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The Disintegration of the Soviet Union and Rise of Capitalism in Russia

ATMIKA PATNAIK¹

ABSTRACT

This paper seeks to provide evidence that the Soviet Union economy prior to its disintegration was sinking and was economically unstable for political, social and mostly economic reasons. It intends to show via the usage of economic tools such as graphs as well as world bank statistics and reports, the transition of socialism to capitalism with special reference to the economic progress made in Russia and simultaneously draw parallels between both the models. Such transition was followed by a lot of chaos as the shift from collective ownership to private and profitable ownership fetched in psychological shock in absolute abundance. This paper also closely looks at the increase in the Gross Domestic Product (GDP) in Russia and goes on to determine how growth in GDP can only go to ensure economic advancement but does not serve as a determinant of overall well-being.

Keywords: *Analysis, Evidence, Disintegration, Socialism, Capitalism, Progress, GDP, Well-being.*

I. INTRODUCTION

Soon after the revolutionary Bolsheviks having overthrown the Czar, there was an establishment of four socialist republics in the Russian revolution of 1917 where in Russia joined its republics so as to form the Union of Soviet Socialist Republics (Kirchner, 1991). Quite contrary to its formation based on the idea that it would be a true democracy, its one-party rule in the form of the Communist Party was almost a resemblance of the Czarist autocracy. After the emergence of the dictatorship of Stalin, it could be an easy assertion to make that there was exercise of totalitarian control not just over the people but also over the economy. All the resources, business and property including industries and farms etc. were to be collectively owned, controlled and managed by the state. This can be extendedly interpreted to be the abolition of private property in any form and the existence of collective property which was owned by the people as a whole via the state exercising absolute and complete control (Watson 1998). Half a century later it was Gorbachev, an exemplary politician from

¹ Author is a student at O.P. Jindal Global University, India.

the Communist Party in itself entered into the frame and introduced two sets of policies broadly known as Glasnost (political openness) and Perestroika (economic restructuring), (Gorbachev, 1988). It was this restructuring that slowly manifested into the Soviet Economy developing better networking with the United States and the rest of the world. **The objective of this paper is to determine the scenario of transition of a communist economy to capitalist model and how the capitalist model helped Russia flourish economically while simultaneously ascertaining that the growth in GDP is not to mean growth in human welfare.** This paper flows in 3 important parts, first being, the understanding of the prior research on the topic and review of the same (literature review), analysis of the topic via graphs and understanding of macroeconomics and final take away from the research (conclusion).

II. LITERATURE REVIEW

Research on the transition from socialism to capitalism have been done in abundance and for this reason, a brief review of the sub literature has been done. Earlier the research work mainly focused on how rise of capitalism in Russia, was the best model of economic growth and doing away with stagnancy (Saunders, 1995) and the recent literature is coming out to debunk that conception and say what looks as transformation from the outside might or might not manifest in a egalitarian society although there's an undoubted betterment in economic performance (Oishi, 2015).

In the 1990s, the historic changes in Russia were the cynosure to all eyes as what was known as the world's largest country earlier, became the world's newest democracy. The heroic images of Boris Yeltsin collapsed as it was the time for new beginnings and grim new realities such as a currency in freefall, funding Russian mafia and lack of provision of salaries to doctors and teachers (Freeland, 2000). The Rise of Capitalism in Russia was also researched upon by a closer look into the differentiation of peasantry, the landowner's transition from collective ownership to capitalist, growth of commercial agriculture, capitalism in industry, development of large-scale machine industry and formation of home market in Russia (Lenin, 1899). Across these studies there is consistent evidence that Russia did not have a steady start when the question was on the coping up mechanism to the disintegration and the problems were rampant.

In general, the sub - literature focuses on rise of privatization in Russia leading to the strengthening of the market economy and liberalization policies gradually going on to make it a free market economy with the removal of trade barriers and speaks about improvement in Russia's economy (Walker, 1995). While this has also been starkly contradicted by other sub literature which stated that Russia's transformation into an open society has endangered its own

mythology. Russia becoming an open economy made its faults laid bare for all to see and it was described by western politicians as well as media as a former superpower which was Nation in decline because of rampant corruption and collapsing infrastructure (Aslund, 2001). While the aforementioned journals have successfully presented contradictory images about Russia's growth and its coping up with the openness of economy and its problem of transition via statistical analysis, there has been little or no mention of the parameters of well-being. A balanced analysis of the economic and political conditions has been given by Mc Faul in Russia's Unfinished Revolution and goes on to state that the failure of the so called first Russian Republic from (1991-3) argues that the system was overwhelmed by the confluence of divisive constitutional questions such as borders, polity and primarily economy and the greatest achievement of his research was the demonstration that the conjunctural factors that emerged out from the process of transition in itself were crucial in the determination of outcomes (Sakwa, 2002). Nonetheless there is a lack of robust research on more highly visual and graphical representation of the Russian coping up mechanism to the newly introduced openness in the 90s.

Statistics and graphs have been looked into, drawing philosophical, economic and political evidence from the above literature and the growth of Russian GDP post the Soviet Union Disintegration has been accordingly traced.

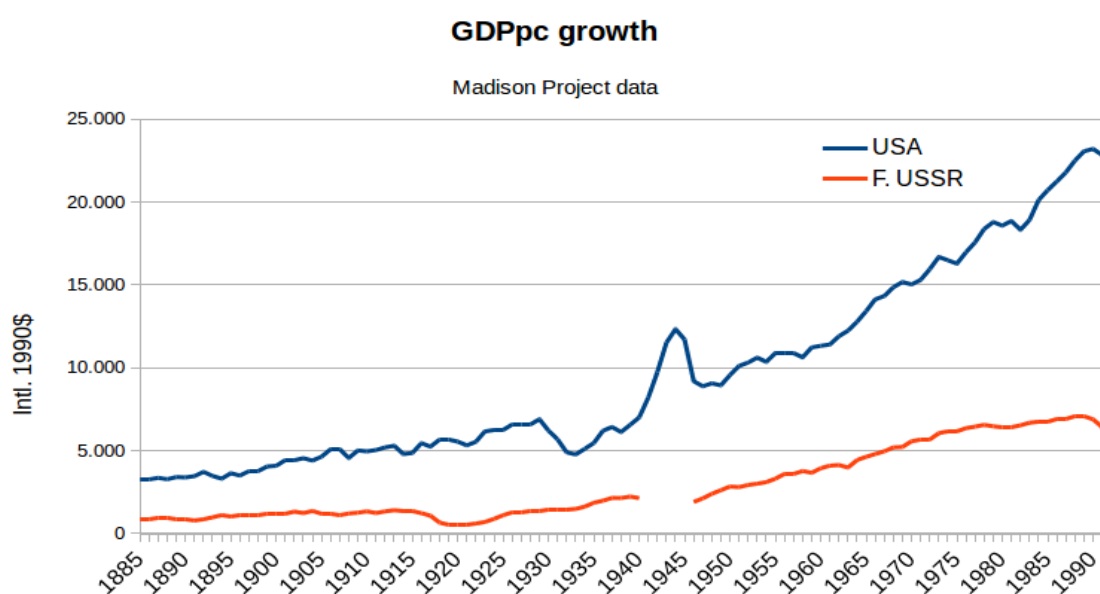
III. RESEARCH STRATEGY:

The data from several primary as well as secondary sources has been used and the International Monetary Fund's tracking of the growth of Gross Domestic Product (GDP) in Russia, post partition has been specifically looked into to trace the economic advancement and the rate thereof after openness of economy and shift from communism to a capitalist model. Data from books, journals and websites have been taken into consideration to provide further evidence about the shift in models as well as their repercussions. The macro variables of growth, GDP and unemployed with reference to Russia have also been assessed via the statistics over the years, curated by the World Bank.

IV. ANALYSIS

There were several reasons for the collapse of the Soviet Union, and it goes without saying that the those were the same reasons which simultaneously led to the crashing breakdown of the Soviet economy as well. The Soviet Union was seen to time and again compete with the United States in terms of which of them is better off and in that spirit it exhausted its already limited resources while manifesting Gorbachev's dreams of launching Soviet satellites because of

which the economy crashed even further and the Baltic states started off with declaring independence (Contemporary world politics, 2007). All of this was also marked by the loss of capital because of the Soviet Union's continuous indulgence in wars, to name one let's say the Afghanistan war of 1975 to which it entered into, only to show its military strength but that ended up in weakening the Soviet economy even further (Waldron, 2018). It wasn't prepared to enter into a competition with the United States especially when the economy of the country it had been rigorously invested in competing with operated with profit motive while the Soviet economy had been completely against private actors and in favor of community ownership even during those times (Britannica, 2020).



(Madison Project Data, 1992)

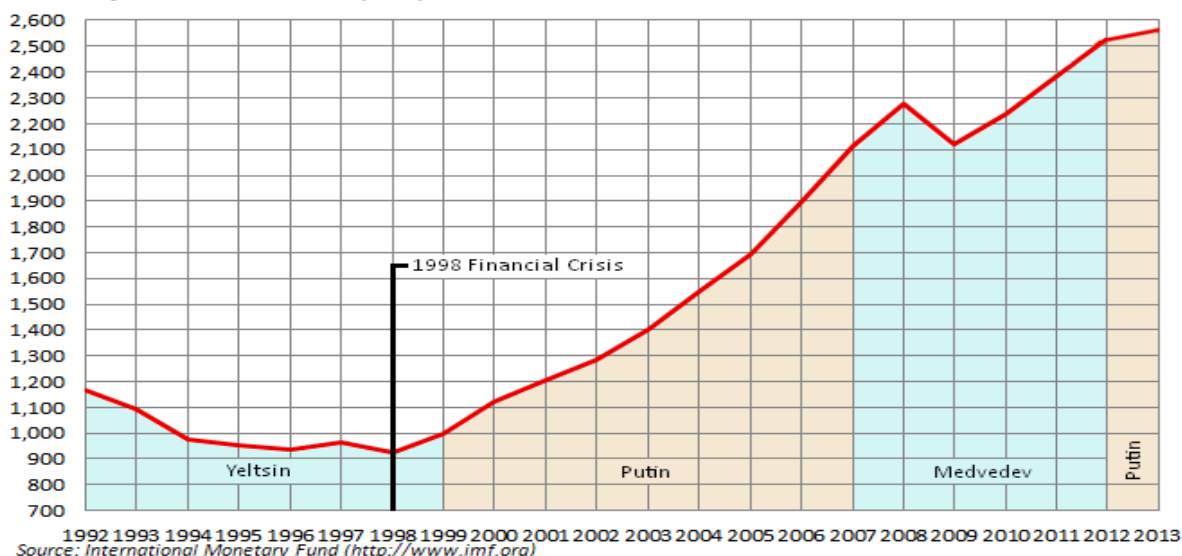
The aforementioned graph is the representation of the constant comparisons between the USA economy and the economy of the former USSR that is capitalism and communism which shows the clear demarcation between the two models and how the former grew at an unprecedented rate over the years while the latter grew at a diminishing rate for a while and then the graph for the same started to fall.

The usage of the Soviet economy's resources in the maintenance of a nuclear and military arsenal created a void in its financial capabilities as a result of which the economy barely had funds for internal management. There was also a problem of psychological as well as political shock that led to its disintegration because the Soviet system was always convinced that its model was better off than the Western capitalism. The Union had become stagnant, not only in the political aspect but also administratively and the population of the Union could not process such adverse circumstances. The administration almost alienated the people with rampant

corruption and inability to correct mistakes that it had already made. The lack of interest of the government to ensure increased openness and the problem of centralization of authority were burning issues, the remedies to which seemed like a distant dream (Aron,2011). While the reforms proposed by Gorbachev did seem to have the solutions to all the aforementioned problems, there were conflicting opinions for the same. Some construed of it to be too fast and radical while others thought of it to be slow paced. As stated above, there was a lot of desire for sovereignty owing to these many factors in not only Russia but also in the Baltic States of Estonia, Latvia, Lithuania which acted as one of the final causes which added up with the aforementioned causes of disintegration of the USSR (BBC, 2013).

There were several consequences of disintegration of the Soviet Union. Some expected while most, unexpected. It meant that the cold war confrontations came to an end and there could be a rise in people's aspiration for peace. It also transformed the power relations in world politics and gave rise to the possibility of USA being the superpower as its competitor USSR had disintegrated or the rise of multipolar system where different countries would have their say over the international system but the most important consequence of this disintegration was the rise of capitalism all over the world. The capitalist economy thus becoming the most dominant economic system internationally was one of the most crucial results of this disintegration. Russia had been seen as the successor to the Soviet Union ever since its breakdown and there was rise of capitalism in Russia as well. Most of the macroeconomic concepts of immense importance in today's day and age can be associated with Russia's economic growth ever since it developed as an independent country.

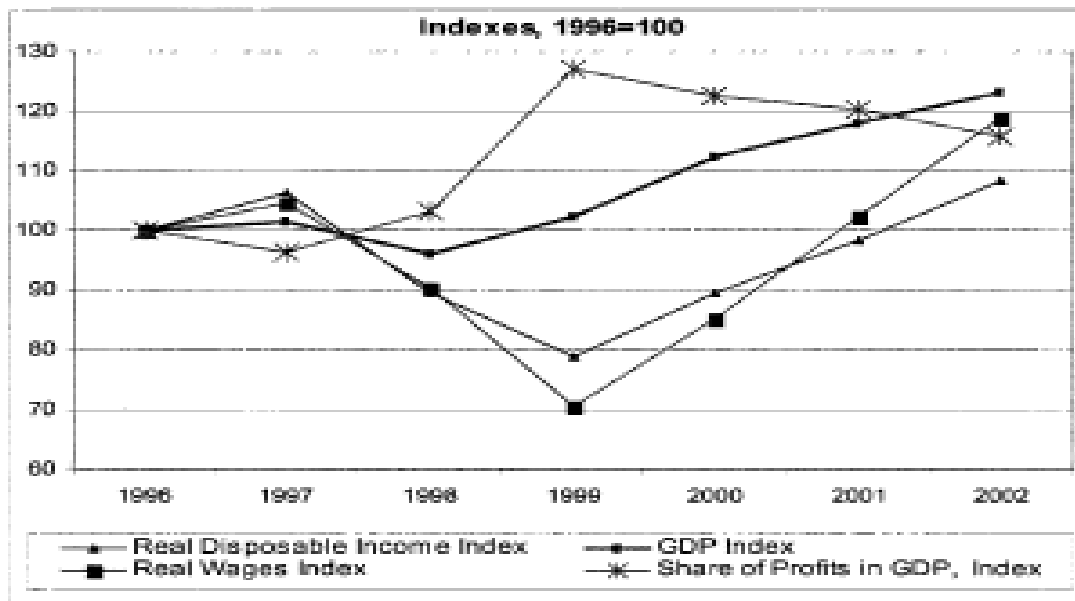
Russian GDP (PPP) Since Fall of Soviet Union
Billions of International Dollars (2013)



(Internal Monetary Fund, 2013)

As per the aforementioned International Monetary Fund (IMF) reports, Russian Federation has partnered with several private ventures and dwelled into the Public Private Partnership (PPP) for an increment in its GDP (Rapoza,2012). In terms of Billions of International Dollars, the Russian GDP was seen to be as low as 1,190 in the year 1992 and it has been seen to more than double by the year 2013. To be precise the GDP has been seen to be almost 2,590 in terms of Billions of International Dollars (IMF, 2013).

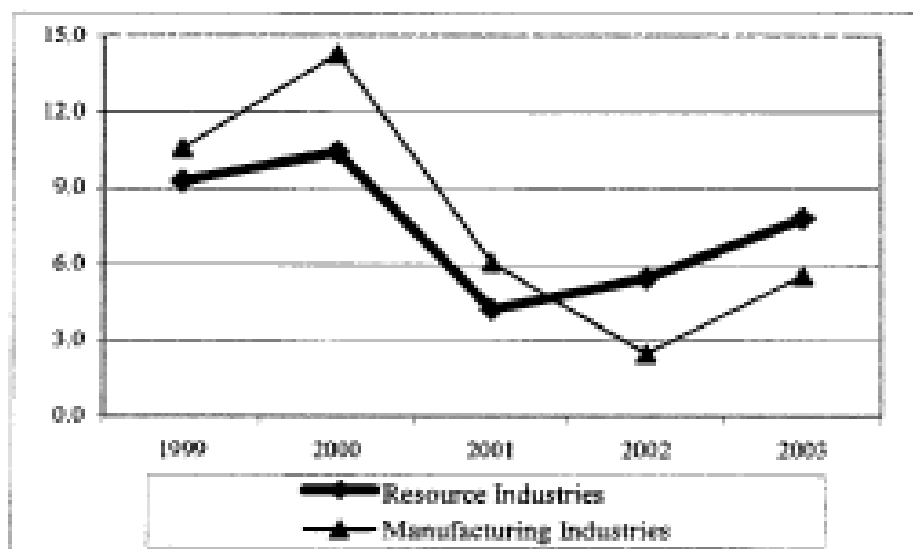
Although there has been substantial economic increment, as a student of macroeconomics it is not to presume that higher GDP necessarily means higher welfare. GDP can go to measure average income levels, average living standards and spending capacity of the population but not the level of happiness, quality of life and well-being (Goodwin, 2014). Some of the reasons for the same can be environmental and ecological because GDP doesn't take into account depletion of resources, environmental degradation and overuse of resources which are major factors affecting well-being. GDP as a measure is inadequate as it misses out on the social factors like access to education and healthcare, increasing life expectancy and decreasing the mortality rate (Goodwin, 2014). That aside, it gives no indication of an egalitarian society and decline in income disparities. As GDP is the sum total of the market value of all the goods and services produced in an economy in a fiscal year, it excludes the work that is unpaid for yet contributes a lot to well-being, for instance, the service of a housewife (Mankiw, 2019). Thus, there was no doubt in the increment in the Russian GDP post the Soviet Union disintegration but that was an appropriate indication of economic growth and not well-being. Income disparities went on to debunk the presumption that with increment in GDP came a rise in egalitarianism in Russia, as the gap between the poor and the rich widened (Nilsson, 2014), because of this Gross National Happiness (GNH) has been devised by Bhutan as an alternative for GDP as a tool for progress (Bergink, 2015).



Source: Goskomstat, World Bank staff calculations

(World Bank, 2005)

The above graph proves how GDP does not necessarily account for welfare. For instance, if we look at the year 1999, the Real Wages Index as well as the Real Disposable Income Index was at its lowest in the data collected from 1996-2002 while the GDP Index and Share of Profits in the GDP Index was growing at an unprecedented rate, the latter being at its highest in this analysis of 7 years although growth in the Real Disposable Income Index and Real Wages Index was evident post 1999 and reached the highest in 7 years only in 2002.



Source: Goskomstat, World Bank staff estimates.

(World Bank, 2005)

The above graph shows how Russian economy had a head start in 1999 in both resource based as well as manufacturing industrialization post the capitalist regime and as profit maximization was the main motive, there was decline in the manufacturing industries and increase in the resource industries, though at a diminishing rate. In late 90s and in the year 2000, there were a greater number of manufacturing industries as compared to the resource-based industries while the scenario was that of the vice-versa towards 2002 – 03.

V. CONCLUSION

To conclude, this research paper has been looked through the lens of catering to the objective of determining the scenario of transition of a communist economy to a capitalist model and how the capitalist model helped Russia flourish economically, while simultaneously ascertaining that the growth in GDP is not to mean growth in human welfare and over all well-being. The political as well as economic reasons for the disintegration of the Soviet economy have been looked into and macro variables such as GDP and growth were analyzed through graphs. Via the usage of the data and statistics given by the WHO, the disparities between disposable income and GDP were made evident. The stark reality was that while GDP was growing, the disposable income was stooping lower. Yet, Russia became more economically sound post the disintegration. It's remarkable trade in the fields of weapons and oil is well-known across the world and seeing a newly formed capitalist country do so well after its economic transition, opened up new avenues of capitalism all across the globe.

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