Soon, though, he was promoting "new thinking." By this he meant foreign policy based on shared moral and ethical principles rather than Marxist-Leninist concepts of unending conflict with capitalism. Rather than flaunt Soviet military power, he sought to exercise political influence instead. He was a dealmaker. He pulled Soviet troops out of Afghanistan. He and US President Ronald Reagan agreed that they would remove their short- and mid-range nuclear missiles from Europe. And in a July 1989 speech, Gorbachev insisted on "the sovereign right of each people to choose their own social system."

For years, the Soviet Union had held to the Brezhnev Doctrine—that "socialist" (communist) states needed to stay socialist. With his speech, Gorbachev came within a whisker of rejecting that doctrine.

The General Pattern of Economic Growth Following World War II

Once Gorbachev came to power, he became such an international celebrity that everyone learned at least a few words of Russian. One of them was glasnost. It's hard to find an English equivalent, but it means something like *open public discussion of problems*.

This was a wholly new concept in the Soviet Union. Had the Russians had it in the years following World War II, they might have understood their own economy better. The Soviet Union had developed a powerful industrial economy, despite the turmoil of the early Stalin years. After World War II, the country first rebuilt and then expanded its economy. The economic growth rates of the Soviet Union between the early 1950s and 1975 were impressive. They averaged 5 percent per year. This outpaced the United States and kept pace with growth in many Western European economies.

But those numbers were misleading—they hid a lot of inefficiency. The Soviet Union hit impressive growth rates by making "extensive investments." That is, the Soviets put lots of labor, capital, and resources into their system. But prices set by the state did not reflect actual costs of these investments. This led to misallocation of resources—putting money in the wrong place. Government interference with business decisions kept industries from adapting to new opportunities. It also hindered productivity growth.

The quality of Soviet goods and services wasn't very good, either. That was another unhappy truth the growth figures hid.

The Soviet Union's Slow Economic Decline

The Soviet Union paid a high price for the stability it had under Brezhnev. He and his team avoided tough political and economic change. And that doomed the country to the decline it experienced during the 1980s. This deterioration was a sharp contrast to the energy that marked the early days of the Soviet experiment.

The Soviets stuck with the central planning that Stalin introduced, even though this model didn't fit with the modern world that was taking shape all around them. Eventually the tricks they used to make their growth rates look better than they actually were stopped working. The Soviets didn't have unlimited resources. Soviet birthrates were declining, especially in the European parts of the country. That meant fewer workers were available, especially in the areas where factories were located. Capital, resources, and technology were also in decline. By the mid-1970s, official average growth rates in the Soviet Union were down to 2 percent per year.

That might have been acceptable in a mature, fully modern economy. But the Soviet Union wasn't that. It was still playing catch-up with the United States, with Europe, and with Japan. By the 1980s Asian economies were giving the Soviets some tough competition.

Soviet standards of living, never very high in the first place, were getting worse. And thanks to the global communications revolution—tools like phones, computers, satellites, radios, and televisions—ordinary Soviet citizens began to see and understand their relative position in the world. Gorbachev came to power under these conditions.

Gorbachev understood that the Soviet Union could not keep up with the United States in developing new military technology. This made it all the more necessary to do whatever was needed to take the chains off the Soviet economy and let people use their own initiative and creativity to create economic growth.

The Effects of the Fall of Communism

As it turned out, Gorbachev was the last general secretary of the Soviet Communist Party. He preached glasnost and also perestroika, or *restructuring of the economy*. But his attempts at reform from within didn't work. The people of the Soviet Union weren't content with half-measures. They demanded more and the system collapsed.

In June 1991 Boris Yeltsin, a popular reformer, became the Russian Federation's first democratically elected president. This federation was the successor state to the Soviet Union. The former Soviet republics of Russia, Ukraine, and Belarus formed the Commonwealth of Independent States in December 1991. On 25 December, Gorbachev resigned as Soviet president. Eleven days later, the Soviet Union ceased to exist.

The Transition From Central Planning to a Market-Based Economy

Russia went through immense stress during the 1990s as it moved from a centrally planned economy to a free-market system. Two factors came together in 1998 to cause a serious crisis:

- The government had trouble raising money to fund public services
- The government borrowed too much money to pay for its budget deficit.

Moscow Mayor Boris Yeltsin strolls through Red Square with his wife on May Day in 1989 following festivities.
Photo by Melanie Stetson Freeman / © 1989 The Christian Science Monitor

In June 1991 the popular reformer became the Russian Federation's first democratically elected president.

It only made matters worse that this was playing out at a time when prices for Russia's main export earners (oil and minerals) were down. At the same time, investors worldwide were nervous generally because of a financial crisis in Asia.

The value of the ruble—Russia's currency—abruptly fell 60 percent. Foreign investors took their money and went home. Payments and commercial transactions seemed to get lost going through the banking system. Inflation hit 85 percent annually—a dangerously high rate.

It was all over fairly quickly, however. A string of nine boom years followed, with growth at a healthy average annual rate of 7 percent, until the global economic crisis hit in 2008.

The Policies of Boris Yeltsin and Vladimir Putin

The crisis back in 1998 came toward the end of Boris Yeltsin's eight-year term as president. Yeltsin had long been seen as a reformer. He had promoted the kinds of policies that free-market Westerners endorsed. But by the time of the 1998 economic crisis, he appeared increasingly erratic, both personally and in policy terms. He named and then dismissed several prime ministers. Many worried that free-market reforms had lost legitimacy and that Russia itself might be lost to some post-communist chaos.