3.5: Economics and Development in the Soviet Union

The Soviet Government, led by Lenin and later by Stalin, advocated a communist system. In a capitalist system, market forces dictate prices according to supply and demand. Those who control the means of production, known as the bourgeoisie in the Marxist philosophy, are much wealthier than the workers, known as the proletariat. In a communist system, however, the means of production are communally owned, and the intended result is that there are no classes of rich and poor and no groups of landowners and landless workers.

In reality, no government practices pure capitalism or pure communism, but rather, governments are situated along a continuum (Figure \(\PageIndex{1}\)). Anarchy, the absence of government control, exists only in temporary situations, such as when a previous government is overthrown and political groups are vying for power. In most Western countries, a mix of capitalism and socialism, where economic and social systems are communally owned, is practiced to varying degrees. Denmark, for example, which has been consistently ranked as one of the happiest countries in the world, has a market economy with few business regulations but government funded universal healthcare, unemployment compensation, and maternity leave, and most higher education is free. The United States is largely capitalist, but the government provides retirement benefits through the social security system, funds the military, and supports the building and maintenance of the interstate highway system. Although China’s government is communist, it has also embraced elements of the market economy and allows some private enterprise as well as foreign trade and investment. All governments must address three basic questions of economics: what to produce, how to produce, and for whom to produce. The answers to these questions vary depending on the state and the situation.

In the Soviet system, the government dictated economic policy, rather than relying on free market mechanisms and the
law of supply and demand. This required the government to intervene at all levels of the economy. The prices of goods needed to be set by the central government, the production levels of goods needed to be determined, the coordination of manufacturers and distributors was needed – everything that is traditionally accomplished through private individuals and companies in a capitalist model was the responsibility of the Soviet government.

To coordinate such a wide array of goods and services, long-term planning was needed. The Soviet government instituted a series of five-year plans which established long-term goals and emphasized quotas for the production of goods. This system lacked flexibility, however, and was often inefficient in its production and distribution of goods.

The Soviet government had two principle objectives: first, to accelerate industrialization, and secondly, to collectivize agriculture. The collectivization of agriculture, though intended to increase crop yields and make distribution of food more efficient, was ultimately a failure. By the early 1930s, 90 percent of agricultural land in the Soviet Union had become collectivized, meaning owned by a collection of people rather than individuals. Every element of the production of agriculture, from the tractors to the livestock, was collectivized rather than individually owned. A family could not even have its own vegetable garden. Ideally, under such a system, all farmers would work equally and would share the benefits equally.

Unfortunately, the earnings of collective farmers was typically less than private farmers. This led to a reduction in agricultural output as well as a reduction in the number of livestock. Coupled with a poor harvest in the early 1930s, the country experienced widespread famine and food insecurity. It is estimated that 12 million people died as a result of the collectivization of agriculture.

Soviet industrial development, too, was plagued with inefficiencies. In a typical market economy, particular places specialize in the production of certain goods and the system works out the most efficient method of production and distribution. A furniture maker might locate near a supply of hardwood, for example, to minimize transportation costs. A large factory might locate near a hydroelectric plant to ensure an inexpensive power source. Certain places, due to luck or physical geography, have more resources than others and this can lead to regional imbalances. The Soviet government, however, wanted everything and everyone to be equal. If one region had all of the industrial development, then the people in that region would be disproportionately wealthy and the region would be more vulnerable to attack by an outside force. The government also hoped that the dispersal of industry would force the country to be interconnected. If one area had a steel plant and another had a factory that used steel to produce machines, the two would have to rely on one another and neither would have an advantage. Thus, they aimed to disperse industrial development across the country.

If you were a geographer tasked with finding the best location for a new industry, you'd likely take into account underlying resources, such as the raw materials needed for manufacturing and the energy needed to power the factory. You might think about labor supplies and try to locate the industry near a large labor pool. You might also think about how to get the good to consumers efficiently, and locate near a shipping port or rail line. Rather than take these geographic factors into account, however, the Soviet government sought to disperse industry as much as possible. Industries were located with little regard for the location of labor or raw materials. This meant that inefficiencies were built into the system, and unnecessary transportation costs mounted.

The substantial costs of supporting an inefficient system of industrial development were magnified by the costs needed
to fund the **Cold War**. The Cold War occurred following World War II and was a time of political and military tension primarily between the United States and the Soviet Union. Western Europe, which was largely capitalist, was divided from the communist Soviet Union by the so-called **Iron Curtain**, a dividing line between the Soviet Union and its satellite states who aligned with the Warsaw Pact, a collective defense treaty, and Western European countries allied through the North Atlantic Treaty Organization (NATO) (Figure \(\text{PageIndex}[2]\)). The Cold War was so named because it was different from a traditional “hot” war in that it did not involve direct military conflict between the United States and the Soviet Union. It did, however, result in armed conflicts in other parts of the world as well as a massive stockpile of military weaponry.

![Map of Cold War Military Alliances](https://socialsci.libretexts.org/Bookshelves/Geography_(Human)/Book%3A_World_Regional_Geography_(Finlayson)/03%3A…)

During the 1980s, Soviet leader Mikhail Gorbachev supported restructuring the Soviet economy with a series of some market-like reforms, known as Perestroika. He also supported glasnost, an increase in government transparency and openness. Unfortunately, these reforms could not change the system quickly enough and loosened government controls only worsened the condition and inefficiencies of the Soviet economy.

The Soviet government, already stretched thin financially from a system of development that largely ignored geography, could not support the unprofitable state-supported enterprises and mounting military expenses. Ultimately, the country went bankrupt. In a system where every aspect of the economy is linked, it only takes one link to break the chain and far-from Gorbachev’s policies strengthening the chain, Perestroika only weakened it further. The Soviet Union formally dissolved in 1991. Some have argued that the Soviet Union collapsed economically. Others maintain that it was primarily a political collapse, led by an ineffective government and increasing territorial resistance. Geography largely played a role as well, with the government ignoring fundamental principles of spatial location and interaction. **Cold War:**

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