Economic Restructuring: Communism and Capitalism

Quick Write

How would you advise Joseph Stalin?

Learn About

- the characteristics of communism as an economic system
- the economic and political influence of Marx, Lenin, and Stalin on communism in Russia
- how the Soviet economic system worked and eventually failed
- the importance of the export of resources for the restructured Russian economic system

Picture this scene: The year is 1927; the place is Moscow. You’re a senior official at Gosplan, the State Planning Commission established six years earlier under Vladimir Lenin. He’s been dead for three years now. After some jockeying for power, it’s become clear that Joseph Stalin, the Georgian with the bushy mustache, is the new leader of the Soviet Union.

One day he summons you to his office because he has a big idea he wants to tell you about. “A Five-Year Plan!” he blurts out. “This country has been trailing behind the Germans and the British and the Americans for decades now. Even the Japanese are ahead of us! We need to do something to—what was the expression that fellow from the embassy used?—‘to pull ourselves up by the bootstraps.’”

He’s pacing the room by now. “I know there’s really nothing in Marx’s writings to support this. But Lenin did say we could follow different paths, as long as we ended up in the right place. I’m thinking of a plan that would command the economy, all our industrial sectors, and even the peasants, to produce. Everyone needs goals. But we can’t count on them to figure out what the goals should be. What does some plant manager know, anyway? Or some grubby peasant? We have to tell them!”

Suddenly he stops short. He turns to you and asks, “What do you think of my idea?”
The Characteristics of Communism as an Economic System

In the previous lesson you read an overview of Russia’s experience with communism within the broader context of Russian history. In this lesson you will read in more detail about communism as an economic system.

The Ideal of an Egalitarian Society Based on Common Ownership and Control of the Means of Production

The Communists who came to power in the Soviet Union after the Bolshevik Revolution of 1917 promoted the ideal of an egalitarian society. They wanted, in other words, a society without class divisions. There would be no upper class, no middle class, no working class, or peasant class. This egalitarianism rested on the concept of common ownership and control of the means of production.

Means of production is a term that refers to productive assets such as farms and factories. In theory, under communism, “the people”—that is, the citizens—owned these assets. Farmers no longer worked land their families had owned for generations, for instance.
“The people” owned and farmed the land for the good of all. Companies could no longer list and trade shares on a stock exchange because “the people” owned the companies. Bright young people finishing their education and starting out couldn’t launch their own companies. Rather, they looked to a career in a government ministry (department) or at a state-owned enterprise.

Time and again, Russia has followed a path unlike that of other major countries. This is true of its economic development, too. These differences affected Russia socially and politically.

In many ways, Russia was ripe for a communist experiment in ways that other countries were not. Heavy industry—steel mills and the like—dominated Russia’s late nineteenth-century economy more than it did other countries’ economies. All this heavy industry meant that Russia had a relatively larger urban working class than the rest of the world. These workers cut a higher profile in Russia than in the West. And they tended to be politically active.

Because so much of Russia’s industry was owned either by the state or by foreign investors, industrialists (capitalists) didn’t have much of a profile. What’s more, the nobles and the upper-middle classes, groups that normally play a big role in a country’s politics, avoided the political stage.

In your own local community, you may be aware of business owners and professionals who get involved in civic and political affairs in different ways. Think of the Rotary Club or Chamber of Commerce inviting congressional candidates to speak to their members, for instance; or the businessman who runs for governor; or the dentist who serves on the school board. Business and middle-class people like this were largely absent from czarist Russia.

All this meant that socialist working-class parties developed in Russia before parties closer to the center of the political spectrum did. The working-class parties focused on equality. The parties of the center—which in most countries tend to represent the middle and business classes—concentrated more on opportunity. This order in the rise of political parties—socialists first, center second—is the reverse of the pattern in Europe and North America.

**The Concepts of Nationalization and Collectivization**

As you read earlier, communism assumes that the people control all means of production. In reality, this meant the state owns them. Back in Chapter 1, Lesson 2, you learned that nationalization is the process of putting something—a bank or a steel mill, for instance—under state control and ownership.

A related concept is collectivization—the process of putting something under the ownership or control of the “collective”—a group of people. Though this term is sometimes used to refer to factories and other industrial facilities, people use it especially in talking about farms. Nationalization and collectivization are two concepts particularly linked to Joseph Stalin’s rule and the way the Soviet economy developed.
How Central Planning, Bureaucracy, and State Control Are Associated With Communism

Stalin’s fingerprints are also all over central planning, bureaucracy, and state control. The founder of communism, Karl Marx (more on him later), set forth a number of big ideas. But he didn’t call for a centrally planned economy.

In its early years, in fact, the Soviet Union experimented with a number of different economic policies. It even allowed free enterprise—private companies owned by individuals—to coexist with state-owned enterprises. (Private businesses often outdid the state-owned ones.) But those experiments also included, during the 1918–21 civil war, a group of drastic measures known as “war communism.”

These measures included nationalizing industry and running it from a central office in Moscow. The government also took over day-to-day control of factories from workers. They installed expert managers instead. To feed people living in the cities, the government seized grain from farmers. Government officials would simply show up and order peasants to turn over their supplies.

LESSON 2 ■ Economic Restructuring: Communism and Capitalism
War communism meant the government ran the economy as if it were a military operation. In many ways it was. This governing style took place during a civil war, after Russia had already been through the traumas of World War I and two revolutions. War communism wasn’t popular, and it didn’t last forever. But that it happened under the leadership of much-admired Vladimir Lenin gave Stalin a precedent he could draw on years later when he wanted to take the country in a very different direction.

**The Economic and Political Influence of Marx, Lenin, and Stalin on Communism in Russia**

Karl Marx was dead long before the revolutions of 1917. But he provided the ideas that Russian communism built on. Vladimir Lenin provided revolutionary leadership as the czarist regime crumbled. Things could have gone differently. Russia could have become a social democracy after it toppled the Romanovs. But Lenin pushed Russia into radical Bolshevism. And Stalin reinforced and strengthened this communist system. Under Stalin, Soviet communism became a totalitarian system—featuring absolute government control of every aspect of life—characterized by the use of terrorism, even against the country’s own citizens. But the Soviet Union also became one of the world’s two undisputed superpowers—along with the United States.
The Influence of Karl Marx on the Rise of Communism in Russia

Karl Marx (1818–83) was a nineteenth-century German philosopher and political theorist. He is known as the founder of communism. He was an idea man and a phrasemaker. He contributed a number of terms to the international political vocabulary. His ideas, set forth in his book, Das Kapital (Capital), may be hard to take seriously today. But they were hugely influential for decades. You need some understanding of them to make sense of the twentieth century, and even the world you live in.

Marx had a progressive view of history. He predicted that, just as feudalism had led to capitalism, capitalism would eventually progress to socialism, which would then progress to communism. He preached a vision of class struggle (one of his key phrases) that sees the working classes locked in conflict with the “oppressive” property-owning classes. Dialectical materialism was his phrase for the process by which the class struggle leads to the dictatorship of the proletariat, socialism, and then communism.

Proletariat is Marx’s term for the working classes. He borrowed it from ancient Rome, where the proletarians were the lowest class of citizens. The dictatorship of the proletariat is an early stage of socialism, marked by the workers’ dominance in putting down the resistance of the property-owning classes. Marx may not have been the best judge of human nature. And he completely disregarded the role of agriculture. But he correctly foresaw that the privileged classes would not give up their advantages without a fight.

Socialism, in Marx’s view, was a transitional stage. Its guiding principle was “from each according to his abilities, to each according to his work.” In this stage, the state would own the means of production.

The final stage, Marx said, would be communism. Once communism was achieved, the state would wither away. Goods and services would be distributed fairly to everyone. As you may realize by now, it hasn’t worked out that way in any country with a communist system.

Lenin adapted Marx’s ideas to conditions in Russia. He added the idea of a communist party leading the workers’ revolution and establishing communism. This system was known as Marxism-Leninism. It became the official ideology of the Soviet Union. It called for an authoritarian government—one requiring absolute obedience—run by the Communist Party. The party would have sole control of the state-owned means of production.

LESSON 2  ■ Economic Restructuring: Communism and Capitalism
Vladimir Lenin’s Role in Establishing the Soviet Union

If Marx was the theorist, Lenin was the pragmatic tactician. He was the most politically talented of Russia’s revolutionary socialists. During the early 1890s, Lenin wooed Russia’s other radicals over to Marxism. In 1900 he founded a newspaper, to be published in Germany, called *Iskra*—“the spark.” Two years later, he published a book promoting the idea that a newspaper published abroad could help a revolutionary political party direct the overthrow of an autocratic government. (An autocratic government is one in which total power rests in one person.)

Lenin then set about establishing a well-disciplined party that would do just that. After all, he already had his newspaper. He joined the Russian Social Democratic Labor Party. This was the forerunner of the Communist Party of the Soviet Union. There he stirred up internal divisions. This led to his followers—the Bolsheviks—gaining the upper hand. Lenin promoted the concept of a revolutionary party and an alliance between factory workers and peasants. These ideas drew on those of other Russian thinkers as well as of Marx. Stalin and other young Bolsheviks looked to Lenin as their leader.
### Leaders of the Soviet Union and Russia, 1922–2008

<table>
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<tr>
<th>Leader</th>
<th>Period</th>
<th>Accomplishments</th>
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<tbody>
<tr>
<td>Vladimir Lenin</td>
<td>1922–1924</td>
<td>Led Bolshevik Revolution, won Russian civil war, established Soviet Union</td>
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<tr>
<td>Joseph Stalin</td>
<td>1927–1953</td>
<td>Implemented centralized economy, five-year plans, totalitarian state; murdered millions of people who opposed or were thought to oppose his policies; allied with United States and Britain in World War II</td>
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<tr>
<td>Nikita Khrushchev</td>
<td>1953–1964</td>
<td>Denounced Stalin, fought economic ministries, tried agricultural reforms, legalized small garden plots; Cuban Missile Crisis</td>
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<td>Leonid Brezhnev</td>
<td>1964–1982</td>
<td>Held firm against economic and political reforms; liberalized some foreign trade; negotiated arms-limitation treaties with United States as part of détente policy; invaded Afghanistan</td>
</tr>
<tr>
<td>Yuri Andropov</td>
<td>1982–1984</td>
<td>Longtime head of KGB, Soviet secret police and spy agency; died before he could implement any major policies</td>
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<tr>
<td>Konstantin Chernenko</td>
<td>1984–1985</td>
<td>Close to Brezhnev, governed as a caretaker for a year before his death</td>
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<tr>
<td>Mikhail Gorbachev</td>
<td>1985–1991</td>
<td>Tried to save Soviet economy with economic reforms, but did not go far enough; ushered in period of significant political liberalization; presided over final collapse of Soviet Union</td>
</tr>
<tr>
<td>Boris Yeltsin</td>
<td>1991–1999</td>
<td>First president of noncommunist Russia; implemented wide-ranging democratic and free-market reforms; increasingly erratic policy shifts led to brink of chaos</td>
</tr>
<tr>
<td>Vladimir Putin</td>
<td>1999–2008</td>
<td>Former KGB officer; Yeltsin’s last prime minister and successor as president; reined in democratic reforms and some human rights; interfered in business decisions; invaded breakaway Chechnya; became prime minister again at end of term—many believe he holds the real power in Russia</td>
</tr>
<tr>
<td>Dmitry Medvedev</td>
<td>2008–</td>
<td>Close to Putin; many believe he is a figurehead president with Putin as the real authority</td>
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Once in power, the Bolsheviks let peasants seize land and workers take over factories. They also abolished the nobles’ privileges. They nationalized banks. Their “revolutionary tribunals” replaced courts of law.

Like Marx before him, Lenin called for “dictatorship of the proletariat.” He saw no need for parliamentary democracy. Nor did he think Russia needed more than one political party. Under his leadership the Soviet government created a secret police to attack “enemies of the state”—anyone who opposed his ideas, including liberals and moderates.

Lenin set the tone of the new Soviet Union. The strict party discipline, the lack of tolerance for organized opposition, and the focus on “enemies” would all endure throughout Soviet history. But Lenin had a pragmatic streak, too. He had his own version of Marxism that suggested that the party should follow any course if it led to communism.

**Joseph Stalin’s Era of Leadership in Russia**

At Vladimir Lenin’s death in 1924, the Soviet Union was not yet a totalitarian state. By the time Joseph Stalin had settled in as Lenin’s successor, however, it absolutely was one.

Stalin set the Soviet Union onto a new course, a program of intensive socialist construction. Between 1927 and 1929 the State Planning Commission—Gosplan—worked out the First Five-Year Plan. It was a “revolution from above.”

Stalin sought to centralize the economy. The plan pushed for the economy’s rapid industrialization. It emphasized heavy industry. But the regime nationalized small-scale industry and services, too. Managers strove to fulfill their output targets. Trade unions, once the foot soldiers of the struggle for labor rights, got the job of increasing worker productivity.

But Stalin’s plan ran into trouble in short order. He had insisted on unrealistic production goals, for one thing. And his emphasis on heavy industry meant that consumer goods were in short supply. It wasn’t the first time this had happened in Russia, nor would it be the last. Inflation grew.

To provide more food for the state, the First Five-Year Plan called for collectivizing the peasants and their lands and livestock. That is, the private farms were combined into collective farms, so the state could better control them. This meant taking away the peasants’ land and animals. Peasants worked on these collective farms under the direction of party leaders, from plans the party had approved. Laborers’ wages rose or fell partly based on a harvest’s success or failure. The government also set up state farms. The government owned and managed these directly, like factories. Workers there earned salaries.

Stalin’s regime largely restricted peasants’ movements from these farms. In effect he reintroduced serfdom, a type of bondage that Alexander II had abolished in 1861.
In his agriculture “reforms,” Stalin was also keen to go after the wealthiest peasants, known as kulaks. These landowning kulaks were “wealthy” only by comparison with other peasants. But the party claimed that the kulaks trapped poorer peasants in “capitalistic relationships.”

Both kulaks and the poorer peasants fought back against the Stalinist campaign. They slaughtered their animals rather than turn them over to the collectives. The resulting livestock shortage lasted for years. The government pushed ahead with its collectivization, however. It deported kulaks and other rebels to Siberia, a vast, freezing cold region in eastern Russia, where many died.

Farmers know that a farm is not a factory. Communists found it hard enough to run factories. But they found farming even harder. Coaxing crops out of the earth and tending livestock are not mechanical or ideological processes. They require sensitive attention to conditions on the ground day by day. But the Stalin regime’s general mismanagement of agriculture led to widespread starvation. In some cases, the state deliberately withheld food shipments. In the Ukrainian Republic, for instance, millions died this way. And Ukraine has some of the richest soil in the world!

By 1932 Stalin realized he had serious problems on his hands. Industry was failing to meet its production goals and agriculture had actually lost ground. His solution was to declare that the First Five-Year Plan had met its goals early, and then to order another plan, with more realistic goals.

The Second Five-Year Plan (1933–37) was in fact more successful. It devoted more attention to consumer goods, and production from factories built during the first plan actually helped increase total output during the period of the second plan.

The Third Five-Year Plan was less successful. This was largely due to a sudden shift in emphasis. With war clouds gathering on the horizon, the government stepped up weapons production.

By the end of the 1930s, Stalin’s plans had led to an increase in industrialization. But agriculture continued to show poor returns.

**How the Soviet Economic System Worked and Eventually Failed**

People often think of the Soviet economy as being focused on big heavy industry—steel mills and the like. It was. But this focus predated communism; it went back to the late nineteenth century. In those days, foreign investors took the lead, seeking to exploit Russia’s natural resources, such as coal and iron. Under communism, the state took over the leadership role from foreign investors. Russia’s own merchant class, meanwhile, was reactionary—opposed to change of any sort. Russia largely lacked a truly entrepreneurial class. It lacked, in other words, people who would start not only new businesses but whole new industries. This put Russia, from the beginning of the twentieth century, at a disadvantage. To this day, it has not made up the lost ground.

**LESSON 2**  ■ Economic Restructuring: Communism and Capitalism
In a totalitarian system, the government controls just about everything. In a communist country—the government—owns and controls most means of production. The Soviet Union was both communist and totalitarian. Both industry and agriculture were subordinate to the state. This meant, obviously, that the government had a lot of power. But it also meant it had a lot of responsibility when things went wrong. It was up to the Soviet leaders to fix problems, whether those troubles were a food shortage or a lack of efficiency at factories. In the United States, on the other hand, the president isn’t responsible for the corn harvest; corn farmers are.

Soviet leader Nikita Khrushchev, who came to power after Stalin’s death, introduced plans for growing more corn and for stepping up meat and dairy production. They were disasters. Likewise, his efforts to merge collective farms into ever-larger units also backfired, leading to mass confusion in the countryside.

In the mid-1950s Khrushchev opened to farmers vast areas of land in the northern part of the Kazakh Republic and in nearby sections of Russia. These “new lands” produced excellent harvests in some years, but they were also subject to drought. This campaign also failed in the end.
This failure was an example of the kind of thing that happened when the state controlled the farm sector. The land in question was grassland that had never been farmed before. People had lived there for centuries, but no one had ever thought the land looked promising as a place to grow crops. Under the Soviet system, however, top-down orders from politicians and bureaucrats in Moscow carried more weight than the views of people literally “on the ground.”

One of Khrushchev’s innovations in the farm sector was successful, though. He encouraged peasants to grow more on the tiny private farm plots they were allowed to keep. By the end of the Soviet era, these little private farms were a major source of food in the country. They were much more productive than the state-owned collective farms. And they showed how the profit motive spurs output on the farm as well as in the factory.

**The Impact of Central Planning on the Quality and Quantity of Production**

Everything about the Soviet Union was big. Its manufacturing capacity was immense. It eventually became one of the world’s largest producers of all manner of goods, from nuclear warheads to canned fish. What the Soviets made, however, wasn’t always top quality. The canned fish, for instance, would languish on shop shelves because the taste was so foul no one would eat it.

One reason the system failed was that it’s just not possible to plan for every possibility in an economy. Take an automobile, for example. It has many parts. In the United States, hundreds of small companies make these parts for the big auto companies. If spare parts are needed, they can fairly easily step up production and supply them. But the Soviets often didn’t even plan for spare parts. Or they didn’t plan for enough of them. Or the parts were poorly made and didn’t fit. It was not unusual in the Soviet Union for factory and farm equipment to stand idle for long periods because no parts were available to repair them. Food stores might have refrigeration units, but they often didn’t work.
The problem was that the Soviet system never strove for efficiency. It never tried to get the most output from its inputs—getting the most bang for the buck, you might say. Soviet plant managers never had to worry about the costs of production. Soviet wages were low, and workers had no incentive to work harder or more efficiently. No one received any financial reward for doing a better job or making a better mousetrap. This led to an old Soviet joke: “As long as the state pretends it is paying us,” the workers would say, “we’ll pretend we are working.”

But the central planning system, however cumbersome it was, proved hard for the Communists to give up. In one attempt at reform, Khrushchev in 1957 abolished the so-called industrial ministries in Moscow and replaced them with regional economic councils. It was a political move, meant to undercut the centralized Moscow bureaucracy.

But the decentralization merely caused disruption and more inefficiency. A few years later he tried a political restructuring. This time he tried reorganizing the Communist Party. This move, too, backfired badly. It got everybody angry with Khrushchev. By the following year, 1963, the economy was in such a mess that the government abandoned a special seven-year plan it had been pursuing. And by the end of 1964, the other Soviet leaders pushed Khrushchev out of power. The industrial ministries returned.

**The Decline of Soviet Creativity and Productivity**

Some situations call for decisive, action-oriented, military-style leadership. Imagine, for instance, a river about to flood, and a county sheriff directing volunteer sandbaggers. Someone needs to give clear orders, set a tempo for the work, and get everyone to move.

But a national economy is different from a natural disaster. Think of your own experiences as a shopper. When you’re in the market for new electronics, you notice new features that last year’s models didn’t have. When you shop for clothes, you want that color that’s really hot this season, or the style that the people you admire are wearing.

This is exactly the kind of thing that the Soviet economic system could not deliver. Analysts say it was more effective in its early years. It did a relatively good job of mobilizing resources, including labor, and directing them to certain industrial goals. When the Soviet Union had few tractors, and basic tractors were needed to increase agricultural production, this system could work up to a point.

For most of Soviet history, each economic sector had its own government ministry—equivalent to US Cabinet-level departments. There were ministries for the automobile industry, for the wood-processing industry, and for the chemical industry, for example. These ministries ran the factories in their industry sectors.
But the system relied on commands, rather than incentives. It focused on meeting production quotas, on “making the numbers.” It did little or nothing to foster innovation or improvements in quality. Factory officials saw progress in terms of “more of the same” rather than creative improvements. A director who tried to innovate risked not making his targets—the mark of failure. It became impossible to make any kind of change.

The Soviet system had a particular weakness in technological innovation. In the early days, Soviet enterprises could borrow technology from foreigners. As the Cold War continued, such channels froze up, since the government closed access to the world outside of the Soviet Union, and foreign countries became less willing to share technology. In the early 1970s the Soviets bought licenses to produce some Western products—Pepsi Cola and out-of-date Fiat cars, for example. But little of the technology such licenses brought was shared with other sectors of the economy.
Intellectual freedom is also an important part of the creative process, even in science and technology. But many of the Soviet Union’s most important and creative intellectuals spent years in prison camps or under house arrest. Stalin simply had thousands, if not millions, of intellectuals arrested, jailed, and even murdered. Khrushchev largely put an end to the killing of dissidents. But even under Leonid Brezhnev two of the Soviet Union’s premier intellectuals—physicist Andrei Sakharov and novelist Alexander Solzhenitsyn—found themselves under house arrest or in foreign exile. You cannot stifle creative people and hope for creativity in society.

By the end of the Brezhnev era, the Soviet economy had largely run out of steam. Grocery stores that three decades before were full of goods had little to sell. Corruption in the retail “industry” meant that what goods were available were often sold to friends and relatives on the black market. People waited for up to 10 years on waiting lists to buy an automobile. There wasn’t enough housing: Millions of people still lived in “communal apartments”—two, three, or four families each living in one room of an apartment and sharing the kitchen and bathroom. And as computerization and technology gains led to economic growth and rising living standards in Western countries, the Soviet Union was simply unable to keep pace.

Throughout this period, however, one Soviet product remained readily available: vodka. Alcoholism affected creativity and productivity not just in the economy but in the whole society. By the end of the Brezhnev years, life expectancy in the Soviet Union was on the decline, and infant mortality on the rise. Runaway alcoholism was a factor in both.

The Shift to the Open Market Forces of Capitalism

Mikhail Gorbachev took office in 1985 and inherited a Soviet system that cried out for change. The first reforms he introduced didn’t go much beyond what some of his predecessors had tried. They amounted to mere tinkering, such as his anti-alcoholism campaign. They weren’t enough. So he tried again.

In his next move, Gorbachev brought in the more fundamental changes known as perestroika—restructuring. New legislation in 1987 set state enterprises free to decide their own levels of production in response to customers’ orders. No longer did they have to fill targets set by a central planning agency. That was a truly radical idea in the Soviet Union.

Perestroika also required enterprises to be self-financing—to figure out how to operate at a profit. Most significantly, the law allowed joint ventures with foreign companies. Workers’ collectives took over control of enterprises from government ministries. The central planners shifted from making detailed plans to offering broad guidelines. And for the first time since Lenin, Soviet law even allowed private ownership of small businesses—although not the land or the buildings they occupied. Private taxis and restaurants began to appear in Soviet cities.
Gorbachev also eased up on repressing dissent. He released Dr. Sakharov and allowed him to return to Moscow.

These looked like bold changes. But in the end, they weren’t much more effective than Khrushchev’s private farms. Gorbachev’s new system was neither fish nor fowl. It wasn’t enough of a market system to jump-start the sluggish economy. And it wasn’t quite central planning, either. It did, however, retain some of the key elements of Stalin’s system: price controls, a currency that couldn’t be freely exchanged, a ban on private property ownership, and the government monopoly over most means of production. These elements blocked significant progress.

By the end of 1991, when the Soviet Union dissolved, its economy was in a tailspin. Although far from what he intended, Gorbachev had pushed his country onto a path of real reform. As he disappeared from public life, Russia embarked on a difficult transition.
The Importance of the Export of Resources for the Restructured Russian Economic System

In the previous sections, you’ve read about the shortcomings of the Soviet system. However, Stalinist central planning couldn’t ruin Russia’s natural resources. These extensive resources have helped Russia through a challenging transition back to a market economy.

Russia as an Exporter of Raw Materials, Not Manufactured Goods

Russia has greater wealth in raw materials than almost any other country. Many of these materials are the building blocks of an industrial economy.

Russia is also self-sufficient in almost every major industrial raw material. And this is true even now that it no longer controls the productive mines of Ukraine, Kazakhstan, and Uzbekistan, which are now independent countries.

Even in a high-tech electronic age, wood is still an important material, and Russia has a lot of it. You might think of Russia as the Saudi Arabia of timber. The forests of Siberia hold about one-fifth of the world’s timber. Most of this is conifers—the evergreens of the taiga you read about in Lesson 1. Much of it is exported to Europe, Russia’s immediate neighbors, and China and Japan.

Natural resources are place-dependent. An oil deposit, or a seam of coal, for instance, is where it is. Such resources stay put until they can be pumped or mined. On the other hand, human resources—people—are mobile. Even in a society where the government controls people’s movements as tightly as the Soviet Union did under Stalin, people still have ways of gravitating toward opportunity.
Because Soviet leaders clung to central planning, right up through the Gorbachev era, their country lagged behind others in churning out high-quality factory-made goods. This is especially true of consumer goods. There was no Soviet equivalent of Italian sports cars, microwave ovens, or personal computers.

The only exception to this mediocrity was in the arms industry and space exploration. The Soviets made excellent automatic rifles, fighter planes, and tanks. And Soviet space technology allowed the country to almost keep pace with the United States—to the point where today’s Russia remains an essential player in space exploration and the International Space Station. But these were not consumer goods available both in the country and for export.

As a result, Russia is known mainly as an exporter of raw materials, not manufactured goods. The Soviet Union could export timber, oil, and minerals, but it failed to develop a system to add value to things that came out of the ground. And that failure lives on in today’s Russia. The country exports raw lumber, but not goods made of wood.

**Military Arms, Minerals, and Crude Oil as Three Major Russian Exports**

The economy’s tilt in favor of heavy industry fostered the Soviets’ ability to manufacture military hardware for export. During the Cold War, the Soviet Union gained power and influence by supplying military hardware and other aid to developing countries.

Sometimes the Soviets supported governments, such as that of Gamal Abdul Nasser in Egypt during the 1950s and ’60s. Other times they supported guerrilla movements, such as the armed wing of the African National Congress.

Russia inherited most of the Soviet Union’s defense industrial base. The government has made some efforts to convert some of this to civilian production. But these efforts have met with mixed results. Russia remains a major arms exporter.

Indeed, as former President and current Prime Minister Vladimir Putin has reasserted Russia’s role as a global power, Russia has pushed arms sales abroad, in the Middle East, Asia, and Latin America. Both economic and political interests are behind this policy. In early 2009 the head of the Russian arms export monopoly said it had $27 billion in orders on its books. This backlog would keep defense firms busy for four to five years, he added. The Russian defense sector employs more than 2.5 million people, about a fifth of the country’s industrial labor force.

Russia has significant deposits of both oil and natural gas. Its production accounts for about one-fifth of the world’s total. Russia is self-sufficient in energy and is a major exporter of both oil and gas. These fuels are primary hard-currency earners for Russia, as they were for the Soviet Union.
Russia’s nonfuel mineral reserves include:

- iron ore
- manganese
- chromium
- nickel
- platinum
- titanium
- copper
- tin
- lead
- tungsten
- diamonds
- phosphates
- gold.

Russia manages to be a leading exporter of these minerals even though they are deposited largely in remote areas that are frozen solid much of the time. Minerals and other raw materials account for 90 percent of Russia’s exports to the United States. Energy is the dominant element in this mix.
The Importance of Russian Exports in a Free Market Economy

Economists may lament the fact that Russia’s economy remains underdeveloped. Some may wish that Russians would do more with their resources. That would enable them to export at a higher level. Still others worry that energy prices have been too unstable of late to provide a solid base for Russia’s economy.

But these regrets notwithstanding, Russia’s exports have been a lifeline since the Soviet Union dissolved. In a period of economic weakness and painful transition, Russia nonetheless had things the world needed, and could sell them: especially oil and gas.

Likewise, Russia’s renewed emphasis on arms exports may worry outside observers. But arms sales are good for Russia’s economy. The arms plants keep people working, for one thing. And that means they’re good for domestic political stability.

Trade with other countries is also drawing Russia into the family of nations. This in turn helps ease its longstanding cultural isolation. In his day, Stalin tried to have Russia pull itself up by its own bootstraps. But it didn’t work. Only by trading with other countries can Russia develop its own economy.

And there are signs development is taking place. Freed of central planning and control, the economy is diversifying. Since the rebound from the 1998 crisis that you read about in Lesson 1, consumer spending and fixed capital investment have both grown briskly. They have overtaken exports as the main driver of economic growth.

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Russian President Vladimir Putin (left) and US President George W. Bush hold a press conference at the White House in 2001.

Photo by Andy Nelson / © 2001 The Christian Science Monitor

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Russia is now developing a capitalist economy, although it still faces many challenges. Land ownership remains a difficult issue: While limits on owning land were thrown out in 1995, there is still no constitutional protection for land ownership. Business and contract laws remain inadequate. The tax system keeps changing, and tax evasion is widespread. The government continues to interfere in business decisions when it wants to, sometimes unfairly punishing both Russian and foreign businessmen and investors.

But in abandoning communism, Russia has set the stage for harnessing its one great underused resource: the creativity and labor of the Russian people themselves. It will take a long time for Russians to free themselves from the mistrust of foreigners and the old economic and political habits that have prevented economic growth and development in the past. But without the heavy hand of czars or Communists preventing them from doing so, Russians face a brighter future than seemed possible just a couple of decades ago.
Lesson 2 Review

Using complete sentences, answer the following questions on a sheet of paper.

1. Why did Russia have such a relatively large urban working class in the late nineteenth century?
2. Which leader developed the Soviet Union's central planning?
3. What did Karl Marx mean by dialectical materialism?
4. How did Lenin set the tone for the new Soviet Union?
5. Why did Khrushchev's “new lands” campaign fail?
6. Why was it hard for the Soviet economic system to deliver technological innovation?
7. Why has Russia, like the Soviet Union before it, been known as an exporter mainly of raw materials rather than manufactured goods?
8. Why are exports and trade so important to post-communist Russia?

Applying Your Learning
9. If you were Gorbachev, what steps would you have taken in 1985 to reform the Soviet system?