Furthermore, the Plan dictated that there was to be a 3% increase in military production each year, without pause even when there was more than enough. It was estimated that nearly 40% of the Soviet Union's budget was spent on the military, which would evidently be difficult in years when the economy was beginning to reach stagnation (note in Chart 2 that the military expenditure rose significantly in the years after 1987).[26] The Soviet Union was evidently willing to sacrifice the comfort of their people (lack of consumer good due to military spending), in order to match the USA's military prowess. Chart 2 (Source: Alexashenko, Sergey)

1.3.2 Agriculture and Industrialisation

Significant areas of the Soviet budget were furthermore distributed to the agriculture and industrialisation efforts. The policy was to turn the nation into areas of "iron steel." In many cases however, this was unsuccessful, with an example being the

construction of a large steel plant on the Danube River which was 50 km south-east of Budapest. Naturally, the steel plant had required significant amounts of iron ore which was not available within Hungary and had to be imported from other areas creating a low net economic profit due to lack of resources and transportation costs.[27]Furthermore, collectivization in agriculture did not produce the required amounts, and the few remaining private farms produced 1/3 of the country's agricultural produce, despite the large levels of money that the Soviet Union was placing into the government owned farms.[28]The above examples depict the impracticality of the Plan in emphasizing industrial and agricultural growth as there was a small net yield, and it ultimately created a problem as insignificant values of the budget were given to the consumer economy (due to emphasis on military and industrial), creating poor conditions for the citizens of the USSR who were the support of the Soviet Union. Once the support of the Soviet Union understood the unwieldiness of the Plan, they would naturally wish for a change within the governmental system resulting in a collapse.

## **2. The Mark Harrison Thesis**

Mark Harrison is an economic historian who writes extensively on the command economy of the Soviet Union. The purpose of his work is to depict the problems of the command economy in the Soviet Union, and display an alternate pathway of the command economy in the way in which it is directed. Harrison's work is valuable to this investigation as it displays an alternate view on the command economy in Russia between 1960 and 70, and exhibits that it may not have been the command economy itself that caused for the collapse of the USSR, but the incorrect balance of punishment



and incentive. However, this work is subjective to theoretical governing of the command economy that would ensure its success. Therefore, there is no proof that his theories would produce a more successful economy than that of the USSR's. Harrison states that " The changes we observe in the early years of Russian transition...did not arise from market reallocation but simply from the destruction of the command system." [29] Thus, in reference to the greater freedom that was allotted to the enterprises in the later years of the Soviet Union the command economy had effectively begun to lose its " command" factor. Furthermore, Harrison makes the point that Russia's recession was far less than that of countries such as the Slovak Republic, Poland, and the Czech Republic. [30] Once again, this displays the possibility that the command economy of the Soviet Union was not as incompetent as many would have believed it to be as it still had the support of the public, and until 1987 there was no negative growth within the GDP. [31] However, the nation did collapse, and according to Harrison it was as a direct result of the coercion level within a state's economy. Coercion is divided into 3 areas; mobilisation, monitoring, and incentives. [32] Monitoring and incentives are the vital pieces in Harrison's thesis, with mobilisation simply being the extraction of output from the producers and return in wages. Monitoring is when producers within an economy are forced to account for level of input and output. [33] However, there is a precarious balance of monitoring that must be upheld as it is costly to hire and pay the monitors of produce, but choosing not to have them would create a potential for production theft. [34] Finally, incentives are punishments or rewards which provide the producers with a degree of effort that they will portray to produce the regulated amount. Once again, there must be balance maintained to

<https://assignbuster.com/the-soviet-command-economy-economics-essay/>

produce both significant effort for positive production, and regulate the cost of rewards and punishment.[35]Therefore, in relation to what occurred within the Soviet economy, the monitoring costs appeared to have risen as the party membership rose to 15% in 1986, compared to the 1% in the 1920's. [36]Furthermore, under Gorbachev's Perestroika, which began to favour an economy based on principles that were close to a market economy, collapsed all monitoring and incentive as it went against the principles of a command economy.[37]Therefore, from Harrison's viewpoint it can be concluded that essentially the problem of the Soviet Union was not within the command economy, but a lack thereof. The initial decline was due to the incompetency of the leaders and administration in addressing the coercive balance, and the final collapse was due to Gorbachev's destruction of the principles of the command economy therefore producing negative growth within the GDP and creating the situation for the collapse of the Soviet Union.

### **3. Complications of the Command Economy**

In the former part of this essay much of the topics have been that of the failures of the governing body of the command economy in the Soviet Union. However, the command economy itself constitutes numerous essential problems within a world that was largely consumer based, and influenced by international events. One of the flaws of the economy was its lack of flexibility. As Victor Sebestyén states "inflation and mass unemployment could be dealt with in more flexible economies, however, the Soviet Union model was rigid and was directed towards political ends rather than economic ends." [38]Therefore, if after a plan was created by the Gosplan

was evident to be unrealistic, there would be no change in the plan as it was the command and could not be changed according to the theory of a command economy. The 5 Year Plan that was established in 1981 proved to be extremely unrealistic and the expectations were still required to be met. [39]Eventually, the agricultural and industrial failures built up to the extent that a command economy provided no net yield. Consequently, the command economy displayed a lack of flexibility to attend to consumer and environmental needs, creating its inevitable collapse. A further flaw of the command economy is that it encompasses all production of a nation. The monitoring, and mere mass of planning would take immense levels of organization. After a certain point the government would not be capable of ensuring absolute control on all areas of the economy. Neil Felshman states "The job of planning the development, production, shipping, and distribution of what has grown to literally hundreds of thousands of different products simply outgrew the ability to of the government to deal with it." [40] Moreover, goals that were set by the plans were indicated by "success indicators" by quantities (e. g. kg, numbers). [41] The example utilized by Neil Felshman by that of nails. He states that if the goal was set through number of nails the company that produces them would choose to make large amount of small nails, and if the goal was placed in weight the company would produce thick and heavy nails. [42] In both cases they were proved to be useless. Hence, the quality of the products produced in a command economy was ignored due to lack of specification in plans. As a result, many products did not generate a profit that was beneficial to the state. In summary, the theory that a command economy can control all aspects of production can be rendered nearly impossible.

## 4. Gorbachev and Perestroika

Gorbachev became the General Secretary of the Communist Party in 1985 and represented one of the first major changes in political thinking of the Communist Party leaders.[43]Gorbachev realized that the Soviet economy was in a poor state, and that there would have to be significant reform in order for it to be improved. Gorbachev based his theories on the Novusibirisk Manifesto written by Tatyana Zaslavaskya which had criticized the command economy.[44]He introduced the theories of Glasnost (openness in political expression) and Perestroika (a complete restructuring of the Soviet economic structure).[45]Gorbachev wished to adopt Lenin's methods of economics, and he even compared it to the New Economic Policy during Lenin's time. [46]The perestroika displayed a turn towards market economy principles. Gorbachev introduced the self-financing of select factories, and legalized co-operative businesses, despite this being against communism and not producing much of beneficial income.[47]To further improve the economy, Gorbachev created price increases on produce, which ultimately only created a rush to buy food and clothing, and therefore shortages across the Soviet Union[48]. The price increase was in large part to aid in the raising of incentive which Gorbachev had believed to be necessary in order to produce the required effort in producers.[49]Furthermore, Gorbachev was a strong believer of collectivization despite its lack of success, and he was sure that it would be successful if greater funding was provided.[50]In reality the funding had gone to waste as no increase in production in any of the sectors of the economy was achieved. Therefore, despite Gorbachev's attempt at restructuring the economy, it had already been in too great of a decline, and many historians state there was very little that Gorbachev changed due to <https://assignbuster.com/the-soviet-command-economy-economics-essay/>

opposition. The command economy was still seen as vital by many of the party members.[51]Due to the great amount of unsuccessful attempts at restructuring the economy by Gorbachev, the people of the USSR wished for a new government. This ultimately resulted within the coup in August 1991 that marked the collapse of the Soviet Union.[52]Again, the command economy proved to be inflexible to change for improvement in economic situation, and Gorbachev's adherence to communism allowed for no significant improvement.

## **5. The Effects of a Declining Economy**

The degrading effects of a command economy that was focused towards industrialization was the ultimate cause of the collapse of the Soviet Union as it created a lack of support for the Communist Party, and for the citizens of the USSR to look for an alternate governmental system that would provide them with better living conditions. Firstly, the system of collectivization in agriculture, as mentioned before, did not provide the required amount to sustain the Russian population, by creating food shortages and hoarding. [53]People still remembered the starvation of the past, and their fear of hunger pushed for a complete change within the governmental system. [54]In addition, the healthcare system of the Soviet Union was suffering. Despite there being numerous doctors, dentists, and nurses available, the healthcare system remained at a low level.[55]The infant mortality rate was 30/1000, 1/3 of the district hospitals had no available hot water, and there was rarely enough or the correct drugs for proper treatment.[56]A poor healthcare system ensured poor support for the government, and the detrimental effect of the industrialization on health of the USSR's citizens

could not be treated. Moreover, due to the plans of the command economy being focused on industrialization and agriculture, the allotted living that people were given called "Kommunalki" were in poor conditions, and many families had to share one apartment.[57]For the most part, the people of the Soviet Union wished for more privatization in living conditions, and despite Gorbachev's efforts in supplying better housing there was no outcome experienced. The above effects were rendered increasingly detrimental by the effects of industrialization on the environment within the Soviet Union. Because the Plan drove for a certain goal, the environmental and human cost of the possible effects of industrialization was most times ignored. For example, when cotton was important within the economy, rivers were diverted to irrigate land causing for the Aral Sea extinction and river pollution.[58]As a result of this pollution, and no alternate water supply, typhoid incident rose by thirtyfold, hepatitis rose sevenfold, mothers were warned not to breastfeed, and there was complete destruction of the Aral region.[59]Despite this being known nothing was done about it. When addressing the rest of the Soviet Union, statistics show that 70 million lived in areas where pollution surpassed permissible levels by 5 times, and 40 million where pollution surpassed permissible levels by 15 times, creating death due to pollution across the nation.[60]Gas leaks were another large problem, but since the Plan had not included placing filter systems in plants, there was nothing done about it.[61]These effects of the environment were extremely poor for health of the citizens, but due to the poor healthcare system there was nothing possible to be done causing numerous deaths and health related issues. Ultimately, these effects went against the Communist Party promise of "great industrial output, more apartments, and improved

<https://assignbuster.com/the-soviet-command-economy-economics-essay/>

food supplies." [62] As Steve Crawshaw states " The Soviet population was gradually being killed by the Plan. And, because of the disastrous situation in the economy, there was no money to change that." [63] The black market in the USSR had become stronger than the USSR economy itself, and it became the way in which many of the population made money. [64] A Soviet economist on T. V. had explained that a person could make an \$8800 profit from an initial input of \$200 on the black market (See appendix. A).

[65] Therefore, the economy was being bypassed completely through the black market. As a result of criminal dealings (black market), the crime rate rose as well, deteriorating the social aspect within the USSR. [66] Finally, in 1988 Western businesses were permitted to open due to Gorbachev's Glasnost. [67] These foreign businesses accepted most currencies other than the ruble, and since it was possible to buy almost anything within these stores, again the money was bypassing the Russian economy, and going to foreign countries. Furthermore, as a result of Westernization people realized that they were not living in conditions that were comparable internationally.

[68] The citizens of the USSR had finally come to the conclusion that a market economy provided a better life for those in other countries, and despite there being a large support for communism, they realized that there was a needed change in economic structure that not even Gorbachev and the perestroika could provide. The final rise in prices by Gorbachev, the elimination of 50 and 100 ruble bills which lost many people's savings, and the shortages in food, cigarettes, and alcohol, in combination with the above factors resulted in the coup of August 1991 that marked the collapse of the Soviet Union. [69]

## Conclusion

In conclusion, the command economy had both faults within its theory and within its practice by the government of the USSR, which resulted in the situation that caused for the collapse of the Soviet Union in 1991. Within theory, the largest fault of the command economy was its lack of flexibility, and the requirement that it must follow the Plan despite the possibility of it being unrealistic or unattainable. In practice, as according to the thesis by Mark Harrison, the administration of the command economy made mistakes within the balance between monitoring, and incentive in terms of punishment or reward. The decline in the economy created a poor situation within the Soviet Union, with poor quality of life for their people. As a result people wished for a new system, and indecision resulted in the coup of August 1991. In no way can it be stated that the command economy of the USSR was the only cause of the collapse. The Cold War, the Arms Race, and the polarization between communist and capitalist states was for a large part also a significant cause as it hindered international relations and aid that the USSR received from other countries. This investigation did not offer an analysis of how international relations could have affected the economy of the USSR thus being a possible further area of investigation for this topic. In a large way, the major failure of the USSR command economy was its ignorance to the needs of its people and their situation. As Gavril Popov stated about the economy " The real problem...lies not in the leadership, nor in the merits or shortcomings of this or that research institute, nor in the structure of the governmental bodies, nor in the method of rule; it lies rather in an economy driven not by economic laws and consideration, but by a strictly political—administrative engine." [70]



## Bibliography

"command economy" Dictionary. com Unabridged. Random House, Inc. 18 Feb. 2013. Alexashenko, Sergey. Review of Economies in Transition; The Collapse of the Soviet Fiscal System: What Should be Done? 4th ed. Helsinki: Bank of Finland Institute for Economies in Transit, 2002. Web. 16 Feb. 2013. . Allen, R. C. Farm to Factory. A Reinterpretation of the Soviet Industrial Revolution. Princeton: Princeton University Press. 2003. Print. Crawshaw, Steve. Goodbye to the USSR-The Collapse of the Soviet Power. New York: Bloomsbury Publications, 1993. Print. Cummings, Laura. "History; Gorbachev's Preistorika and the Collapse of the Soviet Union." lagrange. edu. N. p., 2008. Web. 12 Feb. 2013. PDF. Ericson, Richard E. "Command Economy." Economics papers. N. p., n. d. Web. 16 Feb. 2013. . PDFFederal Research Division of the Library of Cong. Soviet Union- A Country Study. Vol. 1. Washington D. C: Library of Congress, n. d. N. pag. Federal Research Division of the Library of Congress. Web. 16 Feb. 2013. . Felshman, Neil. Gorbachev, Yeltsin, and the Last Days of the Soviet Empire. New York: St Martins Press, 1992. Print. Goldman, M. I. What Went Wrong with Perestroika? New York : Norton & Company. 1992. PrintGorbachev, Mikhail S. "Minutes Of Meeting No. 2 of the Politburo." Communist Party of the Soviet Union. CE. Secretary Of The Central Committee Of The Communist Party, 1990. Web. 18 Feb. 2013. Grossman, G. The structure and organization of the Soviet economy. Slavic Review 21(2), 1962. Print. Harrison, Mark. "Are Command Economies Unstable? Why did the Soviet Economy Collapse? ." <http://www.uh.edu>. N. p., 3 May 2001. Web. 12 Feb. 2013. . Harrison, Mark. "Coercion, Compliance, and the collapse of the Soviet Command Economy." <http://www.uh.edu>. N. p., 3 May 2001. Web. 12 Feb. <https://assignbuster.com/the-soviet-command-economy-economics-essay/>

2013. . Hosking, Geoffrey. The Awakening of the Soviet Union. New York: Harvard University Press, 1990. Print. Pg. 152  
Perestroika: New Thinking for Our Country and the World. New York: Harper & Row Publishers, 1987.  
Sebestyen, Victor. 1989; The Fall of the Soviet Union. New York: Pantheon, 2009. Print  
Smitha, Frank E. " End of the Cold War and the Soviet Union." Macrohistory and the World Report. N. p., 2011. Web. 12 Feb. 2013. .  
Wilhelm, J. Does the Soviet Union Have a Planned Economy? A Comment on " From the Achieved Level". Soviet Studies ed. Vol. 31. New York: Taylor and Francis Ltd., 1979. 268-74. 2 vols. Print.