

Natia Latsabidze

Doctor of Social Sciences, associate professor Technical University of Georgia, assistant professor of the faculty of Law and International Relations

CRASH OF THE SOVIET UNION'S PLANNED ECONOMY AND „NOSTALGIA“ OF THE PAST

Let's start with the definition of the Soviet Union, what was it? – officially the Union of Soviet Socialist Republics – was a transcontinental country that spanned most of Eurasia from 1922 to 1991. It was a federal union of fifteen national republics. The largest and the most populous republic was Russia, where the government and economy were highly centralized until its final years. The country's roots lay in the October Revolution of 1917 when Bolsheviks took over Russia. The Soviet Union became one of the world's superpowers. But at the beginning of the history of the USSR, there were no signs of this. Moreover, During the 1920s and 30s, the USSR was ignored abroad, for example: While At war with Poland, 1919 to 1921, it lost a big part of its territory (The Soviets were defeated and conceded Western Ukraine and Western Belarus to Poland, while retaining Eastern Ukraine and Eastern Belarus), lost part of its Asian empire, plus valuable territory in Eastern Europe (Finland, Baltic states), ignored by Britain and France, not recognized by the USA until Franklin Roosevelt was elected president in 1933, Distrusted by countries of Central Europe (Poland, Czechoslovakia, Romania, etc), The only option was to work with Germany

Then just 20 years later the world saw a famous photo of the first Red Army soldier entering Berlin in 1945 hanging the Soviet flag above the streets of Berlin.

How did this happen? How were they able to do it in just 20 years? They moved from one of the most destroyed powers after World War I, from a country that was in the midst of a revolution, from a country that had

lost many of its territories – to a country which was able to defeat Germany, Europe’s most industrialized country at the time.

Many experts and researchers are thinking about these questions. They have some theories to explain its fast development that include:

7. Traditional Russian power projection capabilities.
8. Soviet Marxist-Leninist ideology.
9. Communist party organizational talent

The main reason is the economy – the Soviet Union’s planned economy. A bad model of economics that made the Soviet Union a superpower, because the Soviet economy worked rather well during the 1930s and 1940s from the perspective of accumulating Soviet power.

First, we have to explain what kind of economy is a planned economy?

- Command economy, which is also known as the planned economy, is a type of economy in which prices, income, production, investment, etc. everything is determined centrally by the government [1, 23-24].

- In a command economy, the government only decides the solution of three fundamental economic problems: What to produce? How to produce? And for whom to produce?

- The central planning department in the Soviet Union was the Gosplan (State Planning Commission). The Gosplan was in charge of creating the production plans. These plans were imperative. As Stalin put it: „plans are not forecasts but instructions“. In 1928 Stalin introduced an economic policy based on a cycle of Five-Year Plans [2].

Let’s start from the beginning. How was Lenin and his successor Stalin able to accumulate resources for the Soviet Union’s success in world war II? – They used a couple of different methods: Collectivization, Rapid industrialization, Huge military investments, Willingness to sacrifice the population for the goal of state power.

The first method was collectivization, In Soviet terminology the transformation of agriculture from private-capitalist to collective-socialist production, so abolishing all private farming and moving all workers to state owned farms forcing them to farm for the state. The collective farms were divided in two major categories: the kolkhozes and the sovkhozes. The

kolkhozes were cooperatives, collective farms and the sovkhoses were state farms. collectivization was to proceed in tandem with „dekulakization“.

kulaks – was a member of the class of peasants who became owners of their own farms. After the October Revolution the kulaks opposed collectivization of land, but in 1929 Stalin initiated their liquidation. Party agitators sent to the villages to convince workers of the benefits of collectivization were often met with skepticism and mockery. Workers who resisted the pressure of regional party officials to enroll in collective farms were labeled as kulaks; Those who feared confiscation sold off their property as quickly as they could, in effect „self-dekulakization“ (becoming a Kulak). By June 1929 one million – out of some 25 million – households had been enrolled in 57,000 collectives. Still, the majority held back [3].

On January 5th, 1930, the Central Committee issued its decree calling for collectivizing not merely the 20 percent of arable land envisioned in the First Five-Year Plan, but „the huge majority of peasant farms“ in the most important grain-growing regions by the autumn of 1930. Workers enrolled in brigades to assist in collectivization were dispatched to the villages with great fanfare, as if they were going off to war. Much was made in propagandistic newsreels of „kulak resistance“ and successful searches and confiscations carried out by the police and party officials. Those identified as kulaks were subjected to confiscation and either local resettlement, deportation, incarceration in labor camps and in case of the most dangerous „elements“, execution.

The most intense period of collectivization was during the winter of 1929 to 1930 following the publication in Pravda on the twelfth anniversary of the October Revolution of Stalin’s article announcing a „great breakthrough“ on the road to „winning the vast masses of the peasantry to the side of the working class“ [4].

When people in the West think about collectivization and industrialization, they don’t usually think of them together as successes and there’s a good reason for that because they often led to mass famine. Many people died of hunger during this time. For example, there was indeed a genocide in Ukraine that resulted in the deaths of millions of people largely due to starvation. This is totally unsuccessful, but from the perspective of

accumulating power in the hands of the kremlin, collectivization actually had rather different effects – after you collectivize and abolish private property in agriculture, then you had control of the food system. For the Soviet Union, like imperial Russia, the biggest export up until the 1960s was food. Once they had control over the food system they controlled all the export. By consolidating control over the agricultural sector Stalin was able to control the resources he needed to then import the machinery that provided for industrialization. Thus, he exported food obtained by collectivization and imported equipment for rapid industrialization. In 1932 there was a terrible famine, but Stalin kept exporting grain even as his own people were starving which is crucial for buying the machinery you need to industrialize. There was a direct trade in the Kremlin and they realized what was going on in Ukraine and in southern Russia but they had to keep selling grain abroad in order to get the machinery they needed for fast industrialization and they believed they had to industrialize because they faced geopolitical threats on their East (Japan) and on their West (Germany). He had to save the system and the ideology that he created [5].

•**The Second was rapid industrialization** and a program of shock industrialization which poured immense funds into building factories and power stations and railroads – the kind of materials of industrialization that every country needs to get wealthier.

The official task of industrialization was the transformation of the Soviet Union from a predominantly agrarian country into a leading industrial one. The beginning of socialist industrialization was laid down by the first five-year plan for the development of the national economy lasting from 1928 until 1932.

In Soviet times, industrialization was considered a great feat. The rapid growth of production capacity and the volume of production of heavy industry (4 times) was of great importance for ensuring economic independence from capitalist countries and strengthening the country's defense capability. During the Second World War, this Soviet industry proved its superiority over the industry of Nazi Germany. Since the late 1980s, discussions on the price of industrialization have been held in the Soviet Union and Russia, which also questioned its results and long-term consequences for the Soviet economy and society.

Researchers highlight the following features of industrialization:

1. The main investment sectors: metallurgy, engineering, industrial construction;
2. Pumping funds from agriculture to industry using price scissors;
3. The special role of the state in the centralization of funds for industrialization;
4. The creation of a single form of ownership – socialist – in two forms: state and cooperative-collective farms;
5. Industrialization planning;
6. Lack of private capital (competitive entrepreneurship in that period was illegal);
7. Relying on own resources, (it was impossible to attract private capital);
8. Over-centralized resources.

The main task of the introduced command economy was to build up the economic and military power of the state at the highest possible rates, accompanied) with the near complete elimination of private industry. The country had to expand the construction of new industries, increase the production of all types of products and start producing new equipment. Millions of people selflessly, almost by hand, built hundreds of factories, power stations, laid railways, subways. They often had to work in three shifts. In 1930, around 1,500 facilities were launched, of which 50 absorbed almost half of all investments.

What's interesting about Soviet industrialization compared to Western industrialization, is once the state started industrializing in the West average incomes started rising quickly. If we talk about the Soviet Union the situation was rather different – the state industrialized very rapidly but incomes rose far more slowly because every year Stalin took the new surplus that growth created and put it not into consumption, like buying new housing or clothes or food, but putting it back into the industrial investment process. If you were trying to build an industrial base that could defeat the Germans or the Japanese in a war you needed more factories, you needed more output of cars, tanks and planes, but if you were a Soviet citizen this was not a good deal because when you looked across the border at your neighbors in Western Europe they were able to get personal benefit (for

example high salaries) out of industrialization and not only watching the state get stronger.

•**The third – huge military** investments as a share of GDP far larger than any Western country was willing to sustain or indeed able to sustain given Western countries democracies.

Here we have to mention: **Tank Production and Nuclear Delivery Vehicles.**

In 1944 the USSR was producing far more tanks than Germany, and more than the United States and the United Kingdom combined. Average incomes in the UK at this time were five times higher than in the Soviet Union, but the UK still did not produce more tanks than the Soviet Union. On August 29, 1948, the Soviet Union secretly conducted its first successful weapon test. In total, the Soviet Union conducted 715 nuclear weapon tests throughout the course of the Cold War. The planned economy was able to produce the types of military output that they were looking for. This was possible because a) The USSR had a planned economy and b) a non-democratic political system. If we look at the USA, high military spending causes discontent within the population. For example, during the Vietnam War there were worries about too much spending on the military and today we see similar complaints. In the Soviet Union those complaints never existed.

What we saw: the USA economy was much larger than the Soviet Union's, but the Soviet Union throughout the Cold War spent almost the same as the United States in dollars, I think it is an incredible accomplishment for a country that has an economy maybe a third of the size of the United States to produce such high military output. So, again from the perspective of Soviet leaders the economy looked rather successful.

The Soviet economy was heavily militarized because the country was constantly confronted with hostility from other foreign powers, especially the United States (and also China after 1960). This militarization of the economy had strong structural implications. The entire production of key sectors was controlled by the VPK, the Soviet military-industrial commission. Thus, most technological innovations and scientific breakthroughs were generally first allocated to military use.

Similarly, many products such as transportation equipment (aircraft, trucks) had to be of dual use (both military and civilian). The geographic dispersion of industrial complexes was decided for strategic not economic reasons. The existence of large stocks of inventories was also necessary in this context of a „permanent war economy“.

•**The fourth method was** Willingness to sacrifice the population for the purposes of state power.

Stalin was able to use ideology and propaganda to convince workers to work harder. One example of a poster from the 1930s telling the oil workers „more NEFT for the motherland“. Fulfilling the 5-year plan in just four years was a result of this kind of classic example of propaganda trying to convince workers to work harder for the security or for the motherland. There were thousands of these posters made and there were awards given for workers who were able to fulfil their quotas in a shorter period of time. Thanks to his political and ideological control Stalin was able to create a system in which workers were forced to work extraordinarily hard at very low wages for the sake of industrialization.

Soviet propaganda depicted the development of a „positive hero“ as requiring intellectualism and hard discipline who was not driven by crude impulses of nature but by conscious self-mastery. The selfless new man was willing to sacrifice not only his life but his self-respect and his sensitivity for the good of others. Equality and sacrifice were touted as the ideal values for the „socialist way of life“. Work required exertion and austerity, to show the new man triumphing over his base instincts. In 1935, the „Stakhanovist movement“ appeared, in honor of a mine worker Alexey Stakhanov, who, according to official information of that time, performed 14 norms for a shift on the night of August 30th, 1935. Alexey Stakhanov's record-breaking day in mining coal caused him to be set forth as the exemplar of the „new man“. The movement inspired a lot of pressure to increase production, on both workers and managers, with critics labeled as „wreckers“.

This reflected a change from early days, with emphasis on the „little man“ among the anonymous labors, to favoring the „hero of labor“ in the end of the First Five-Year Plan, with writers and artist told directly to produce an idea of heroization. While these heroes had to stem from the people, they

were set apart by their heroic deeds. Stakhanov himself was well suited for this role. (not only as a worker, but also for his good looks and being a well-known family man?) The hardships of the First Five-Year Plan were put forth in romanticized accounts. In 1937 to 38, young heroes who accomplished great feats appeared on the front page of „Pravda“ more often than Stalin himself. This could also be a new woman; Pravda described the Soviet woman as someone who had and could never have existed before. Female Stakhanovites, however, were less common than male [6].

The Soviet posters are works of art and reflect elements of the Soviet cultural heritage. Such posters were often displayed at special stands.

As we see, the economy that Stalin put together through collectivization, through industrialization, through his massive military push, and through the sacrifices of the population before and during World War II was not only able to beat the Germans as you saw in the famous photo of the hammer and the sickle flag flying above Berlin, but it was also able to create the world's second nuclear weapon and to create the world's first intercontinental ballistic missile, which the Soviets tested before the Americans did in 1957. Then it was able to create the first rocket in space. By 1965 many people in the United States were afraid that the Soviet Union was going to out-innovate and outgrow them. Indeed, every metric we had in the 1960s suggested that Soviet Union was growing far faster than the United States and most metrics we had suggested that centrally planned economies were just as innovative as non-centrally planned ones. Today that sounds like an absurd claim to us but if you think back to the scientific achievements the Soviets had in the space race and the rocket technologies they had decided to invest in, they were able to achieve really surprising and tremendous things. Now the problem that they faced.

What changed? how was it that the Soviet Union went from one of the world's two superpowers in 1950, 1960, and even in 1970, to a country that collapsed into 15 different parts by 1991. How did this happen?

The period of economic stagnation (1974-1984)

From 1975 to 1984, Soviet economic growth slowed down markedly, leading to a period of relative economic stagnation in the USSR. The average per Capita GDP growth was less than 1% during this period.

High economic growth (1950-1973) 3,6

Stagnation (1974-1984) 0,93

Perestroika (1985-1991) -1,3

Economic stagnation had its reasons:

- Part of this is understandable because every country that has industrialized rapidly in history whether, it's Japan after World War II or Taiwan or South Korea, probably even China today has been able to grow faster when it's poorer, and its growth gets harder when you get richer. One explanation for this is that it's just part of the normal growth process as you get closer and closer to the leading countries, it's harder and harder to grow at a rapid rate.

- A second explanation is that the Soviet Union faced problems in its investment mechanism. They knew where to invest in the 1930s and 1940s- they needed to build power plants, they need to build railroads, but they lost that capability by the 1960s and 70s. They didn't know where to invest into the future and their political process didn't let them invest in the right industries, therefore they faced declining growth rates.

- An economy that is not for the people and does not grow according to the needs of the people is doomed. This bold experiment enabled rapid industrialization and urbanization, helped to defeat Nazi Germany, and defined the Soviet Union as one of only two military superpowers. These developments came at a substantial human cost, from the millions who died during the collectivization of farms to the victims of the Chernobyl meltdown. The discovery of oil in Siberia masked systemic problems in a stagnant infrastructure and rendered the socialist experiment dependent on the vagaries of Western markets. In the case of the Soviet Union, we see a classic example of the relationship between politics and economics, and that undemocratic political steps in the early years strengthened the economy. But in the end, the wrong economic model led to political collapse.

- The early strength of the Soviet command economy was its ability to rapidly mobilize resources and direct them in productive activities that emulated those of advanced economies. Yet by adopting existing technologies rather than developing their own, the Soviet Union failed to foster the type of environment that leads to further technological innovation.

In such a case, there are only two ways: either keep it by force or carry out reforms.

Gorbachev tried to carry out reforms. While attempting to maintain socialist ideals and central control over primary societal goals, Gorbachev aimed to decentralize economic activity and open the economy up to foreign trade. This restructuring, referred to as perestroika, encouraged individual private incentives, creating greater openness. Perestroika was in direct opposition to the previously hierarchical nature of the command economy. But having greater access to information helped foster critiques of Soviet control, not just of the economy, but also of its social life. When the Soviet leadership relaxed control in order to save the faltering economic system, they helped create conditions that would lead to the country's dissolution.

While perestroika initially appeared to be a success, as Soviet firms took advantage of new freedoms and new investment opportunities, optimism soon faded. A severe economic contraction characterized the late 1980s and early 1990s, which would become the last years of the Soviet Union. The challenge that Gorbachev faced when he took power in 1985 is that he was too weak to get his way, he was simply not powerful enough to push through the reforms that he wanted to push through, and the types of changes that he sought to make to reinvigorate Soviet policymaking were ineffective. Indeed, they led to the collapse of his country [7].

Soviet leaders no longer had the power to intervene amidst the growing economic chaos. Newly-empowered local leaders demanded greater autonomy from central authority, shaking the foundations of the command economy, while more localized cultural identities and priorities took precedence over national concerns. With its economy and political unity in tatters, the Soviet Union collapsed in late 1991, fragmenting into fifteen separate states.

After experiencing a catch-up period with attendant high growth rates, the planned economy began to stagnate in the 1970s. At this point, the flaws and inefficiencies of the Soviet system had become apparent. Rather than saving the economy, various piecemeal reforms instead only undermined the economy's core institutions. Gorbachev's radical economic liberalization

was the final nail in the coffin, with localized interests soon unraveling the fabric of a system founded on centralized control.



Mikheil Gorbachev and Deng Xiaoping

This is a famous photo of two communist leaders. On the left Mikheil Gorbachev, who in 1990, was awarded the Nobel Peace Prize and on the right Chinese leader Deng Xiaoping. Later, the Chinese leader would say that Gorbachev was an idiot. Deng believed Gorbachev failed by putting political reform ahead of economic change. He put the „cart before the horse“. There were two roads: the Gorbachev road of political reform and the Deng road of political force. Gorbachev rejected the China road [8, 169-192; 9, 168].

History tells us who won. In November 1989 the Berlin Wall came down. By 1991, the Soviet flag was lowered in Red Square for the last time.

Conclusion

Across the world, the future of many countries' political systems depends on what type of politics seem to support stable economic development. The notion that politics under Gorbachev were too liberal and too disorganized for effective governance is a central plank in the ideology that undergirds authoritarian rule in Russia today. Understanding why the Soviet Union collapsed – and whether under different conditions it might have survived – requires a deep dive into the history of a country that no longer exists. We must reckon with the details of how collective farms were funded, assess how central planners allocated investments, and make sense of

the Soviet government budget. Was the USSR's economic collapse in the late 1980s caused by liberalizing political reforms? Could military dictatorship have made the Soviet economy work better? Was there an authoritarian path that Gorbachev could have followed, but chose not to? New findings from Soviet archives suggest that the answer, put simply, is no.

„We are 50–100 years behind the advanced countries. We must make good this distance in ten years. Either we do it, or they crush us“ – Joseph Stalin [10].

Was it paranoia of the USSR leader or the true geopolitical situation of that time? The history will judge.

Russian President Vladimir Putin has called the breakup of the Soviet Union „the greatest geopolitical catastrophe“ of the 20th century. „Tens of millions of our fellow citizens and countrymen found themselves beyond the fringes of Russian territory“, Putin said in a 2005 speech. The number of Russians who regret the break – up of the Soviet Union has risen to its highest since 2005, amid rising economic concerns and nostalgia for the Soviet welfare system. This trend has been observed since Putin returned to the presidency in 2012. For instance, annual polling by the Levada Center shows that over 50% of Russians bemoan the collapse of the Soviet Union (USSR), this reaching a historic high of 66% in 2018. Given that the totalitarian Soviet regime had constantly violated individuals' fundamental rights and freedoms, one wonders how so many remain nostalgic about this bygone era [11].

According to sociological surveys in the past such feelings were often triggered by loss of international prestige and questions of national identity. Now the nostalgia is more driven by economic factors and regret that there used to be more social justice, that the government worked for the people, and that it was better in terms of caring for citizens and paternalistic expectations.

Ordinary Russians have faced stagnating incomes, a weaker rouble and inflation since 2014, when the Russian economy entered recession amid falling oil prices and Western sanctions.

- Identification with the Soviet past can derive from many sources. These tend to include nostalgia for Soviet era economic and welfare policies as well as a cultural nostalgia for a particular Soviet „way of life“ and traditional values.

- It can also manifest as a desire for direct worker participation in politics, and a rejection of „elitist“ forms of representative liberal democracy.

- That people are always inclined to retrospectively idealize what happened to them in their youth, and that everything that happened when they were young was better, more stable, and greater.

- Finally – identifying with the Soviet Union may stem from hostility towards perceived western interference and a desire to expand Russia’s borders to include parts of the former Soviet Union – the so-called „near abroad“.

In that 2018 survey that found that 66% of Russian respondents expressed nostalgia for the Soviet Union, one of the top reasons was the loss of „a sense of belonging to a great power“.

Russia’s invasion of Ukraine two years ago and of Georgia in 2008 shows that Putin is still nostalgic for the Soviet Union and will pursue an expansionist foreign policy regardless of the West’s stance. Russia has shown its willingness to commit war crimes and, more generally, to use violence to maintain and expand its sphere of influence. Hope the Russian economy cannot withstand the Russian plans.

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სოციალურ მეცნიერებათა დოქტორი, საქართველოს ტექნიკური უნივერსიტეტი, სამართლისა და საერთაშორისო ურთიერთობათა ფაკულტეტის ასოცირებული პროფესორი

საბჭოთა გეგმიური ეკონომიკის კრაზი და წარსულის „ნოსტალგია“

აბსტრაქტი

ნაშრომში განხილულია საბჭოთა გეგმიური ეკონომიკის ფენომენი, მთავარი მამოძრავებელი კომპონენტები და კრაზის მიზეზები. მოვლენები ქრონოლოგიურადაა წარმოდგენილი 1917 წლის ოქტომბრის რევოლუციის შემდეგ და საბჭოთა კავშირის გაძლიერების, მსოფლიოს ერთ-ერთ სუპერძალად ჩამოყალიბების სრულ სურათს გვთავაზობს. შედარებითი ანალიზი კეთდება კაპიტალისტურ სამყაროსა და საბჭოთა სოციალისტური ქვეყნებს შორის. აღსანიშნავია, რომ საბჭოთა კავშირის მოქალაქეებისთვის ბუნებრივი იყო, როდესაც მიზნებს, ღირებულებებსა და ცხოვრების წესს სისტემა განსაზღვრავდა ხოლო, მაშინ როდესაც ქვეყანას იმპორტზე გაჰქონდა ხორბალი, თავად მისი მოსახლეობის უდიდესი ნაწილი შიმშილის ზღვარზე იყო.

სსრკ-ში გეგმიურ ეკონომიკასთან მიმართებაში განხორციელებული ექსპერიმენტი წარუმატებელი აღმოჩნდა და სულ 70 წლის განმავლობაში გრძელდებოდა.

მიუხედავად საბჭოთა მმართველობის კრაზისა, რუსეთის დღევანდელი ხელისუფლება და მოსახლეობის გარკვეული ნაწილი ნოსტალგიურადაა განწყობილი „ძველი დიდების“ მიმართ და ქვეყნის იმპერიალისტურ, აგრესიულ ნაბიჯებს ხშირად საბჭოთა კავშირის აღდგენის სურვილით ნიღბავს.