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ECONOMIC HISTORY

Tutorial Manual

Recommended by the Methodical Commission of the Faculty of Foreign students for international students,
studying in the B.Sc. programme "Economics"

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МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РОССИЙСКОЙ ФЕДЕРАЦИИ
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ИСТОРИЯ ЭКОНОМИКИ

УЧЕБНО – МЕТОДИЧЕСКОЕ ПОСОБИЕ

Рекомендовано методической комиссией факультета иностранных студентов
для иностранных студентов,
обучающихся в ННГУ по направлению
«ЭКОНОМИКА» (бакалавриат)

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Рецензент: д.э.н, профессор, заведующий кафедрой Экономической теории и методологии Института экономики и предпринимательства ННГУ А.В. Золотов

Учебно– методическое пособие представлено в виде сжатого содержания курса лекций, списка литературы по предмету «История экономики» для иностранных студентов, обучающихся в ННГУ по направлению «Экономика» (бакалавриат).
В рамках пособия рассматривается эволюция мировой экономики от древнейших времен до настоящего времени, что помогает студентам разобраться в причинах и особенностях экономического развития стран мира.

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Content

INTRODUCTION

The discipline examines the evolution of the world economy from historical points of view, helps students to understand the reasons of economic development and background of the main modern economic problems in different parts of the world. It looks through the economy structure analysis for every period from ancient times till present as well as particularities of different countries. Economic development models of industrially developed and less economically developed countries such as European countries (the UK, France, Germany and others), the USA, Japan, China, Russia are compared. As a result the discipline clarifies why there is a difference in economies development.

The aim of the course is the study of the processes of the origin, formation, development and decline of different economic systems.

There are the following tasks in accordance with the set goal:

- to study the process of origin and development of production;
- to understand the process of development of economic systems of different countries;
- to analyze alternatives of development of economic systems;
- to define further development of the economy.

TOPIC 1. INTRODUCTION TO ECONOMIC HISTORY

Questions for the lectures and the seminars:

The subject and methods of economic history. The emergence of human civilization. Growth and development.

The origin and evolution of humankind's economic life are directly related to the emergence of humans **70,000 to 80,000 years ago**.

Human economic life of that period is basically characterized by the following human skills:

- acquisition;
- consumption of material goods.

The key distinctive features of that period's society were:

- collective lifestyle (hunting, in particular);
- relative equality among collective members and absence of a clear-cut social hierarchy;
- absence of a permanent dwelling place;
- high death rate among collective members;
- absence of a written system, science, religion and state machinery;
- absence of work activities (in the narrow sense of the term) and tools;
- hunting and use of primitive arms.

Climate warming and northward glacial retreat in the XIV-XIII centuries BC resulted in a ***shortage of large animals*** (mammoths, rhinoceroses). This necessitated a change both in hunting techniques and weapon types.

While changes affected many life spheres of Homo sapiens, *the nomadic lifestyle* did persist.

The X century BC was a ***period of transition*** of Homo sapiens to new economic activities – ***animal breeding and farming***.

Development of animal breeding brought about the following changes in society:

- transition occurred to a seminomadic lifestyle;

- collective members could now have food more regularly;
- relative social equality among community members was replaced by hierarchy;
- community self-governing bodies were formed;
- inequality emerged not only among the members of one community, but among communities and tribes;
- a separate group of people appeared, who were involved in intellectual labor, accumulation and transfer of knowledge.

The VIII-VI centuries BC are considered to be *the farming origin period*.

- *Farming resulted in:*
- a need arose for humans to have a permanent habitat and build settlements;
- invention of special farming implements;
- search for new farming methods.

The VII-VI centuries BC were also a period of emergence of industries, such as:

- stoneware making;
- house building;
- fabric weaving.

This resulted in forming *individual groups of people* involved in a respective industry, i.e. potters, builders, weavers etc.

The key changes in the economic system contributed to the transition from the nomadic to sedentary lifestyle, the emergence of agriculture, the upsurge in population and the rise of the first civilizations.

TOPIC 2. ECONOMIC DEVELOPMENT IN ANCIENT TIMES

Questions for the lectures and the seminars:

Trade and development in the Mediterranean World. The economy of Ancient China, India and Egypt. Economic development of Ancient Greece. Economic *development of Ancient Rome: agriculture, industrial production, monetary system, trade, banking.*

Ancient Eastern (Asian) and Antique Economic Models

The world economic development exposed clear differences between ancient Eastern and antique economic systems. What they had in common was the use of slavery as the basic economic resource. At those times slavery was the primary factor of economic prosperity. Slave labor was unpaid and slaves had no right to freely decide their own destiny.

The ancient Eastern (Asian) economic model is an economic system, in which all decisions were made centrally at the state level, while the population was supposed to carry them out.

All economic processes were influenced by the state. State interests prevailed over private economic ones. This period saw the formation of equality between power and property and their inseparability. Slave labor was used to carry out global tasks, such as the construction of Egyptian pyramids, the Great Wall of China etc.

In the East slavery was universal in nature. A person remained in slavery throughout his or her life. Slaves' children became slaves, i.e. slavery was inherited. Most of population were slaves and only a small part of it were masters. Slavery was regarded as something natural and was justified by religion. The basic economic factors (land and water) were owned by the state and private property was underdeveloped. The primary mechanism for economic management was well-developed bureaucracy that made active use of physical coercion to attain its goals and objectives. The Asian-type economic system is known for its striving for self-isolation and totalitarianism. It used to resort to territorial expansion, i.e. seizure of territories of adjacent states. Practical use of the ancient Eastern (Asian) model demonstrated its ability to achieve high economic growth rates.

The antique economic model is an economic system based on a reasonable combination of slaves and freemen, state regulation of economic processes and serving private interests.

Prevailing in this system was agriculture (wheat, grapes, olives, millet, legumes, vegetables and fruits were grown). Animal breeding was only used in mountainous areas. Handicrafts and arts developed rapidly and flourished as did shipbuilding and navigation, thereby promoting foreign trade. Athens was the world's commercial center owing to its advantageous geographical location.

The antique slavery model was not universal in nature. A slave could obtain the freeman status. There was gradual abolition of debt slavery, whereby a person became a slave to whom he owed money and remained as such until he repaid the debt in full by his work. Slaves were mainly war captives from other countries. The period from the late VIII century BC to the early VII century BC saw a major political and economic crisis that resulted in the following:

- debt slavery was banned;
- a rate of land that could be privately owned was introduced;
- a single monetary unit was established.

The ancient Eastern (Asian) and antique economic models reflected the specific geographic and climatic location of the countries. Furthermore, their fundamental difference lies in their residents' peculiar mentality. Being dissimilar, they achieved the economic acme, having built the basis for further development of the world economy.

TOPIC 3. ECONOMIC DEVELOPMENT IN MEDIEVAL EUROPE

Questions for the lectures and the seminars:

Trade, agriculture, industrial production, monetary and banking system's development.

Economic development in England: agriculture and land relations, industrial production, monetary system, Finance and taxes, trade, banking

Economic development of France: agriculture and land relations, industrial production, monetary system, Finance and taxes, trade, banking
Germany's economic development: agriculture and land relations, industrial production, monetary system, Finance and taxes, trade, banking.

Medieval economy is associated with the development of feudalism, a unique stage passed by nearly all the nations of the world.

Feudal economy has the following features:

♦ dominance of major landed property owned by the feudal class;

♦ its combination with small individual households of immediate producers who privately owned basic tools;

♦ a unique status of peasants who were not landowners, but were landholders on various terms, to the extent of fee farm;

♦ various forms and degrees of noneconomic coercion of peasants;

♦ predominance of the agricultural sector over commercial and industrial sectors in the context of prevailing subsistence economy;

♦ a generally low level of knowledge and technology, and manual production, which attached special importance to personal production skills.

The Middle Ages are a long period in the world economy, which began in the V century with the ultimate fall of the Roman Empire and ended in the XVII century.

That was a time when centralized states and ethnic features of European nations were formed, material and spiritual culture grew complicated and amassed, and unevenness of economic development of individual regions became evident.

The basic form of social structure was feudalism, a social system in which the class of dependent people (subjects) was fully subject to the class of feudal lords (masters), freemen became dependent and the class of large landowners (feudal lords) emerged.

Feudal economy was largely agrarian in nature, with a prevailing subsistence farming type. The applied farming methods were extensive (inefficient) and, therefore, failed to provide most of the population with food.

Emergence and establishment of feudalism occurred unevenly in different countries. Where there was a base created for the process, i.e. the communal economy form was not completely destroyed (e.g. in France), feudalism took little time to establish itself. Where such a base was not available, feudalism was hardly accepted (e.g. Scandinavian countries).

In its economic development the medieval society passed through the following three periods:

1) Early Middle Ages (V—X centuries). This period is characterized by the agrarian type of economy with underdeveloped productive forces. The lack of large cities hindered the development of handicraft trade. This period saw the emergence of feudal relations and the class of feudal lords who subjugated peasants making them dependent. Still unclear borders between states facilitated cultural and economic integration and assimilation.

2) High Middle Ages (XI—XV centuries). This is a period of ultimate establishment and beginning prosperity of feudalism, in which a peasantry land and personal dependence system was introduced. A clear socio-economic system was formed basing on hierarchical subordination of the large class of subjects to the small dominant class. This period saw intensive development of productive forces, specialization of labor, formation of large cities – craftwork centers, and thriving trade. All this, however, happened alongside a great number of revolts of peasants dissatisfied with their status. To avoid adverse aftereffects of such revolts, feudal lords made concessions to serfs.

3) Late Middle Ages (XV—XVIII centuries). This is a period of the breakdown of feudalism, intensive development of large cities and free production. It is during this period that capitalism emerged on the basis formed by that time.

Typical of all the medieval periods was the power of church that held leading positions and profoundly influenced economic and other processes.

The Middle Ages saw gradual complication of economic processes and formation of the basis for further rapid economic growth. Feudalism was a real foundation for capitalism to emerge on.

By the early XV century the world economy had reached a new level of development, the economic map of the world had changed due to new geographic discoveries and production had grown intensively.

This period saw the emergence of a new process later called “primitive (previous) accumulation”.

Primitive accumulation is the concentration of capital and production means in the hands of a small group of people whereby workers were deprived of the right to production means.

This process formed new classes of capitalists and hired workers. Workers only received a fixed wage for their work. Labor became one of the production resources along with capital and land. Capital became the basic economic factor exerting a significant effect on society. Capital implies the right of possession of precious metals, land and production means. A capitalist is a person enjoying such rights.

Primitive accumulation sources were as follows:

- carriage of free precious metals from different countries and their concentration in the hands of one owner;
- slave trade: slave sales secured high profit and the use of free labor allowed the production of goods with hardly any resource costs – huge capital was built up on the profit margin;
- state’s protectionist policy using a difference in commodity prices;
- providing money at interest;
- piracy – forcible seizure of goods.

The following methods were used for primitive accumulation:

- forcible: these included forcible seizure of land, precious metals etc. Peasants were often driven out of their land, with ownership thereof passing to large industrialists. Maritime piracy was widespread;
- economic: these implied the use of workers' labor, buying-out of ownership of land and production means, and bribery of public officials;
- exploitative: these included precious metals mining as it only required little investment to pay for labor.

Primitive accumulation in the world economy occurred unevenly differing from country to country. In England, this process began in the XV century and was of forcible nature. Peasants were driven out of their land that was further used as sheep pastures. This process is known in history as "enclosure". The state's protectionist measures and monopoly for trade in African slaves allowed England to concentrate huge amounts of gold and begin rapid economic development already in the XVI century.

In France, primitive accumulation began in the XVI century and was implemented using forcible revolutionary methods.

In Russia, this process began later, in the XVII century, and took rather a long time. It left the social structure unchanged and feudal lords retained their capital.

Thus, the primitive accumulation process occurred concurrently with the last stage of disintegration of feudalism and drastically changed the socio-economic structure of society. The use of forcible accumulation methods allowed a surge in the world economy growth.

TOPIC 4. WORLD ECONOMIC DEVELOPMENT BETWEEN XVI-XIX CENTURIES

Questions for the lectures and the seminars:

The Age of Discovery. Development of trade. Capital accumulation. Industrial revolution.

Economic development of England in XVI-XIX centuries: agriculture and land relations, manufacturing and industrialization, banking sphere and the sphere of money circulation, finance and taxes, trade.

Economic development of France in XVI-XIX centuries: agriculture and land relations, manufacturing, banking sphere and the sphere of money circulation, finance and taxes, trade.

Economic development of Germany XVI-XIX centuries: agriculture and land relations, manufacturing, banking sphere and the sphere of money circulation, finance and taxes, trade.

Economic development of the USA (XVII-XIX centuries) : agriculture and land relations, manufacturing, banking sphere and the sphere of money circulation, finance and taxes, trade.

The economic development of Japan in the XVI - XIX centuries: agriculture and industrial production, taxes and finance.

Prerequisites and Economic Effects of Great Geographic Discoveries

In the late XV century the world economy underwent significant structural change: disintegration of the feudal structure and its replacement with a new, improved one. Commerce became international and a need arose for extended market outlets and increased commerce scopes. This was a starting point for world explorations driven by interested motives, i.e. enrichment and commercial profit.

This was the outset of the Age of Discovery (XV—XVIII centuries), a new development stage for the world economy, when new countries and continents were discovered and explored.

The primary reason for the Age of Discovery was the need to meet the public demand for imports and exports of goods, and to expand and increase volumes of trade. Achievements of science and technology in shipbuilding, industry and agriculture enabled capital accumulation. The great geographic discoveries resulted from the crisis of Mediterranean trade triggered by the Turkish conquest of Southern Mediterranean and Azov-Black Sea basins, which prompted

Europeans to find a way out in establishing direct links with the Orient. Concentration of capital allowed direct funding of exploratory voyages. All of them were fitted out by big merchants who expected to receive direct return on investments through increased sales. Joined together, capital, public needs and economic potential led to the following most important geographic discoveries:

- discovery of the New World countries by C. Columbus in 1942;
- discovery of the sea route to India by Vasca da Gama in 1498;
- discovery of North America by J. Cabot in 1498;
- discovery of the sea trade route to Europe and the Orient by A. Nikitin in 1472;
- circumnavigation completed by F. Magellan in 1522.

The great geographic discoveries allowed European countries to establish stable direct contacts with the other parts of the world. By the end of the XVI century the world surface had increased by 6 times. European economy was now in possession of huge material resources. Science was given a new impetus for development by the changed notions of the world and received information about achievements in the Orient. The world market reached a new development stage, with its extended range of sales (sugar, rice, spicery, tobacco, cacao, coffee, tea), severalfold increased trade turnover and spiking sales of well-known, though previously rare, rice and sugar, especially Asian spices. Major international trade associations were formed (for example, the East India Company). This period also saw gradual establishment of the main principle of Europe’s colonial economy: exports of cheap raw materials and food, imports of manufactured goods and later capital as well.

The change in trade routes caused many cities and states to change their specialization and brought about a redistribution of economic and political influence of countries. The trade center was Antwerp in the Netherlands. Efficient trade was assisted by setting up specialized places called exchanges. In the XVI century, an exchange was founded in Antwerp. Eventually, the role of the world trade and credit center passed to Amsterdam and later to London. It was when the international division of labor emerged, i.e. specialization of a country in manufacturing a certain product. New manufacturing technologies were developed and implemented to make production more efficient and internationally oriented.

Profound technical and economic changes occurred in Europe. There was a surge in demand for bread, wool fabrics and metal. This was basically related to drastic alterations undertaken in the military structure, which were a response to the use of firearms and permanent grass roots armies built up in Western Europe. Metalworking production employed water-driven forge hammers, simple types of lathes, drillers and grinders etc. The metal mining industry was equipped with dewatering pumps and hoists, its outputs grew and mines were deepened.

Where new technologies serviced by hired labor were applied, the overall production was determined by a demand for output products, rather than by shop regulations. This required two conditions:

1) future entrepreneurs have amassed enough money to buy equipment, hire workers and construct buildings;

2) workers are free and do not have their own household, i.e. they seek employment out of purely economic necessity.

Thus, the Age of Discovery brought about drastic changes in the world economy structure and in economic and political situation worldwide. As a result, increased sales transformed into new manufacturing technologies and a basis was built for development of capitalism and primitive accumulation.

The First Scientific and Technological Revolution

At the turn of the XIX century the world economy underwent considerable changes caused by intensive development and growth of productive forces, which gave rise to the phenomena known as a scientific and technological revolution.

A scientific and technological revolution (STR) is the attainment by productive forces and economy of a basically new development level, with the scientific and technological sphere becoming the leading economic sector. STR became a prime mover of the world economy.

Drastic changes took place in the machine-building area. Steam engines and mechanized means of production were designed and became widespread, and new economy sectors emerged.

Concentration of capital made it possible to carry out projects requiring large resources and reduce the time needed for research solutions to be implemented in real production. Economic incentives (high income) had a beneficial effect on the integration of production and science. It became commonplace for an industrialist to commission a research investigation in the area of his interest and pay for it. This promoted sciences (chemistry, physics), the achievements of which provided the basis for industrial development. Qualitative changes in manufacturing technologies allowed the fabrication of products needed by consumers. Management became a professional area and one of production resources. STR created economic, social and political conditions to enhance an individual's living standards, which resulted in population growth. STR fostered a drastic change in the essence, structure and dynamics of the world economy. The first STR was a starting point for industrialization whose typical features strongly affected macroeconomic dynamics.

Industrial Revolution: Essence, Sources, Prerequisites and Aftereffects

The period from the XVIII to the XIX centuries saw the world economy undergo global changes in its essence and structure. The previous basic changes provided the basis for emerging capitalism and a new phenomenon known as the industrial revolution.

Industrial revolution is a world process characterized by a series of qualitative changes in socio-economic and political spheres, as a result of manual labor abandoned in favor of machine production.

A. Toynbee (1852—1883) called this process a technological revolution that brought productive forces up to another development stage and changed all life spheres – politics, public administration, agriculture and culture. The source of a technological revolution is radical restructuring of an economy’s industrial sector. The industrial revolution gave rise to an industrial civilization, in which industry and large cities played the primary role.

This period also saw the emergence of a new form of business process – a factory based on machine production and a complex system of cooperation and specialization of labor.

The industrial revolution was based on the following sources:

- invention, introduction and wide use of steam engines;
- invention of a steam locomotive that improved efficiency of communications;
- exploitation of colonial resources;
- exploitation of cheap resources of less developed countries;
- concentration of capital and its allocation to develop and implement new technologies.

The industrial revolution’s prerequisites include:

- division of labor in the manufacturing system;
- invention and wide use of new fabric manufacturing technologies;
- primitive accumulation;
- formation of a hired labor class;
- changes in human psychology, culture and mentality;
- natural public need for new manufacturing technologies;
- growth of urban population;
- reduced number of subsistence households.

The industrial revolution was a logical effect of the combination of various causes and prerequisites. It gave rise to a new process that is still going on – industrialization – the use of machines growing widespread and more sophisticated in all economic domains.

The Second Scientific and Technological Revolution and Evolution of Global Productive Forces

In the late XIX — early XX centuries the second STR brought about a drastic change in the world economy structure. This period saw a leap in production volumes, sophistication of technologies and industrial production structure, development of transportation lines and formation of new economic areas. The needs of industrial production necessitated the promotion of physics, which gave rise to new research fields and significant discoveries. One distinctive feature of the second STR was higher rates and volumes versus the first STR. The second STR affected not only industry, but also economic, political and social spheres etc.

Essentially, the second STR involved the spread of large-scale production and reduction of the cost of goods through increased outputs thereof.

Science became the leading branch of the world economy. While the first STR put production ahead of agriculture, the second STR put science ahead of production. As a result, it was science that determined growth directions for production and agriculture. The notion of knowledge intensive production emerged as did economic spheres completely based on scientific achievements and solutions.

This period saw the emergence of basically new industries (chemical, petrochemical and automotive) that affected the world economy structure.

New forms of ownership and economic activities evolved. Joint stock ownership prevailed in production and farm ownership did in agriculture.

This period also saw the world population grow. The second STR resulted in the population doubling every decade, which created the future global problem of human overpopulation.

As compared to other periods of the world economy, the second STR resulted in dramatically improved living standards, i.e. increased personal lifetime and income, killed epidemics etc.

Development of Capitalism in England and Germany

England is one of the countries with high economic development rates, i.e. their development was revolutionary.

Rapid development of England was due to the following favorable economic conditions:

- support and encouragement of science at the state level, which allowed unique scientific and technological potential to be built;
- increased educational level of most of the population, which provided the basis for implementing scientific and technological achievements;
- concentrated capital fostered the priority production industries and was channeled to support research and development projects;
- improved efficiency of agriculture which promoted urbanization; this process formed workforce for industrial growth;
- absence of major military campaigns due to the favorable geographic location, which promoted the nation's stability and economic welfare.

England's rapid economic growth gave rise to and promoted widespread use of machine production. In the second half of the XIX century the domestic agriculture was not developed as all food products were imported. Agriculture came to be replaced by industry oriented towards international markets. The population switched to the urban lifestyle.

In the second half of the XIX century England became the world's economic leader, while London acquired the status of the world financial center. At the turn of the XX century, however, the country lost its leading positions.

Germany did not enter the phase of active economic growth until the second half of the XIX century, later than all other countries. The reasons were the late breakdown of feudalism, the state's political disunity and lack of centralized administration. It was only during this period that large-scale industry emerged. Economic growth did not begin until after German principalities joined together, within the customs union, into a single state and took place while the state strengthened its role in the economy.

The following methods were used by the state to ensure rapid economic growth:

- artificial raising of domestic and lowering of export prices;
- direct state investment in large-scale industry;
- flexible system of tariffs and import duties.

The use of developed countries' experience and STR accelerated economic growth rates.

Alongside industrial development there was a growth in agriculture, which allowed Germany to become the world's agricultural producer.

TOPIC 5. ECONOMIC DEVELOPMENT OF THE WORLD ECONOMY IN THE XX CENTURY

Questions for the lectures and the seminars:

Economic development in the UK in the XX century: agriculture and land relations, industry, credit and financial sphere.

Germany's economic development in the XX century: the Defeat of Germany in the First World War and the crisis of the German economy, the Second World War and its consequences for Germany

Economic development of the USA in the XX century

The economic development of Japan in the XX century, the Second World War and its implications for Japan's economic miracle.

China's economic development in the XX century

There was an acute problem of uneven economic development of different countries in the early XX century. This necessitated a redistribution of primary economic resources and eventually resulted in World War I (1914—1918). This was a war between the Triple Alliance represented by Germany, Turkey and Austria-Hungary and the Entente including England, France and Russia. World War I involved more than 56 independent states, over 2 billion people and the territories of Africa, Asia and Europe.

The primary goal of World War I was a redistribution of influence areas and economic resources among countries and entering new markets.

The causes of World War I include Germany's need to restore and enhance its political and economic role in the world economy, confrontation of major capital owners' interests, reluctance of leading countries to lose ground and monopolization of primary markets. The outcome of World War I was a complete military defeat of the Triple Alliance member states and the signing of the Treaty of Versailles in 1919. The war also resulted in a sharp slump in the countries' economic growth rates.

The aftermath of World War I:

1. Aggravation of the international political situation due to the socialist regime established in Russia.

2. Decrease in volumes of primary economic resources. The hostilities killed a great number of people, destroyed production facilities and consumed a vast amount of resources.

3. Aggravation of the environmental situation. The used means of warfare proved extremely detrimental to the environment, resulting in contaminated soil, water and air and upset environmental balance.

4. Redistribution of influence areas. The war weakened the leading countries, while the U.S.A., on the contrary, strengthened its positions.

5. Change in the structure of market outlets and production.

Thus World War I inflicted substantial damage to the leading countries' economies and doomed the world economy to a long period of decline. It was not after a long period of time that the previous growth indices were restored.

1929—1933 saw a global economic crisis break out. It was caused by the discrepancy between production outputs and consumption potential, i.e. consumers could not buy the full amount of produced good. It began on the New York Stock Exchange by a plunge in stock prices. The period when production outputs declined in various industries is known as the Great Depression. The outcomes of this period were twofold reduction of industrial outputs, threefold decrease in farm produce prices, more than 6,000 banks declared bankrupt and threefold reduction in international trade volumes.

The economic crisis contested the basics of free economy and perfection of economic self-regulators. The then economic theories proved invalid.

The crisis which broke out in the U.S.A. spread to the rest of the world. The effect of the crisis was different: most affected were large economically and industrially developed countries (England, Germany and Japan) and least affected included underdeveloped nations with prevailing agrarian economies.

There were two strategies that could help overcome the world economic crisis:

1) Socialist strategy consisting in that the state should hold the entire amount of regulating functions. This strategy was pursued by the U.S.S.R.

2) Capitalist strategy based on the need for state intervention only in basic economic processes. This strategy was pursued by the U.S.A. and Canada.

The first world economic crisis had a significant effect on further operation and growth of the world economy and invalidated the free economy theory, extending the state regulation area.

Prerequisites and Economic Aftereffects of World War II

By the mid XX century, the aftereffects of the first economic crisis had been almost completely eliminated in the world economy. Economic growth began and industrial outputs and international sales were on the rise. Yet, the positive achievements were eliminated by World War II of 1939— 1945 launched by Germany, Italy and Japan.

Prerequisites and economic aftermath of World War II were as follows:

- failure to meet the terms of the Treaty of Versailles signed in 1919;
- Germany’s military potential strengthened enough to launch war;
- dissatisfaction of Germany, Italy and Japan with their political and economic status in the world economy;
- contradictions in economic interests of major capital owners – financial moguls;

- possible response to a military aggression from developed countries;
- monopolistic access to primary resources and sales markets: the countries which had launched the war were unable to approach them except by means of forcible seizure;
- Hitler making his appearance on Germany's political stage concentrated the nation's basic political and economic resources in his hands.

The causes of World Wars I and II were almost identical: access to resources and market outlets, political and economic repartition of the world and establishment of monopoly power over the world economy. But World War II ended in the total surrender of Germany, Italy and Japan, the countries that had unleashed the war.

The aftereffects of World War II were as follows:

- enormous losses of primary economic resources – human, material, natural and production;
- further political empowerment of Russia;
- highly deteriorated environmental situation: active use of chemical weapons and soil devastation had an adverse impact on the environment and economy;
- further strengthening of the U.S.A. that concentrated the bulk of capital and production facilities as the result of the war;
- structural change in primary industries.

World War II was followed by the cessation of economic growth worldwide and a long period of decline. Many countries were devastated and international trade ceased almost completely. There was a redistribution of capital and production facilities that concentrated in the U.S.A., the only country that had not suffered from the war due to its favorable geographic position.

World War II embroiled more than 60 nations, killed about 57 million people and destroyed national wealth worth of $700 billion. There were two clear poles in the world economy – the U.S.A. and the U.S.S.R. (socialism – capitalism, accordingly).

The two-pole structure of the world economy established itself after World War II. The first pole included the U.S.S.R. and other countries of the socialist camp, while the second camps comprised the U.S.A. and other capitalist countries. Their confrontation was primarily caused by ideological differences. Capitalism implies the presence of private property, encouragement of free trade and economic activities, and the state's restricted involvement in and influence on the economy. Socialism implies complete elimination of private property and its transfer to the state, absence of free trade and economic activities, and the state's total regulation of the economy.

The XX century saw the formation of neocolonialism, a new system of countries' dependence.

Neocolonialism is a system of unequal political and economic relations among states aimed at maintaining the status of exploitation of some countries and domination of others.

This system emerged after the breakdown of the colonial system and continues to exist at present. Territorial division of the world and recognition of some states as independent did not allow them to take equal rank in the world economy. Concentration of capital in developed countries helped them take dominating positions. Investments in developing countries made them even more dependent and subject.

The new trends gave rise to a new economy combining traditional capitalism, free economy and socialism. In was based on a mixture of all existing types, forms and models of economic policy and is thus known as mixed economy.

The second half of the XX century saw the formation of a system of countries – the U.S.A., Japan and EC – whose economies have exerted a powerful effect on the world economy.

TOPIC 6. THE WORLD ECONOMY AT THE TURN-OF-THE-CENTURY (XX-XXI)

Questions for the lectures and the seminars:

The development of the world economic system in the beginning of the XXI century.

The global financial crisis 2008-2010: the causes and consequences of the financial crisis, changes of the global financial system.

An event that affected securities markets and world economies was the 2008-2010 financial crisis (stock market crisis) which grew into a global economic crisis.

This crisis was triggered by a collapse of the U.S. speculative stock market, which involved all stock markets across the world.

The crisis resulted in a crash of securities of both U.S. and foreign companies and led up to the smashup of the world's largest investment banks that only specialized in securities trading and had previously been the principal players in the stock market.

The key factors responsible for the crisis were:

- Bretton Woods monetary system;
- dollar becoming a world currency;
- dollar issue abuses of the U.S. government;
- domination of the U.S. stock market over other stock markets worldwide;
- explosive growth of the derivatives market in 1982—2008;
- market play by major U.S. investments banks specializing in speculation;
- growing domination of the speculation sector in the securities market; transformation of the whole securities market into a predominantly speculative one.

The world’s leading governments are now undertaking concerted efforts to emerge from the crisis, the most important ones being as follows:

• All the world’s leading central banks made an agreed decision on concurrent reduction of interest rates. For example, central banks of some countries decreased the discount rate (and also credit cost for banks) to 2% per annum (instead of usual 8—10%).

• The world’s leading governments (primarily that of the U.S.A.) chose mass infusion of new money into economy (printing of required money amounts) as the key method to deal with the crisis.

• The European Union countries and Russia decided to provide state guarantees for bank loans to the maximum possible extent.

• The G8 countries adopted a financial crisis management plan consisting of five items:

1. use all available tools to support systematically important financial institutions and prevent their failure;

2. take all necessary steps to unfreeze credit and money markets and ensure that banks and ensure that banks and other financial institutions have broad access to liquidity and funding;

3. ensure that our banks and other major financial intermediaries, as needed, can raise capital from public as well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses;

4. ensure that national deposit insurance and guarantee programs "are robust" to allow people to have confidence in the safety of their deposits;

5. take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets.

It was for the first time in history that a crisis was dealt with globally through concerted efforts of governments and central banks of the world’s leading countries.

To date, the crisis management measures taken by the world' leading countries and the world community have yielded the first results, the most important ones being as follows:

• the crisis did not led to a collapse of the entire world economy and crisis developments were prevented;

• despite harsh criticism of the dollar as a world currency, the United States managed to assert the fundamentals of the current financial world order; the dollar retained the role of a world currency;

• some leading economies showed economic growth already in the summer of 2009. The government of Germany, France, Russia and Japan announced the cessation of crisis in their countries.

Despite the first signs that the world economy is overcoming the crisis, a complete recovery has yet to occur.

By now the crisis has taken new forms:

• While a decline in the most developed world economies has ended, the beginning growth is very slow and sore.

Even the leading world economies still face high unemployment, very limited possibilities for banks to credit business and reduced demand resulting in bankruptcy of many companies.

• "double-dip recession" started that affected countries with weal economy. A striking example of "double-dip recession" is the economic collapse in Greece in the spring of 2010.

TOPIC 7. ECONOMIC HISTORY OF RUSSIA

Questions for the lectures and the seminars:

Economic development of the old Russian state. The period of Rus' of Kiev: craft and trade (IX-XII centuries). Economic development of the Russian centralized state in XV-XVII centuries. The Economic reforms and development of Russia in the epoch of Peter the Great (first half of XVIII century). The economic development of Russia in the second half of the XVIII century. The development of

Russia in the XIX century: economic development of the Russian state in the first half of the XIX century and the Economic development of Russia in the second half of the XIX century. The Economic development of Russia in the early twentieth century: agrarian reform P.A. Stolypin, economic growth in 1910-1913, revolution and development of the USSR, the second world war and its consequences, The development of the economy of the USSR in the second half of the XX century. The development of Russia in the 2nd half of the 90th, the Reforms in Russia in the 90th, Russia's economy at the beginning of XXI century.

Economic Development of Kievan Rus

Before the IX century the Slavs were an ethnicity scattered across Eastern Europe, characterized by a mainly nomadic lifestyle and subsistence farming. The key distinctive feature of the Slavs was the absence of slavery.

The IX century saw the formation of a single Old Russian state with Kiev as its center, known as Kievan Rus. The Slavs lived by gathering, hunting, bee keeping and fishing. They were mostly peasants, part of whom depended on large landowners. The other part of population were independent people who did the farming on community land. Gradually, community land became concentrated in the hands of a grand prince, intensive farming came to replace extensive farming and active use was made of a plough and hoe for tillage.

The economic system of that time was based on subsistence economy, i.e. all the essentials were produced within a closed household. With the adoption of Christianity in 988—989, complex relations were formed among different social classes – church, secular authorities, boyars etc. As a result, the highest clergy took possession of the principal power as well as large land areas.

This period saw intensive growth both of external and domestic trade carried on by merchants. Merchantry became a privileged group. The main goods for external trade were furs, wax and honey. Initially, precious metals – gold and silver – were used as a monetary unit, but the introduction of money was certainly necessary for further development of trade.

In the XI—XII centuries Kievan Rus became a feudal state established under the influence of Christianity. Apanage princes' and boyars' private landholding emerged. The economic system of this period was based on the use of work of dependent peasants who had become property of boyars and princes. Fighting for economic independence of Pskov, Novgorod and Kiev led to feudal disunity.

State policies were based on providing private and public security. A system of duties and tributes was formed, which were only taken in the established form and amount, rather than how a prince would find it necessary. The "natural servitude" notion was introduced, i.e. a person was supposed to work a certain time for a prince or his master. In this period the guarantees for property right to land were clearly defined.

The period of Kievan Rus positioned Russia as the world's leading economic power. The developed system of foreign economic and domestic trade required economic regulation. It is for this purpose that the Russkaya Pravda, the state's principal law governing the primary economic spheres, was created. This legal code governing economic and social life was first compiled by Yaroslav the Wise, while subsequent rulers amended and updated it. This law recorded the status of Kievan Rus' economic and social structure.

The period of Kievan Rus resulted in the formation of a single Old Russian state and the introduction of a single monetary unit. It created the conditions for further development of the Russian state, having laid the foundation for economic prosperity.

Russia's Economy in the Middle Ages

Economic development of Russia in the XIII—XVIII centuries went on side by side with world development and was characterized by the establishment and evolution of the feudal economy structure. There were certain differences related to historical, geographic, climatic and cultural features. The vast territories made free market relations impossible, which resulted in a strengthened role of the state. Already in the XIII century the state began to play the leading role in economy, concentrating capital and power. The main feudal lord of Russia was the state that accumulated and controlled considerable land resources.

Russia's economy of the Middle Ages developed as follows.

In the period of feudal disunity (XIII—XV centuries) caused by the Tartar Yoke there was a general economic decline, isolation from the world economy and disruption of commodity-money flows and relations. Extensive farming methods failed to completely meet the food needs of the population. Paying tribute depleted the country's economic resources. Church concentrated considerable monetary and land resources. Simple production came to replace complex production. It was not until the late XIII century, with urban growth, that handicraft trade began to develop intensively. Cities specialized in economic activities, for example, Ryazan grew crops, while Primorye produced furs. Moscow, Tver and Novgorod became trade centers. This period saw the emergence of the first trade associations ("sotnis") similar to European guilds. In the second half of the XIV century, apanage principalities started coinage. A single monetary unit was only introduced under the rule of Dmitry Donskoy. In the XV—XVIII centuries a single centralized state was formed. The country's territory increased severalfold. While agriculture became the leading economic branch it still used extensive farming methods. Cities represented politico-military settlements adjoined by villages. This was a period of active handicraft development. The state promoted handicraft trade by commissions for public needs. Gradually, merchant guilds joined manufactories. There was a growth of the domestic market, to which fairs were of great importance. Merchants grew more oriented towards external markets (international trade became active).

Development of Russia in the XVII – XIX Centuries

Beginning from the XVII century the Russian State took a protectionist position aimed at promoting the national trade and production.

In the XVIII century there were attempts to form industrial capital. Modernization of the country carried out by Peter the Great in 1700—1725 went beyond production and, having affected all the aspects of social life, took the form of social modernization. Under the rule of Peter the Great factories were built and industries (mining, metallurgical, defense, textile etc.) grew stronger, yet agriculture remained the country's primary economic branch. Whereas Peter the Great's reforms drastically changed the economic structure, they were never completed.

The establishment of industrial capitalism was affected by the following economic factors:

- significant influence of the state on development of the industrial sector;
- incomplete primitive accumulation; there were no major capital owners in the country during this period;
- shortage of capital needed to develop domestic industry;
- limited and underdeveloped domestic market; most of the population could not buy new goods and it was impossible to apply mass production technologies;
- most of the population failed to realize the need to design and implement new production technologies;
- persistence of serfdom making the national economy take an extensive way of development;
- keen competition on the part of England preventing Russia from entering the world industrial market.

Affected by those economic factors, Russia lagged far behind the developed nations in the early XIX century. Industrial capitalism was built up concurrently with serfdom and the remnants of feudal relations.

One distinctive feature of the Russian economy from Kievan Rus to the 1860s was its agrarian mature. Whatever the country's development period, the Russian economy always rested on the Russian agriculture. The following factors determined the stability of such an agriculture basis:

• vast territory – availability of vast farmland (as distinct from Europe where each piece of land was evaluated and people were inclined to engage in other activities) and natural conditions for agricultural development, cheap and accessible land – the primary means of production;

• deep pagan traditions underlain by the idea of close connection between man and his labor and nature. Despite the official adoption of Christianity in 988, is did not oust paganism completely. A few centuries after 988 ordinary people celebrated pagan Shrovetide and used pagan notions ("mother land" etc.);

• archaic Christianity version (called orthodox in the West) – Eastern Christianity (Orthodoxy) that condemned entrepreneurship, striving for profit, success and predominance over surrounding people and, on the contrary, called for humbleness, shiftlessness and ascetism as distinct, for instance, from Protestantism, whose one of the primary principles goes as follows: "work better to live better");

• community system of rural population's self-organization of life and work. The community is kind of a social unit based on the principles of collectivism and mutual assistance. The community had a tacit code of conduct passed down from generation to generation: take care of whoever is by your side and they will take care of you (and so it was often the case); keep a low profile and do not strive to be better than others; share; defend common interests jointly with other community members; have respect for seniors etc. As a result, the subject of economic and social relationships was the community, rather than an individual peasant. The community paid debts of a peasant and handled economic issues; community members substituted one another in work and shared crops obtained by teamwork. Land was divided into private sections and a community portion. The community was a certain human microworld never to be left. On the other hand, the community provided some social security to peasants, but on the other hand it encouraged idleness, lack of initiative and responsibility, and restrained the striving to compete and succeed;

• the feudal-monarchic system of serfdom and the landlord/nobility elite that was not interested in changing the existing state of things.

Owing to the above factors, the agrarian economic structure based on traditions, autocracy and the feudal-serfdom system was stable throughout centuries, despite the opposition on the part of the educated part of society and proactive peasantry.

After the centuries of stability, which had only been disturbed by times of trouble occurring once in a while, the feudal-agrarian system of serfdom was completely destroyed in Russia in less than fifty years (approximately in 1861-1907).

This process was triggered by the abolition of serfdom by Alexander II and ended in Stolypin's agrarian reform. The 1861 reforms involved the following:

- bondage of most of peasants to land was abolished;
- personal freedom of peasants was declared from February 19, 1861;
- they were liberated without land, however, and that was the main problem of the reform (in the context of bondage the peasant and land were a single whole – although he was not free individually, he worked on land);
- after the reform, liberated peasants faced the problem of having to pay for the land they had previously worked on kind of for free, i.e. if a peasant wanted to get land he was supposed to buy it out at an exorbitant price (by installments during 50 years), whereas most of peasants did not have money for that.

It means that Alexander II did not liberate peasants but sold freedom at a high price. Peasants were kind of liberated but without a land plot.

Therefore, in order to survive, most of peasants had to return to their landlord (former serf owner), this time as hired farm laborers. Seeing that liberated peasants feel hopeless in their new status, a former landlord (and a new capitalist) hired peasants who had nothing else to do and paid for their work at minimum rates. For most of peasants their humiliating status of serf came to be replaced by the status of a formally free but rightless hired worker of limited means. Most of agricultural capitalists did not need many workers so they did not take on all of ex-serfs, thus leaving millions without subsistence. Many were discontent with the new economic oppression in the country. So millions of peasants, in search of subsistence, had to leave for cities where they normally had neither housing nor social relations. Thus, a huge army of very cheap workforce appeared in Russia.

Therefore, in the 1860s, both domestic and international capital that came to Russia triggered a rapid growth of capitalism. Expecting a fast return on investment, capitalists worldwide found money wherever they could (some borrowed and many sold their business in Europe) and went to Russia to launch production. Plants and factories of foreign and domestic capitalists which employed cheap workforce mushroomed all across the country. Very fast, plants became surrounded by settlements where workers only stayed overnight and where there were insanitary conditions, crowding and domestic discomfort. Such factory settlements scattered all across the country gave rise to a whole class of workers dissatisfied with their lifestyle. It is on such people that revolutionaries relied.

However, not all of ex-serfs became factory or agricultural proletarians. A small part of peasants became rich and began hiring workers.

Development of Russia in the XX Century

Notwithstanding the radical change in the economic and social structure, the hardships of transition to capitalism were somewhat alleviated by communities that continued to exist defending hired peasants against capitalists (by mutual assistance), on the one hand, and preventing the development of capitalism, on the other hand (difficulty of withdrawal from a community and fear to lose its support still restrained millions of peasants from fleeing to cities and inhibited the initiative of those peasants who wanted to and could become well-to-do). Reforms of new Prime Minister P.A. Stolypin carried through in 1906-1909 inflicted the final blow on the community. Laws were adopted that made the withdrawal from a community a much easier process and provided for comprehensive governmental support to those willing to work and those who had quit a community (loans on favorable terms, relocation to undeveloped land in Siberia and other regions at public expense, and other benefits).

As a result of the measures taken by Stolypin's government hundreds of thousands of able-bodied peasants withdrew from communities and became successful small farmers and some of them – magnates. At the same time the influence of communities diminished considerably.

Furthermore, in 1907, Stolypin redeemed land repurchase debts before term, thereby increasing the number of small owners. 1909—1913 saw capitalism thriving in Russia. 1913, the year of the 300th anniversary of the Romanov dynasty, is considered to be one of the most favorable and successful in the pre-revolutionary history. During this period Russia became Europe's largest grain and produce exporter. According to some European analysts' estimates, given such growth rates (as were achieved in 1913), Russia should have become the most developed country in the world by 1950. The critical prerequisites that could have made this forecast come true were political stability and active steps of the government to improve the social situation.

Neither of the two was achieved and done, however, as the government only gave little attention to social problems. At the same time Russia found itself embroiled in World War I of 1914—1918, for which the country was prepared neither technically, nor economically, nor morally. Despite macroeconomic achievements and thriving capitalism in Russia, capitalism itself had a very sore effect on most of the population.

Since there was hardly any labor and social laws in the state, the bulk of workers were deprived of rights and capitalism took the most ruthless forms. Millions of workers were discontent with exploitation and poverty. World War I was an intolerable burden for Russia's developing capitalist economy. Besides, because of the war, 10 million of workers – former peasants – received weapons and learned to use them. As soon as an opportunity arose, brainwashed with propaganda of left-wingers and enemies of Russia, they turned their weapons against their own commanders.

In February-March 1917, mass public unrest culminated in the downfall of tzarism and in October (November) 1917 power was seized by Bolsheviks.

The agrarian problem in revolutionary Russia was resolved radically. Immediately after the February Revolution the slogan "Land to the Peasants!", which was proposed not only by Bolsheviks, was very popular. Because after the February Revolution participation in the war was declared voluntary, millions of soldiers abandoned the front lines and, taking their weapons along, went to their villages all across the country.

1917 saw mass seizure of land by peasants who returned from war. Almost in every village, peasants who returned from war with weapons began destroying landowners' manors and plotting land without waiting for the Constituent Assembly to deal with the agrarian problem.

As a result, in 1917, there were a great number of small owners willing to work only for themselves, rather than for sales (as large commercial farms did). This indirectly gave rise to "war communism". A sudden change in the husbandry system (peasants only worked to satisfy their own needs) resulted in the state facing a dire shortage of bread and food (other reasons were social disruption in the country and the Civil War). All this forced Bolsheviks to undertake prodrazvyorstka – forcible confiscation of grain and other agricultural produce from peasants.

It is due to prodrazvyorstka, terror and forcible mobilization of millions of peasants to the Red Army that Bolsheviks managed to win the Civil War. But the cost of the victory was total destruction of the national economy that was managed by administrative rather than by economic methods.

In March 1921, as it faced hard times (widespread famine, the Kronstadt rebellion and other anti-Soviet uprisings), the government decided to switch from "war communism" to the New Economic Policy (NEP). Essentially, NEP involved the following:

• replacement of prodrazvyorstka by prodnalog (a tax on farmers, payable in the form of raw agricultural product);

• recovery of market methods of economy management;

• legalization of small private business (private cafes, restaurants, hairdresser's parlors, stores etc.);

• introduction of state capitalism (large plants and factories were managed as capitalist enterprises, but they were owned by the state rather than capitalists);

• building a system of trusts – large state-controlled monopolies;

• introduction of the gold chervonets – a freely convertible currency based on gold.

The transition to NEP resulted in gradual revival of the national economy. By 1929, the U.S.S.R. economy had the following features:

• strong state sector in the industry;

• developed private sector in the agriculture;

• developed private sector in the area of services.

However, the national economy was still backward. There was no heavy industry, electricity remained yet to become widespread and the country was mainly agrarian.

The following problems were pressing by 1929:

• industrial backwardness of the U.S.S.R;

• threat of a new intervention by industrially developed European countries;

• rural capitalism actually restored by the late 1920s;

• continuous shortage of food for public needs.

In was largely for those reasons that in 1929 the country's leadership decided to abandon NEP (gradual restoration of capitalism) and go back to command economy. Decisions were also made concerning:

• industrialization;

• collectivization in the agriculture;

• transition to planned economy that would be subject to a state-adopted five-year plan, rather than to market laws.

Industrialization is a policy of forced creation of heavy industry according to a five-year plan. Construction of many (about 1,500) metallurgical, machine building, defense and other plants was supposed to provide the U.S.S.R.

with what was necessary for defense and industrial development. For the purposes of industrialization, population was mobilized in a paramilitary manner to the “sites of construction under the first five-year plans”.

While industrialization, on the one hand, improved the chances of the U.S.S.R. to survive in the future war, for which the world’s leading nations were preparing from the early 1930s, it was carried out at the expense of the peasantry that had just recovered from the Civil War. The problem was that the mobilization of nearly all the population was hardly possible without similar mobilization of the peasantry to work for the state. Put simply, for one half of the nation to build plants, the other half (peasantry) should work to feed the first half, rather than for themselves. Peasants did not want that. For the most part, peasants sought after their own self-interest of small owners and were unlikely to agree to work for the state to their own detriment. So the country’s leadership thought it was necessary to harshly submit peasantry to the state’s interests and to suppress their own interests. That is what collectivization was about.

Collectivization is the 1929-1933 policy of forcible deprivation of individual land plots (received back in Stolypin’s time, in 1917 and later) from peasants, making such plots state property and forcing all peasants in the U.S.S.R. to work on collective farms under supervision of the state and primarily in the interests of the state. All produce produced by collective farms was now owned not by peasants, as previously, but by the state.

There were two types of new farming units:

• kolkhozy (collective farms) – integration of all peasants (usually residents of one village) into a single farm. Those were restored communities, this time state-controlled. A collective farm was headed by the chairman who was actually an appointed public official and who made peasants work and paid wages. It should be noted that the first chairmen were not peasants but workers and party officials mobilized to villages.

• sovkhozy (state farms) – major state-owned agricultural associations known for their large area, large-scale production and stricter state discipline.

While collective farms were restored communities of peasants of one village, state farms were, in essence, restored large commercial farms of landlords.

Also introduced in 1932 was registration, i.e. an obligation to live (and work) strictly at the assigned place. Moving to another city and registration at a new place were impossible, except when authorized by the state. No employment was possible without registration.

In 1932—1957, peasants had no passports, were assigned to a particular collective or state farm and were prohibited, without permission of a collective farm chairman (state farm director) and local authorities, from leaving their collective farm, working elsewhere, living in another city etc. Without the passport they would not be registered and employed.

Thus, during the collectivization of 1929-1933, Bolsheviks, in fact, restored communities (collective farms) and large landlord farms (state farms) that they controlled, and recreated what was serfdom in essence.

The overwhelming majority of peasants took a negative attitude to collectivization. Collective farms were mainly welcomed by the poorest peasantry. Declared as voluntary, collectivization was, in fact, a forcible process. Even though it enabled industrialization, collectivization brought about major social disruptions, such as peasants' protests, armed resistance, sabotage and frustration of state plans.

It its determination by any means to provide construction workers with food and exporting grain to buy equipment for plants, the U.S.S.R. leadership had to increase grain storage plans and take produce from collective farms, leaving nothing to peasants and even regions. Such a policy, general disturbance of the rural management system and other factors caused widespread famines in Ukraine and the Volga region in 1932—1933.

This notwithstanding, collectivization and industrialization in the U.S.S.R. were successfully completed.

By 1937 (the time when the second five-year plan was accomplished) the U.S.S.R. had built a powerful command economy that stood the test of war and grew even stronger in the war years.

Distinctive features of the U.S.S.R. command economy:

- its full subordination to authorities (for example, first secretaries of regional party committees managed plants almost directly using administrative management methods);
- exacting production planning, minimum independence;
- special production planning and management bodies – the State Planning Committee, the State Logistics Committee and branch ministries (Ferrous Metallurgy Ministry, Non-Ferrous Metallurgy Ministry etc.);
- large bureaucratic apparatus of production managers;
- powerful industry with neglected agriculture;
- militarized nature, powerful military industrial complex;
- noneconomic incentives for shock workers (honors, letter of award, orders, promotion at generally equal pays);
- chronic shortage of goods, food crises;
- "shadow economy" and underground capitalism, especially in national republics – Georgia, Azerbaijan, Uzbekistan and the Baltic Republics.

By the beginning of the Great Patriotic War of 1941-1945 Germany surpassed the U.S.S.R. by three to four times in terms of the total industrial output. Therefore, the first six months of the war were the most difficult ones for the Soviet economy. The U.S.S.R., nevertheless, managed to develop its industrial potential and achieve higher economic efficiency than Germany. For example, the Soviet industry is known to have produced (per 1,000 t of melted steel) five times more tanks and weapons than Germany by the end of the war.

In the postwar years the nation worked hard to recover its economic potential, build new industrial plants and develop the social sphere.

The economic system that established itself in the country after World War II is known as developed socialism.

Distinctive features of socialist economy:

- total nationalization of property – everything is owned by the state;

- public distribution system for nearly all production factors;
- planned and mobilization model of economic development;
- restricted domestic market;
- lack of effective incentives for improving efficiency of economic activities;
- slow economic growth.

There was a strong raw materials shift in the Soviet economy in 1960—1970. Rich oil and gas fields were discovered and developed in Western Siberia and oil and gas pipelines were laid to Europe.

The 1970s were the "golden era" for the Soviet economy. As oils and gas prices soared after the 1973 Arab-Israeli War, the U.S.S.R. began earning excess profits from oil and gas supplies to Europe, which drastically improved the country's living standards and created the illusion of well-being.

In 1985, however, there was a plunge in oil prices and the U.S.S.R. economy found itself facing a severe crisis. It should be noted that the Soviet economy had also encountered systemic crisis developments before the 1985 crisis.

The key problems confronting the Soviet command economy before its crisis and collapse in the 1980s:

- imbalance between heavy and light industries. The U.S.S.R. had a very strongly developed heavy industry producing goods of Group A (military equipment, machines, ships, aircraft, tanks etc.) and an underdeveloped light industry producing goods of Group B (consumer goods, such as clothing, household goods, cars etc.). It was impossible to develop the light industry as it was poorly funded, whereas all economic resources were channeled to develop the heavy industry and the military industrial complex);
- there were no work incentives in the context of equality and low pays, which resulted in low labor productivity and generally slow growth rates;
- low technology level, overage equipment;
- chronic shortage of nearly all types of goods.

As a result, by the early 1980s the U.S.S.R. lagged far behind the West in the science and technology area. The national economy was more and more losing in competition with developed countries and exhausted internal development reserves, while the command machine was no longer able to accelerate economic growth. Besides, most of the population in the U.S.S.R. led primitive lifestyles and were in need of essentials (deficit), which caused increasing discontent. Agriculture faced a continuous crisis.

In 1985, the new U.S.S.R. leadership headed by M.S. Gorbachev embarked on a course of restructuring the economic and political systems, which implied the "improvement of socialism". They took half-way measures, such as partial democratization of the political system, economic accounting at plants and election of directors. Those methods, however, did not and could not yield any results. The political and economic crisis worsened. 1991 saw the dissolution of the U.S.S.R. and its economy on the verge of bankruptcy.

At the same time, Russia's new leadership headed by B.N. Yeltsin started breaking down the Soviet command economy and launched market reforms. The following basic measures were taken to deal with the situation:

- actual cancelation of household deposits;
- price liberalization;
- establishment of freedom of trade;
- voucher privatization of state-owned assets. All state-owned assets in the country were roughly evaluated and their value was divided by the population.

Each person had a share in (common) state-owned assets. This share – about RUB10,000 (cost of a good car) – was symbolized by a privatization voucher. According the plan of the "privatization fathers" (A. Chubais and others), people were supposed to exchange vouchers for shares in state-owned assets and become owners (buy plants and factories for vouchers). In fact, however, vouchers fell in value due to inflation. Besides, most of people had no idea how to invest vouchers and sold them for next to nothing to different funds and investment companies.

Vouchers created the illusion of everyone participating in privatization. In fact, however, privatization was only beneficial to a small group of people.

These were fast and sore reforms carried through by a team of young reformers headed by Y. Gaidar and are known as “shock therapy” (1992—1994).

This policy had severe social impacts, such as:

- hyperinflation, depreciation of money;
- impoverishment of population;
- breakdown of the social security system;
- overdue pays;
- criminalization of society;
- embezzlement of state-owned assets.

Yet, the reforms laid the basis for market-oriented economy. Underway in 1994-2000 were the processes of building a normal financial and budgetary system, currency strengthening and establishing new economic relations.

1998 was a period of default and graphically demonstrated that it was no longer possible to pursue the reforms being implemented. Therefore, some of the reforms were suspended or completely discontinued. Some steps were also taken to stabilize the economic situation both in Russia and in the international market.

2000—2008 were a period of favorable developments, for example:

- gross product growth;
- earning excess profits from high oil and gas prices;
- disinflation;
- ruble stabilization;
- increase in Russia’s foreign-exchange reserves.

In 2000-2008, Russia’s budget income grew by 17 times, which was what the population could not help feeling. Russia became one of the world’s eight most developed countries.

The second half of 2008 saw the outbreak of a global financial crisis that is still adversely affecting the Russian economy as well. Having started in the banking sector, the crisis spread to the industrial sphere. Banks restrict the granting of credits, revise the terms of earlier signed credit contracts, refuse to conduct transactions involving cash withdrawals from bank accounts etc. Some banks have already declared their bankruptcy.

Most of the companies in the industrial sphere show slower production rates or face serious sales problems. As a result, many companies close down, downsize or change operations.

The crisis had an especially damaging effect on the banking sector.

In early 2010, the crisis in the Russian economy began waning, but some analysts predict a double dip recession. Whether or not it will take place largely depends on the Russian Government's professionalism.

To overcome the global financial and economic crisis, representatives of Russia, the EU and the U.S.A. conduct consultations at the highest level, but adverse crisis developments in the global economy continue affecting all the world economies. Yet, even if the crisis ends Russia will face a serious economic problem of being technologically inferior to developed countries.

In 2010, the Russian President set the primary objective to the Russian Government, which is modernization of the national economy and the country as a whole.

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