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**ECONOMIC AND MONETARY DEVELOPMENTS  
IN LATVIA (1945–1991)**





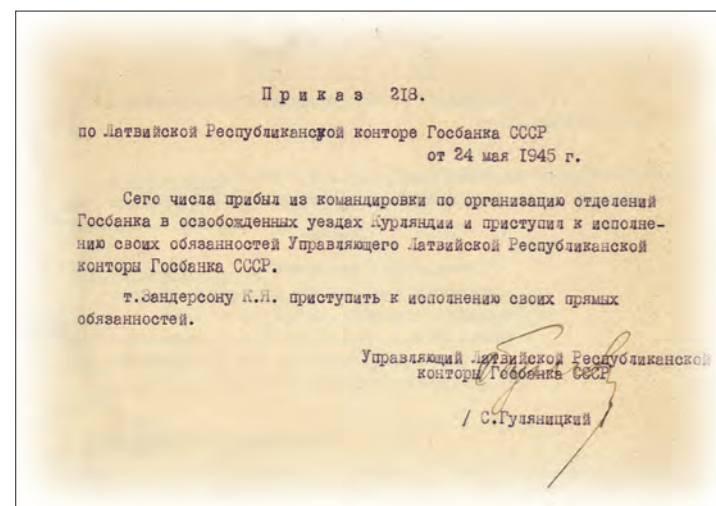


LATVIA'S ECONOMY AND MONETARY POLICY IN LATVIA (1945-1949)

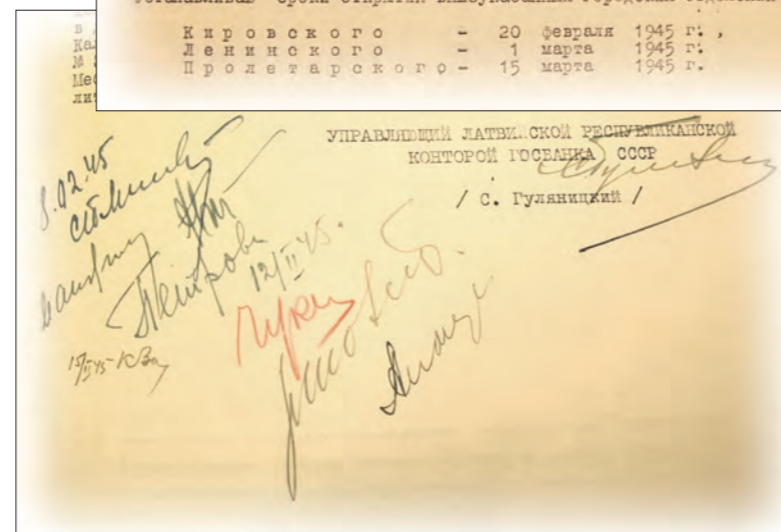
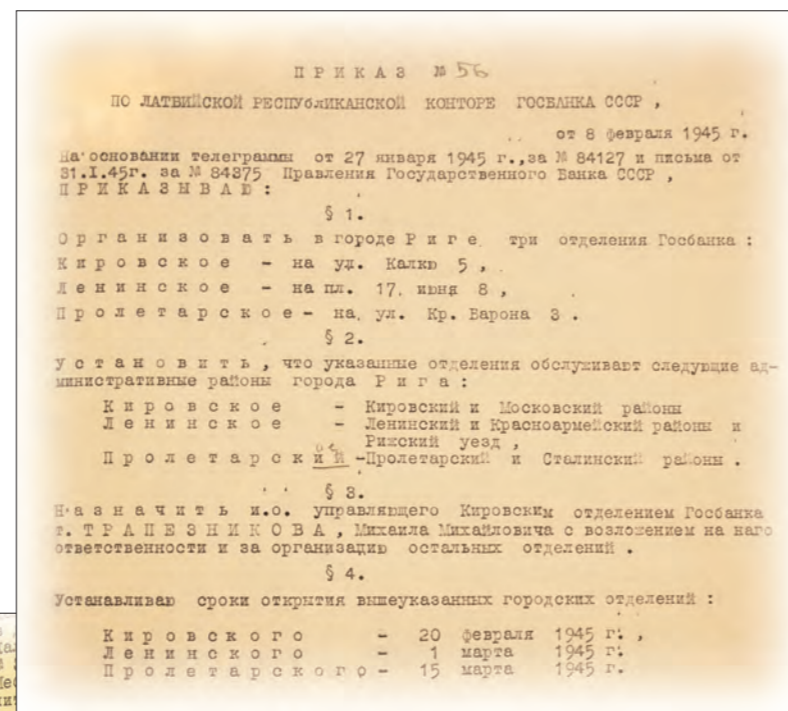
**Latvia following Soviet reoccupation**

The USSR used its victory in the World War II to spread its influence and expand its territory, *inter alia* in the Baltic States, where the Soviet occupation regime was restored and its direct representation bodies (bureaus of the Central Committee of the All-Union Communist (Bolshevik) Party) were established. The bureaus functioned until 1947 and monitored the operation of the local authorities. The plenipotentiary of the State Committee for Planning of the Council of Ministers of the USSR (USSR State Planning Committee) in the Latvian SSR had similar tasks.

The USSR economy was managed on the basis of administrative planning where the main principle was setting quantitative targets for a period of five years. The USSR State Planning Committee developed the above plans identifying specific tasks from the sectoral, subordination, social (breakdown by form of property) and territorial perspectives. The five-year plans were further broken down into years and quarters with subsequent implementation checks at the close of the respective periods. This system gave rise to one of the peculiarities of the Soviet economy – the calendar fluctuations of the output and labour productivity (intensification and slackening of production at the end and at the beginning of each quarter and year respectively).



8 February 1945 Oder No. 56 of S. Gulianitsky, Manager of Latvia Republican Office of the State Bank of the USSR, outlined the particulars for the implementation of the requirement raised by the management of the State Bank of the USSR to establish three branches thereof in Riga, whereas Order No. 218 witnesses the establishment of such branches in Courland right after the termination of military operations. BLA, F. 202, descr. 4, f. 8, pp. 59, 60 and 244.



**Industry and labour force**

The post-war situation turned out to be especially favourable for continuing with the industrialisation policy of the Soviet regime in Latvia. Both spontaneous and organised flows of economic refugees in search of a better life from other regions of the USSR to Latvia where the life quality was still considerably higher than elsewhere in the USSR started.

Soviet economists justified the active industrialisation and immigration in the post-war period by the fact that the population of Latvia had decreased significantly during the war, whereas the availability of residential and industrial premises had remained almost at the pre-war level.<sup>1</sup> One can agree that those factors facilitated immigration, yet the course of the industrial development ran contrary to the interests of Latvia. Moreover, the Soviet regime was not in the least concerned about the shortage of labour when it decided to deport more than 40 thousand people outside the territory of Latvia in 1949.

Large industrial plants were built in the post-war years, which accounted for 80% of all industrial output already in 1947. Metalworking and mechanical engineering grew significantly (to 48% of total industrial output in 1950) and the authorities could report that Latvia's industrial output had exceeded the level of 1940 already in 1947, whereas in 1950 it had expanded three-fold. In 1945–1950, the number of people employed in industry increased from 75 thousand to 160 thousand.<sup>2</sup>

**Restrictions on private crafts and trading**

During the first post-war years, several similarities with the so-called new economic policy era in Soviet Russia of the 1920s when the wartime communism was replaced by economic liberalisation were observed. The option of authorising private businesses with employed workers which in the Soviet terminology was equal to exploitation, however, was merely a short-lived solution to specific problems rather than a long-term national policy.<sup>3</sup> The Soviet regime was well-aware of its inability to organise and monitor the supply of various goods to the population directly after regaining its territories. Moreover, private stores were even forbidden to close after the return of the Soviet rule. Yet already at the end of 1946 and in 1947 any issuing of licences to private traders and individual craftsmen was discontinued and taxes were raised.

**The role of banks in the USSR, monetary policy and the monetary reform of 1947**

The foundation of the USSR banking system was laid at the beginning of the 1930s and this system, with minor changes, functioned until the end of the 1980s. The main tasks of the banks were to organise the currency circulation and payments

in the USSR, implement the budgetary payments, grant loans to the economy on the basis of the approved economic plans as well as deliver international payments. Short-term and long-term bank loans were primarily granted to public enterprises and organisations and considerably less often to individuals. Although formally subordinated to the Ministry of Finance until 1954, in practice the State Bank of the USSR acted upon the instructions of the leadership of the USSR and the USSR State Planning Committee. Any circulation of a foreign currency was forbidden in the USSR and possession of a foreign currency was a criminal offence. The USSR government had mandated the State Bank of the USSR to establish the exchange rates of the USSR ruble vis-à-vis other global currencies, yet currency was not traded freely. Branches of the State Bank of the USSR called republican offices were established in Latvia.

The monetary policy of the USSR was closely linked to both the pre-set targets of the national planned economy as well as the political goals of the state. For many years, the Soviet regime had indulged in money-printing, particularly during the World War II when the currency in circulation grew approximately four times. The money had largely lost its purpose and was partly replaced by coupons for food and manufactured goods. In order to boost the money circulation, the state established commercial shops and commercial restaurants where the commodities in short supply could be purchased at considerably higher prices. For example, in 1946 the commercial stores sector accounted for 721 million rubles of the overall turnover of goods (3.2 billion rubles) in Latvia.<sup>4</sup> The prices on agricultural goods purchased using the coupons were more than 10 times lower than the respective market prices. Consequently, there were several prices for one and the same commodity in the USSR.

The leadership of the USSR realised the need to normalise the currency circulation in the state and adopted a resolution on a monetary reform and on cancelling the coupons for food and manufactured goods on 14 December 1947. The most characteristic traits of the 1947 monetary reform were as follows:

- the paper money in circulation (including that in the treasuries of businesses) was exchanged for the new design money at the ratio of 10 : 1;
- the circulation coins retained their value;
- a differentiated approach was applied in revaluation of the individual savings: a ratio of 1 : 1, 3 : 2 and 2 : 1 was applied to the savings of up to 3 thousand rubles, 3–10 thousand rubles and over 10 thousand rubles respectively;
- a large part of domestic government bonds (except the issue of 1947) depreciated 3–10 times;

Table 1. BUDGETARY REVENUE COLLECTED IN LATVIA (1945–1949; millions of rubles)

Year	Aggregate revenue	Funds transferred to the USSR budget	Funds transferred to the budget of the Latvian SSR
1945	2 438	1 701	737
1946	3 601	2 799	802
1947	4 594	3 315	1 279
1948	4 458	3 286	1 172
1949	4 397	3 119	1 278
Total	19 488	14 220	5 268

Sources: SAL, F. 327, descr. 20, f. 14, pp. 4–18; f. 20, pp. 2–20; f. 45, pp. 4–18.; f. 76, pp. 2–10; f. 77, pp. 2–20; f. 85, pp. 3–25; f. 86, pp. 2–30; f. 118, pp. 2–10; f. 137, pp. 2–15; f. 148, pp. 3–28; f. 166, pp. 2–17.

- the value of deposits on public enterprise accounts remained unchanged;
- the deposits on kolkhoz and cooperative company accounts were revaluated at the ratio of 5 : 4;
- universal prices and free trade (imposing quantitative limits for commodities that could be sold to a single person) were introduced in all commodity groups.

The monetary reform was highly beneficial for the state and restored the backing of the currency and its normal functions; nevertheless, it was carried out at the expense of the population and because of that was essentially a confiscatory reform. The Soviet historiography points out that the reform dealt a blow to profiteering and helped get rid of counterfeits previously printed by the Nazi Germany.<sup>5</sup> Those who had accumulated cash savings suffered considerably more. The timing of the reform coincided with the measures implemented by the Soviet regime to restore restrictions on the temporarily allowed private initiatives. The Baltic population which was still significantly engaged in private business, particularly in agriculture, was hit especially hard.

Overall, 413.6 million rubles of cash were withdrawn from circulation in Latvia.<sup>6</sup> Most of the 88 074 depositors did not suffer any losses, yet 4 799 depositors had bank deposits ranging from 3 to 10 thousand rubles and 1 296 had deposited over 10 thousand rubles. Their losses totalled 15.9 million rubles which was 18% of the aggregate deposits by private persons in Latvia.<sup>7</sup>

#### Sovietisation of agriculture

The Soviet regime tried to restore the state of Latvia's agriculture as it was on the verge of the German attack as soon as possible. Another land reform was implemented with a view to reinstating the results of the land reform carried out in 1940 and additionally punishing those who had collaborated with the Germans. The land belonging to those persons was confiscated or downsized to 5–8 hectares. Part of the farmers, foreseeing the future political consequences of the Soviet regime, gave up their land voluntarily. A state land fund with 1.5 million ha of land was established. The land reform was the first step on the road to achieving the main goal of the USSR regime, i.e. collectivisation. Various methods were applied: model kolkhozes were established, aggressive tax policy was implemented, repressions and intimidation were used. The regime succeeded in forcing the farmers to join the kolkhozes in large numbers only after the deportations of March 1949.

When starting the collectivisation, the USSR regime restricted the rights of cooperative organisations to buy in agricultural outputs, whereas in 1949 these rights were abolished altogether.

#### Taxes and budget

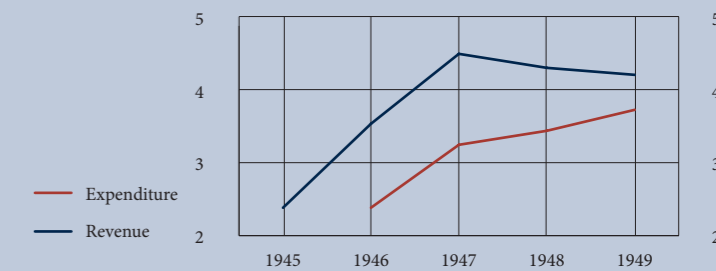
During the period of the Soviet occupation, the financial flows were organised in quite a complicated manner: through the republican and all-Union budgets. Latvia was a territory controlled by the USSR via local authorities to whom specific functions of the executive power were delegated and the rights to manage certain financial resources were granted. The proportion of those resources changed in the course of time. In 1945–1949, 73.0% of Latvia's revenue was transferred to the USSR budget (see Table 1 for the amounts; see Chart 1 for the revenue and expenditure of that period). Part of this amount later returned to Latvia in the form of the USSR military spending and as financing to the economy (most often via the USSR line ministries).

Large amounts were spent on military purposes: these expenditures even exceeded the aggregate budgetary spending of the Latvian SSR. For example, in 1946 the budget expenditure of the Latvian SSR totalled 763 million rubles, whereas the USSR budget expenditure in Latvia amounted to 1 648 million rubles (including 1.2 billion rubles spent by the army and repressive authorities). In fact, the revenue earned on Latvia's territory was used to sustain the USSR occupation troops dislocated there as well as large amounts were spent to cover the USSR expenditure outside the territory of Latvia. Consequently, the delusion of the myth stubbornly nurtured by the USSR historiography that the Latvian economy was restored in the post-war period at the expense of the USSR budget becomes very obvious.

The biggest contribution to the Latvian SSR budget was made by the revenue from turnover tax and most of that revenue was transferred to the USSR budget (see Table 2).

Large amounts were also collected as corporate profit payments and various taxes imposed on agriculture, private craftsmen and traders. The agricultural tax was the only economical means by which the Soviet power stimulated collectivisation. Taxes in agriculture increased 4–5 times in comparison with 1941, and those imposed on the farms labelled as kulak farms grew even 10 times.<sup>8</sup> In 1946, 172.4 million rubles were collected in Latvia as agricultural tax, whereas in 1947 and 1948 the respective amounts were 316.7 million rubles and 361.4 million rubles. Half of those tax collections were transferred to the USSR budget. Estates in the value of 152.4 million lats were confiscated from the population deported to the USSR in March 1949.<sup>9</sup> Regular domestic borrowing of the government should also be considered an additional tax, as the population was obliged to buy the issued bonds.

Chart 1. AGGREGATE LATVIAN SSR BUDGET AND USSR BUDGET REVENUE COLLECTED IN LATVIA AND EXPENDITURE IN LATVIA (1945–1949; billions of rubles)



Sources: SAL, F. 202, descr. 1-a, f. 1, pp. 2–150; F. 327, descr. 20, f. 14, pp. 4–18; f. 20, pp. 2–20; f. 45, pp. 4–18; f. 76, pp. 2–10; f. 77, pp. 2–20; f. 85, pp. 3–25; f. 86, pp. 2–30; f. 118, pp. 2–10; f. 137, pp. 2–15; f. 148, pp. 3–28; f. 166, pp. 2–17.

Table 2. TURNOVER TAX REVENUE IN THE LATVIAN SSR (1945–1949; millions of rubles)

Year	Turnover tax revenue	Funds transferred to the USSR budget	Funds transferred to the budget of the Latvian SSR
1945	1 229	768	461
1946	2 567	2 185	382
1947	3 392	No data	201
1948	2 803	2 551	252
1949	2 754	2 330	424
Total	12 745	7 834	1 720

Sources: SAL, F. 327, descr. 20, f. 14, pp. 4–18; f. 20, pp. 2–20; f. 45, pp. 4–18.; f. 76, pp. 2–10; f. 77, pp. 2–20; f. 85, pp. 3–25; f. 86, pp. 2–30; f. 118, pp. 2–10; f. 137, pp. 2–15; f. 148, pp. 3–28; f. 166, pp. 2–17.



**LATVIA'S ECONOMY AND MONETARY POLICY DURING THE PERIOD OF STALINISM AND NATIONAL COMMUNISM (1950-1959)**

**Increased role of the local authorities in public administration**

The 1950s can be characterised as the period of stabilisation of the Soviet regime in Latvia. Latvia's population, particularly after the agricultural collectivisation, started to put up with the fact that the Soviet regime was going to be a long-term phenomenon and became more active in the political and economical life. After Stalin's death, the grip of the central authorities of the USSR slackened and the leaders of the Latvian SSR could implement more independent policies. Initially, the position of the leaders of the Latvian SSR was expectant (which was objectively understandable, as the top officials of the communist party and the government had been in office since 1940 and were used to submit to the dictate of Moscow), yet after Stalinism was officially condemned at the 20th Congress of the Communist Party of the USSR the situation changed. At the plenary session of December 1956, the Central Committee of the Communist Party of the USSR adopted several important resolutions which started the economical and also the political decentralisation. Soon after that, the Latvian SSR leaders at their meeting with Nikita Khrushchev, the 1st Secretary of the Communist Party of the USSR, in Moscow expressed the view that it was necessary to restrict immigration and the construction of large industrial plants and that local inhabitants knowing the Latvian language should be recruited as leading staff. Khrushchev supported the view of the leaders of the Latvian SSR in concept.<sup>10</sup> In the years to follow, a process nowadays called national communism was observed in Latvia. The economic development was no longer based on the state-scale macroeconomic plans, but on the local consumers' interests rather. The end of the 1950s was the time of economic growth, increase in welfare and hopes. As a result of decentralisation, the Council of Ministers of the Latvian SSR controlled the industrial plants producing 97% of the industrial output in Latvia. Nevertheless, the national communists had many adversaries who, supported by Moscow, ousted the followers of the national communism ideas from the positions of power in 1959 and the years to follow.

**National communists and the issue of the future of industry**

One of the main intentions of the national communists was to limit the industrial growth and tailor the industrial development to the interests of the local population. In 1958, the so-called seven-year plan was developed at the level of the USSR. It was an ambitious planning document assuming extremely rapid economic growth until 1965. Within the context of this plan, Latvia was supposed to double the output of the mechanical engineering and metalworking industries and build several new plants. The State Planning Committee of the Latvian SSR prepared the respective plan for Latvia based entirely on the instructions provided by the State Planning Committee of the USSR. Therefore, the plan failed to gain unanimous support from the leaders of the Latvian SSR and counter-arguments to challenge the plan were sought, for instance, by pointing out the shortage of energy resources (in 1958, the electricity consumption per worker in Latvia was two times lower than the USSR average). The social consequences of the excessively rapid industrial growth were also highlighted. Poor organisation of work and living conditions as well as low salaries resulted in labour-related problems. In the first nine months of 1958, 39 thousand workers quit their jobs at the large industrial plants in Latvia and the staff turnover reached 30%. The seeming advantages gained by dislocating workers in Latvia had disappeared as the housing development was clearly unable to accommodate the increase in the number of workers. The population of Riga had doubled in the period 1944-1956, whereas the housing had expanded by 5%.<sup>11</sup> The officials openly admitted that the life quality was lower than that of the independent Latvia.<sup>12</sup>

**Agriculture**

In the second half of the 1950s, Latvia's agriculture started to recover from the consequences of the Stalinist policy. With the state purchasing prices increasing (see Table 3), the output also expanded.

At the end of the 1950s, it already became profitable to sell the output to the state. Nevertheless, a large part of the output was still produced by individuals (more than a half of milk and meat in 1958). These were no longer individual farmers but people employed in collective farms who very often directly or indirectly, legally or illegally, at an increasingly larger scale used collective farm, i.e. state-owned, resources to produce their outputs.<sup>13</sup>

**Budget**

A significant increase in the budgetary revenue signalled very strong economic growth in the second half of the 1950s (see Chart 2).

Through implementing the USSR reforms aimed at decentralisation of the economic processes, the share of revenue collected in Latvia which was transferred to the budget of the Latvian SSR grew significantly. In 1959, already half of all budgetary revenue collected in Latvia was transferred to the budget of the Latvian SSR (see Chart 3).

Nevertheless, even in the 1950s a large share of the revenue collected in Latvia was used to cover the expenditure of the USSR outside Latvia. Only in 1954, the funding received by Latvia from the USSR budget exceeded the contribution made into that budget as a result of the compensations paid out of the USSR budget for the purchasing price differences on agricultural goods (see Chart 2).

Regardless of the USSR leadership's efforts to balance revenue with expenditure, every year the USSR was forced to additionally issue overall more than 5 billion rubles. Only some regions and republics were able to balance their currency circulation and even take money out of the circulation in the common interests of the state. The place of Latvia and its role in the USSR is well characterised by the data featured in Table 4.

This was achieved due to the successful economic policy and good trade organisation in Latvia (and the Baltic republics in general). Latvia had accumulated extra stock of goods that could last 12 trading days (only Estonia had smaller stock that could last 3 trading days). Latvia had the leading position in the USSR in terms of providing services to the population: its population spent 7.7% of its income on services (7.1% in Estonia, 4.5% in Kazakhstan, 4.4% in Turkmenistan). Thus the life quality in Latvia in 1959 was one of the highest in the USSR and only the elite metropolises (Moscow and Leningrad) as well as both other Baltic republics could compete with Latvia's performance. In 1959, the income of the population totalled 10.7 billion rubles, whereas the expenditure amounted to 11.4 billion rubles. A similar tendency of spending more than was actually earned could also be observed in the years to follow and the difference was created by visitors buying goods on the territory of Latvia.<sup>14</sup> It is also worth mentioning that only 970.7 million rubles were paid out in pensions, which is less than 10% of the budgetary expenditure. In the second half of the 1950s, the influence of the USSR budget on the territory of Latvia waned and the republican budget grew more significant and proportionally bigger. In 1959, the goods turnover on the territory of Latvia reached 9.7 billion rubles.

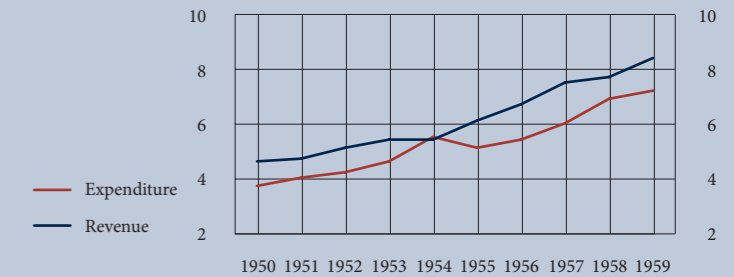
The budget expenditure of the Latvian SSR budget totalled 4.8 billion rubles in 1959, including 2.4 billion rubles spent on financing of the economy and 2.0 billion rubles on social and cultural purposes. Together with the USSR budget expenditure (3.1 billion rubles, including 1.9 billion rubles of military spending), the spending on the territory of Latvia totalled 7.9 billion rubles.<sup>15</sup>

Table 3. AVERAGE PAY FOR SUPPLIES OF AGRICULTURAL GOODS (rubles)

Year	Meat (live weight; t)	Milk (t)	Eggs (1 000 pcs)	Wool (100 kg)	Cereals (t)	Potatoes (t)
1950	840	415	240	1 147.8	106.1	66.8
1954	3 730	1 113	228	1 257	110	185
1959	12 821	1 353	750	4 021	737	556

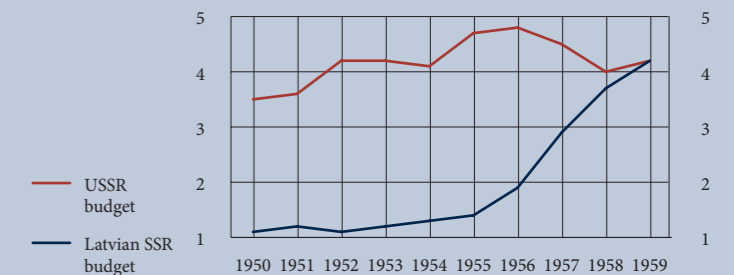
Sources: SAL, F. 277, descr. 8, f. 246, p. 28; f. 699, p. 22.

Chart 2. AGGREGATE LATVIAN SSR BUDGET AND USSR BUDGET REVENUE COLLECTED IN LATVIA AND EXPENDITURE IN LATVIA (1950-1959; billions of rubles)



Sources: SAL, F. 202, descr. 2, f. 684, p. 22; f. 754, p. 41; f. 819, pp. 40-45; f. 880, pp. 20-27; f. 929, pp. 10-13; f. 991, pp. 4-9; f. 1048, pp. 4-10; f. 1085, pp. 3-6; f. 1138, pp. 3-6.

Chart 3. DISTRIBUTION OF REVENUE COLLECTED IN LATVIA BETWEEN THE BUDGETS OF THE LATVIAN SSR AND THE USSR (1950-1959; billions of rubles)



Sources: SAL, F. 202, descr. 2, f. 684, p. 22; f. 754, p. 41; f. 819, pp. 40-45; f. 880, pp. 20-27; f. 929, pp. 10-13; f. 991, pp. 4-9; f. 1048, pp. 4-10; f. 1085, pp. 3-6; f. 1138, pp. 3-6.

Table 4. CURRENCY CIRCULATION IN THE USSR (millions of rubles)

	1958	1959
USSR total	+5 351	+5 259
Russian SFSR	-1 921	-904
Latvian SSR	-591	-643
Lithuanian SSR	-59	-223
Estonian SSR	-15	-32
Ukrainian SSR	+4 919	+3 983
Kazakhian SSR	+1 265	+1 928
Turkmenian SSR	+229	+303

Source: SAL, F. 270, descr. 1-c, f. 1343, p. 123.

Note: Net currency issue is reported with a plus sign, whereas net withdrawal of cash from circulation with a minus sign.





The official reflection of the economic developments following the World War II: The collective farmers of Cēsis district kolkhoz "Stalīna ceļš" receive the first grain harvested in 1949 as an advance payment (the author of the photo unknown); exports of tractors from Riga port in 1950 (a photo by Grigorijš Akmoļinskis); laying of drain pipes in Dobele district kolkhoz "Nākotne" in 1952 (the author of the photo unknown); and the opening of the first electrified railroad line Riga-Dubulti on 19 July 1950 (the author of the photo unknown; collection of the National History Museum of Latvia).

Episodes of life documented during the so-called Brezhnev era: sugar-beet harvesting with the new 6-rpw harvester "KS-6" in Jelgava district kolkhoz "Avangards" in 1976 (a photo by V. Līšicins), A. Osīte, a weaver of Valmiera Glass Fibre Plant (Prize-winner at All-Union Professional Competition), working on hydraulic machines on 20 July 1979 (a photo by Imants Prādelis), assembling shop for the piano "Rīga-116" at Riga Musical Instruments Factory on 13 February 1978 (a photo by Jevgenijs Fadejevs), minibus assembling shop at Riga Bus Factory "RAF" in 1965 (a photo by V. Filatovs) and fishermen's kolkhoz "9. Maijs" in Riga, Mangalsala, on 22 November 1982 (at the forefront – cod barrels loaded at port, in the background – ocean fishing boat; a photo by V. Līšicins). (Collection of the National History Museum of Latvia.)





LATVIA'S ECONOMY AND MONETARY POLICY (1960-1985)

The 1960s and 1970s can be considered as the peak years for the USSR economy. That was determined by a combination of domestic and external factors. The leadership of the USSR started to manage the economy more pragmatically, from 1965 to 1969 several resolutions were passed (the so-called Aleksey Kosygin (Chairman of the Council of Ministers of the USSR from 1964 to 1980) reforms) increasing the degree of independence for some enterprises; material incentives and lending became more dominant tools in enhancing the economic growth as opposed to various coercive mechanisms (threats, punishment, repressions etc.). A major influence was also exerted by an external factor: the USSR leadership found a successful and highly profitable foreign trade niche, i.e. the exports of energy resources, primarily oil products. Oil extraction grew four times in the period of 1960–1985 and revenue from the exports of oil products to western countries reached 25 billion US dollars in 1980 (based on the US dollar exchange rate in 2000).<sup>16</sup> These proceeds were spent on purchasing agricultural goods, primarily grain, abroad. This enabled the Soviet regime to keep prices at a constant level for a long time, yet it did not succeed in improving the food supply to the population significantly.

Nevertheless, problems piled up during that period, bringing the country closer and closer to a financial and economic crisis in the 1980s. For a long time, there had been no balance between the revenue and expenditure and the ambitious foreign policy of the USSR required increasingly larger resources. Military spending which grew considerably after the 1979 invasion into Afghanistan, funds spent to support various allied countries (about 20 billion USD annually in the 1980s based on the US dollar exchange rates of the respective period) as well as the need to import agricultural goods and unwillingness to raise the prices resulted in a significant burden on the USSR budget. The problems faced by the state were concealed from the population, but the nation could sense them when looking at the shop stands getting emptier and emptier. In 1982, the income of the USSR population in monetary terms did not increase for the first time since the end of the World War II. The backing of the ruble with real goods was on a constant downward path.

During this period of time, Latvia's economic sectors were more focussed on producing a higher value added products in comparison with the USSR overall, although this trait tended to become less characteristic in industry. The profit earned by Latvia's enterprises was overall higher than elsewhere in the USSR. Latvia's agriculture refocused on cattle breeding where the output was better paid by the state than that of the crop farming sector. Moreover, the quantities of imported grain used in cattle breeding increased constantly.

**Industry and labour force**

At the beginning of the 1960s, the energy supply to Latvia's economy was improved considerably. The energy systems of the Baltic republics were interconnected in 1961 and a gas-pipe was built in 1962 enabling Riga CHPP to use gas fuel. Pļaviņas HPP started operation in 1966 and Riga HPP in 1976. Ignalina NPP which was built in Lithuania and started operating in 1984 prevented the shortages of electricity in the region as a whole, whereas Latvia mostly imported the required electrical energy. Only the electricity generated by the hydropower plants can be considered purely Latvian-produced as Riga CHPP ran on imported energy resources. In fact, Latvia was only able to generate less than one third of the required electrical energy (see Table 5).

Latvia also lacked adequate labour force for the ambitious industrial development. The economy was developed by deliberately increasing immigration or, according to the terminology used at that time, stimulating the mechanical growth of the population. In 1960, when setting a longer-term economic development perspective, it was expected that within the period of next 20 years immigration will total 100 thousand people. Unfortunately, in reality it was much higher. Immigration was both organised and spontaneous. Large numbers of USSR militaries chose Latvia as the place of their retirement, thereby further deteriorating the demographic situation in Latvia.

There were attempts to correct the disproportions of the industrial development recognised in the 1950s at least in a territorial sense (new industrial plants were now dislocated throughout the territory of Latvia), yet the proportion of the consumer goods manufacturing declined considerably (see Table 6).

**Monetary policy, budget and prices**

In 1961, a monetary reform was implemented which, contrary to other monetary reforms of the Soviet regime, did not sustain direct losses to the population. All currency in circulation, deposits and prices set by the state were denominated at the ratio of 10 : 1. The expected reform was announced well in advance (already in May 1961) and more intensive shopping was observed only for a couple of days. Simultaneously with the currency change, the ruble was devalued 2.25 times vis-à-vis both gold and the US dollar.<sup>17</sup> As a result of the reform, imported goods became more expensive, prices on agricultural goods in kolkhoz markets also grew.

In January–March 1961, over 1 billion rubles were exchanged in Latvia. Moreover, the population left about half of that money on accounts with savings banks. Metal coins were not exchanged, as people hoped that they would preserve their nominal value, similarly as in 1947. Of 16 million rubles circulated in Latvia in metal coins, only 22% were exchanged. Neverthe-

less, these hopes were met only partly, as solely the 1-, 2- and 3-kopeck coins were deemed valid.<sup>18</sup>

The Soviet regime succeeded in keeping the prices broadly unchanged for a long time, with the exception of the price rises implemented in May 1962, whereas the wages and salaries increased. In theory, the purchasing power of the population improved, yet it was impossible to spend the earnings, as the backing of the currency in circulation with real goods decreased constantly. Resident deposits with savings banks increased significantly (see Table 7). The backing of one ruble at the disposal of the population (in the form of cash, securities and deposits) with real goods declined from 62% in 1970 to 30% in 1985.<sup>19</sup>

Prices in the public sector remained unchanged, while those in the kolkhoz markets rose and in 1980 were already 2.57 times higher than the prices at state-owned shops.<sup>20</sup> The price stability in the public sector had a positive effect on the overall stability in the state, yet the prices increasingly diverged from the real costs of goods, particularly in the food sector. Maintaining constant prices requested an ever growing contribution from the national budget. The list of deficit goods also continued to get longer and longer. In 1984, this list, recognised by the state, already contained 157 commodities.<sup>21</sup>

From 1970 to 1985, only the prices on alcohol grew significantly at the beginning of the 1980s, while the prices on milk and dairy products, bread, meat, eggs and breadstuffs as well as on non-food commodities remained unchanged for 15 years. As the prices were left unaltered for a very long period of time, keeping them constant became an increasingly more political issue. At the same time, wages increased and the real income grew by roughly 50% from 1970 to 1985, with the average salary being 195.90 rubles a month.<sup>22</sup> The income per household member of a collective farmer exceeded the average income of the population of the urban areas by 48% in the 1980s.

**The increase of the role of the State Bank of the USSR in the national economy**

At the end of the 1950s and the beginning of the 1960s, restructuring of the banking system was carried out in the USSR. In 1954, the State Bank of the USSR became directly subordinated to the Council of Ministers of the USSR (previously, to the Ministry of Finance). In 1959, the Agricultural Bank, Utilities and Housing Construction Bank and Utilities Bank were reorganised (the latter no longer existed as an independent body) and were, in fact, taken over to the State Bank of the USSR. In 1961, the Construction Bank of the USSR was formed on the basis of the Industrial Bank of the USSR and was also transferred under the subordination of the Council of Ministers of the USSR from that of the Ministry of Finance. The system of

savings banks came under the direct auspices of the State Bank of the USSR in 1962.

Starting with 1966, the role of the State Bank of the USSR in lending increased significantly in relation to the economic reforms, as lending was recognised as a preferred method of economic stimulation. Before that, capital investment was mostly financed from the national budget, whereas from 1966 onwards from the funds of the enterprises and by long-term loans. In Latvia, loans also increased from 1.2 billion rubles in 1970 to 3.9 billion rubles in 1985, yet in 1985 household loans totalled merely 57 million rubles or slightly more than 1% of the total loans granted.<sup>23</sup>

Table 5. ELECTRICITY GENERATION AND CONSUMPTION IN LATVIA (millions of kWh)

Year	Electricity generated	Including at hydropower plants	Electricity consumed
1960	1 672	372	1 773
1985	4 961	2 986	9 451

Source: Latvijas PSR tautas saimniecība. 1985. Rīga : Avots, 1986, 45. lpp.

Table 6. PROPORTIONS BETWEEN THE PRODUCTION OF CONSUMER GOODS AND PRODUCTION INPUTS IN THE USSR AND LATVIA (%)

Year	USSR		Latvian SSR	
	Production inputs	Consumer goods	Production inputs	Consumer goods
1960	72.5	27.5	46.6	53.4
1984	74.9	25.1	57.5	42.5

Sources: Latvijas padomju enciklopēdija. 8. sēj., Rīga : Galvenā enciklopēdiju redakcija, 1986, 496. lpp.; Latvijas PSR tautas saimniecība. 1985. Rīga : Avots, 1986, 73. lpp.

Table 7. HOUSEHOLD DEPOSITS IN SAVINGS BANKS

Year	Aggregate deposits (millions of rubles)	Average deposit (rubles)	Average deposit	
			in urban areas (rubles)	in rural areas (rubles)
1970	567	647	646	649
1985	2 520	1 454	1 396	1 661

Source: Latvijas PSR tautas saimniecība. 1985. Rīga : Avots, 1986, 296. lpp.



A field with sheaves of flax in kolkhoz "Vaidava" of Valmiera district in 1977. (A photo by R. Rencis; collection of the National History Museum of Latvia.)



### Agriculture

Intensive development of cattle-breeding continued in Latvia's agriculture in the 1960s. Beginning with the 1960s, the state invested approximately one third of all economic investment into agriculture (about 0.5 billion rubles each year within the period of 1970–1985). Within the period of 1970–1985, the area of ameliorated land in Latvia expanded from 1.1 million ha to 2.0 million ha, whereas the electricity consumption in agriculture at discount prices grew more than 3.5 times. In 1970 and 1983, the purchasing prices on agricultural goods were increased and the supplies of mineral fertilisers and imported mixed animal feed grew significantly.

Despite the sizeable public investment, agriculture was unable to fulfil its primary task of supplying the population of the USSR with food. Investment gave a positive impulse in the 1960s when the productivity in agriculture improved notably; however, in the 1970s and 1980s the growth stopped. Latvian cattle-breeding used increasingly larger quantities of imported feed (in mid-1980s, up to 1.5 million tons of fodder cereals were imported in Latvia each year, which was approximately the same quantity as produced locally); the areas of agricultural land shrank considerably; cereal and fodder harvests remained broadly at the same level from 1970 to 1985, despite a significant increase in the supplies of mineral fertilisers. The state bought an increasingly larger proportion of the output produced by Latvia (the purchases of potatoes and grain doubled within the period 1965–1985, while those of meat tripled)<sup>24</sup> and exported it abroad. This created a certain controversy between the improvement of the living standards of those employed in agriculture and the deterioration observed in the food supply in Latvia overall. Moreover, Latvia's agriculture, the same as industry, had become dependent on imported raw materials.

The size of collective farms changed: they were merged and the share of state farms or sovkhozes further expanded. Most kolkhozes with poor performance results were transformed into state farms. In 1960, there were 1 122 kolkhozes and 162 sovkhozes, whereas in 1985 the respective numbers were 331 and 248.

### GORBACHEV'S REFORMS AND THE COLLAPSE OF THE USSR (1985–1991)

In 1985, Mikhail Gorbachev became the leader of the USSR and began economic and political reforms, starting with an anti-alcohol campaign and big investments in mechanical engineering. One could feel the influence of Yuri Andropov here (he acknowledged that the main driver of economic growth should be tighter discipline of the workers, scientific and technical revolution and savings of resources and raw materials rather than changing the economic model of the state).

The ignoring of the financial reality resulted in further exacerbation of the situation in the USSR in a couple of years, the external debt and money issuing expanded rapidly. Seeing the weakness of the central power, the republics of the Union started to ignore the supplies and budgetary payments provided for in the USSR State Plan. As of 1988, the Baltic republics started on their road towards the restoration of their national independence and it was officially announced by the popular movements of those republics in 1989.

The leadership of the USSR fought with various consequences of the economic and financial crisis, without eliminating their primary causes and without trying to restore the financial stability in the state. In 1990, the economic crisis turned into a political one: the Baltic States announced their exit from the USSR, the activity of the Russian Federation and its leader, Boris Yeltsin, increased notably. He started to implement more independent domestic and foreign policies already in 1990. In August 1991, the conservative wing of the USSR leadership unsuccessfully attempted to implement a coup. At the end of 1991, the USSR leadership had *de facto* remained without its state and the USSR ceased to exist. Russia became the legal successor to the USSR in many areas.

The leadership of the Latvian SSR realised that it was no longer possible to develop Latvia's economy on extensive basis, particularly by continuing to increase labour force on account of immigration. The social situation in Latvia had deteriorated significantly, only bread and eggs were freely available in the shops of Riga and even milk was listed in the group of "deficit goods". The depreciation rate of the residential premises in Latvia was already two times higher than the USSR average (34% and 17% respectively). The situation was even worse in Latvia's rural areas: 23%–40% of the buildings were in an emergency state.<sup>25</sup> The conditions were particularly complicated in Latgale, where part of the Belorussian population even left for their ethnic homeland, because the quality of life was better there.<sup>26</sup>

At the same time, until the very collapse of the USSR, the leadership of the Latvian SSR made no attempts to develop the economy based on the local natural resources and potential. For example, in agriculture the officials were fighting to get lower prices on the imported fodder, increase its volume, but



"Vulkāns" plant in Kuldīga in 1987. (A photo by Gvido Kajons; collection of the Museum of the History of Riga and Navigation.)





did not actually consider the opportunities of developing the local production of fodder. Despite the bulging problems in the USSR, the quantitative performance of Latvia's economy appeared to be improving almost until the disintegration of the USSR.

**Agriculture**

The tendency observed in the first half of the 1980s for the ratio between the prices set by the state on raw materials and the state purchasing prices on the outputs to change in favour of the producers of agricultural goods continued also at the end of the 1980s. In 1987, the leadership of the USSR raised the purchasing prices again. The share of the public grant in the state retail price on beef, pork, milk and bread grew to 74%, 60%, 61% and 20% respectively in 1989.<sup>27</sup> State payments to collective farms for their outputs were differentiated. The collective farms of the Latvian SSR were divided into four price zones, where the farms with worse economic conditions (lower quality agricultural land, bigger distance from cities) received a supplementary payment in the amount of up to 90% on top of the purchasing price. For example, collective farms located in the first price zone received 2 350 rubles per 1 ton live weight of beef, including a 700 rubles supplementary payment for the highest fatness, whereas the nine collective farms of Ludza district located within the fourth price zone received 5 031 rubles for the same amount of meat. The purchasing prices for the first class milk ranged from 32.2 to 68.9 kopecks per litre, whereas 1 litre of milk cost 22 kopecks in a shop.

Because of the high purchasing prices, society at large wrongly believed that agriculture was a highly profitable sector. In 1988, agriculture was officially proclaimed a priority sector of the economy in Latvia and it was promised that the inflows of public investment into the sector would even grow. At the end of 1988, individual businesses were legalised in the rural areas of Latvia and the first private farms were established (the so-called Bressis farmers).

The agricultural output started shrinking already at the end of the 1980s, mostly as a result of a decrease in the volumes of imported fodder.<sup>28</sup> The highest level of agricultural output was achieved in 1988. At that time, also the first estimates were prepared as to what would happen if the imports of fodder into Latvia were discontinued. According to the 1988 estimates of the Economic Research Institute of the Agro-industrial Complex of the Latvian SSR, if Latvia's agriculture had focussed on the local market and stopped importing fodder, it would not have been able to supply with meat even the local market. However, nobody estimated at that time how viable Latvia's economy would be if it had to buy energy resources, fuel and mineral

fertilisers at market prices. After Latvia regained its independence and the centralised supplies were cut off, the government tried to maintain a high level of agricultural output, yet this policy failed to succeed.

**Industry**

In the 1980s, local economists and representatives of local authorities started to raise objections against the construction of new plants. For example, B. Pugo, the 1st Secretary of the Central Committee of the Communist Party of Latvia, and J. Rubenis, the Chairman of the Council of Ministers of the Latvian SSR, in their letter sent to the management of the State Planning Committee of the USSR on 1 February 1985 objected to the overly high planned industrial and agricultural growth rate. They proposed to pay more attention to modernisation of production and develop the light industry and production of building materials more as well as highlighted the issue of the limited labour resources.<sup>29</sup>

According to the official statistics, the overall industrial output remained broadly stable until the very end of 1991. In 1990, the industrial output was at the level of 117% of that in 1985, whereas in 1991 it was 116%.<sup>30</sup> Moreover, industry earned surprisingly high and even growing profit. In the first half of 1991, the profit amounted to 1.5 billion rubles, representing a 0.9 billion rubles or 2.5 times increase over the first half of 1990. This creates an impression that the economic collapse with a steep decline in the output started at the end of 1991 and in 1992. However, when analysing the quantity indicators of the produced output and electricity consumption which had decreased in the industry sector in 1991 as compared to that in 1985 (3.6 billion kWh and 3.8 billion kWh respectively), one has to conclude that the output started shrinking much earlier, when Latvia was still a constituent of the USSR. The misconception is a result of the methodology used to estimate the overall volume: using current prices instead of constant prices. The prices on outputs started to grow and offset the decline in the overall volume in monetary terms. For example, in 1990 the value of output was 11.0 billion rubles at current prices (at the level of 1989). The high profit, in turn, was achieved on account of a sharp increase in the wholesale prices on finished goods, while the rise in the prices on raw materials was much slower.<sup>31</sup>

The contribution of some industrial sectors to the overall output and the numbers of workers employed in those sectors are displayed in Table 8. The contributions of metalworking and metallurgical industry shrank considerably already in 1990. The statistics lead to a conclusion that food industry was sector with the most effective performance: significantly higher output was achieved with a small number of workers. Nevertheless,

knowing the pricing policy in the USSR, one has to be critical when analysing the data. There was not always a relationship between the price set by the state and the fair (market) value of the outputs and the production costs. The contribution of woodworking was small.

**External economic relations**

The degree of Latvia's integration on the verge of the disintegration of the USSR is well characterised by its export and import dynamics (see Table 9).

In the period 1989–1991, more than 90% of Latvia's external turnover in goods was with the other republics of the USSR. Moreover, the trade balance with the USSR was constantly positive. That was, however, determined by the fact that Latvia still received cheap raw materials and energy resources. The external trade with other countries, in turn, was objectively hampered by the fact that the government of the USSR wanted to withhold almost all the foreign currency earned by enterprises and, therefore, many enterprises lacked any motivation to establish such relationships. At the same time, various roundabout ways of how to get foreign currency were invented: for example, agricultural companies bought the raw materials of the chemical industry and tried to export them abroad. The leadership of the USSR had no objections to such transactions as long as it got its share of the foreign currency earnings. To give or not to give a permission to establish external economic relations was at the discretion of the Plenipotentiary Department of the Ministry of External Economic Relations of the USSR (in Latvia – Department of the Plenipotentiary Representative with the Council of Ministers of the Latvian SSR) until the very collapse of the USSR. The State Security Committee also had to provide its opinion in case of each individual enterprise. The number of enterprises willing to establish such relations was growing rapidly in 1991. By 1 July 1991, 1 465 such enterprises were registered, including 367 in the first half of 1991. 90 joint ventures with foreign capital shares had also been established, yet the exports of those enterprises totalled only 26.6 million foreign currency rubles in 1990. Many enterprises were engaged in trade and the joint ventures imported goods in the amount of 25.4 million foreign currency rubles.

Table 8. THE STRUCTURE OF LATVIA'S INDUSTRIAL OUTPUT AND NUMBER OF WORKERS BY SECTOR

Nozare	Output (% of total)	Number of workers (% of total)	1985		1991	
			Output (% of total)	Number of workers (% of total)	Output (% of total)	Number of workers (% of total)
Manufacture of food products	25.8	10.5	25.9	11.5		
Mechanical engineering, manufacture of equipment	23.4	36.5	19.1	35.5		
Including radio, TV, communication equipment	8.6	11.4	6.4	11.0		
Manufacture of textiles	15.1	11.6	14.3	9.9		
Manufacture of clothing	3.5	4.6	4.0	6.4		
Metalworking	3.4	5.0	1.6	2.5		
Metallurgical industry	1.5	0.8	0.8	0.9		
Manufacture of concrete, cement, plasterboard	1.8	2.4	1.7	2.9		
Woodworking (excluding manufacture of furniture)	2.1	3.7	2.3	4.3		
Other	23.4	24.9	30.3	26.1		
Total	100.0	100.0	100.0	100.0		

Source: Latvijas statistikas gadagrāmata 1991. Rīga : Latvijas Republikas Valsts statistikas komiteja, 1992, 134. un 135. lpp.

Table 9. LATVIA'S EXPORTS AND IMPORTS (at current prices; billions of rubles)

	1989		1990		1991	
	Exports	Imports	Exports	Imports	Exports	Imports
Total	5.4	6.0	5.3	6.3	7.7	6.3
Incl. vis-à-vis USSR	5.0	4.5	5.0	4.7	7.5	5.5

Source: Latvijas statistikas gadagrāmata 1991. Rīga : Latvijas Republikas Valsts statistikas komiteja, 1992, 49. lpp.



Non-violent resistance of the nation to the aggression of the special troops of the Armed Forces of the USSR and support to the legitimately elected government: barricades in front of the building of the Council of Ministers of the Republic of Latvia in January 1991. (A photo by Uldis Briedis.)



## ISSUING OF MONEY AND 1991 MONETARY REFORM

Currency in circulation which was not backed by goods and services expanded rapidly in the USSR (see Table 10). According to the data by the State Bank of the USSR, it totalled 19 billion rubles in 1980, 29 billion rubles in 1986 and 47 billion rubles in 1990.<sup>32</sup> Trade in goods contracted sharply, whereas household savings increased 2.2 times within the first nine months of 1991 (by 58 billion rubles). Consequently, the money mostly remained unspent as there was a shortage of goods. The backing of the rubles at the disposal of the population (in the form of cash, securities and savings) with goods had declined from 30% in 1985 to 13% in 1990.<sup>33</sup>

The fact that too much money had been issued was acknowledged by the officials in the second half of the 1980s, yet they addressed the consequences rather than the reasons of this problem. One of the last attempts of the USSR leadership to restore the financial stability in the state was the 1991 monetary reform. On 22 January 1991, a decree of the President of the USSR on the rules for exchanging the 50- and 100-rubles banknotes was issued. Basically, this reform was designed as a confiscatory reform as there were serious restrictions imposed on the banknote exchange. Yet, contrary to the reform of 1947, the USSR leadership lacked the political courage to openly announce that the savings of the population would be cut significantly. The 1991 monetary reform yielded no positive results and only depleted the confidence of the population in the currency of the USSR. Economically unjustified money printing continued. Meanwhile, the Baltic republics began to prepare for the introduction of their own currencies.

### Budget

In the second half of the 1980s, the USSR budget ran considerable deficits. In 1991, when the Union republics, including Russia, started to discontinue the payments into the USSR budget, the deficit already exceeded 50%. At the same time, the growth of the external debt of the USSR accelerated and the debt exceeded 80 billion US dollars as at the end of 1991.<sup>34</sup>

After 4 May 1990, the government of Latvia also started to implement considerably more independent policy and decide on retaining larger amounts in Latvia's budget. On 19 June 1990, the Supreme Council of the Latvian SSR, on a pretext that there was a shortage of funds in the republican budget, resolved to withhold a significant amount previously destined for transmission into the USSR budget. It was decided to retain 82.1% of the turnover tax collections (66.3% in 1987), 100% of the personal income tax (50% in 1987), 57.5% of the aggregate amount of income from sales of 1982 government bonds and contributions into the budget from the earning (income) of all-Union enterprises and organisations (previously, the profit tax collected from all-Union enterprises was transferred to the USSR bud-

Table 10. ADDITIONAL MONEY ISSUING IN THE USSR (1980–1990; billions of rubles)

1981–1985 (annual average)	3.6
1986	3.9
1987	5.9
1988	11.8
1989	18.3
1990	25.0
1991 (January–September)	70.3

Source: Гайдар, Е. Гибель империи. Москва: Росспен, 2006, с. 243 и 402; data on 1990 – Дустман, К., Вєснїш, Ё. Nauda Latvijā. Rīga: Latvijas Banka, 1995, 206. lpp.

et).<sup>35</sup> The results were positive: the revenue of Latvia's budget exceeded the expenditure by 198.6 million rubles in 1990.<sup>36</sup>

This surplus was a result of the extremely high earnings of the economy. Gross national product started shrinking already in 1990 (by 4.6% in comparison with 1989), yet the earnings of the economy (excluding agriculture and consumer cooperatives) totalled 1.1 billion rubles in the first half of 1990, whereas in the first half of 1991 they had grown to already 2.2 billion rubles (gross product decreased by 6.6%). On the verge of the disintegration of the USSR (July 1991), resident deposits totalled 3.9 billion rubles (a 7.0% increase in half a year).<sup>37</sup> The average wage and salary was on a steep upward trend: 250 rubles in 1989, 327 rubles in 1990, 530 rubles in June 1991<sup>38</sup>, 600 rubles in 1991. Conversely, the retail trade turnover of goods (at constant prices) in the first half of 1991 stood at the level of 77% of that in the first half of 1990.<sup>39</sup> Of all goods sold in Latvia's market in 1991, 67% were produced in Latvia, 23% imported from the USSR and 10% from other countries.

In the first half of 1991, the prices on goods and services grew 2–6 times, wages and salaries increased by 50% and countless amendments had to be introduced in the budget. The 1991 annual budget of the Republic of Latvia adopted on 22 December 1990 (2.9 billion rubles) was balanced.<sup>40</sup> After a year, when the last amendments to the 1991 budget were introduced on 23 December, the revenue and expenditure had already increased to 4.9 billion rubles. The spending of the Ministry of Agriculture constituted one third of all expenditure (similarly as in the structure of the USSR budget) and exceeded the spending for financing the rest of the economy.<sup>41</sup> For the first time, statistics confirmed deterioration of the purchasing power and living standards of the population.



## CONCLUSIONS

### Banks

In the second half of the 1980s, the USSR leadership tried to expand the participation of banks in the economy. New state banks were formed as well as permission to establish private commercial banks and cooperative banks was granted. Banks needed to step up lending as the state lacked funding for the financing of the economy. The State Bank of the USSR constantly increased lending to the Ministry of Finance of the USSR.

In 1987, the lending arrangements were changed. The state banking sector comprised the State Bank of the USSR as the central bank and four largely subordinated specialised banks: Foreign Economic Relations Bank, Industry and Construction Bank established on the basis of the Construction Bank of the USSR, Housing and Communal Services and Social Development Bank and Savings Bank. In 1988, the Agro-Industrial Bank of the USSR was established. In March 1989, all banks started operating as independent businesses. Branches of those banks were operational in Latvia as well and in 1991 the authorities of the Republic of Latvia started to take them over into the Latvian jurisdiction. In March, on the basis of the institutions and organisations of the Housing and Communal Services and Social Development Bank, Latvia State Social Development Bank was formed. The resolution of the Supreme Council of the Republic of Latvia, dated 3 September 1991, nationalised Latvia Republican Bank of the State Bank of the USSR, Latvia Republican Bank of the Agro-Industrial Bank, Latvia Republican Commercial Bank of the Industry and Construction Bank, Latvia State Social Development Bank and Republican Commercial Bank for Foreign Economic Operations.<sup>42</sup> The Foreign Economic Relations Bank became the Foreign Operations Division of the Bank of Latvia.

The number of private banks grew fast in the USSR: 43 at the beginning of 1989, 224 at the beginning of 1990 and 1 357 at the beginning of 1991; 14 credit institutions operated in Latvia as at the end of 1991. Corporate money was deposited in private banks which, in turn, extended loans to a specific limited pool of beneficiaries. As a result of the steep depreciation of the money, loans were granted at extremely low interest rates. The interest rates on the loans granted by state banks, albeit rising, were also inadequately low considering the economic situation of that time. In 1988 and 1989, the interest rate was 4%–5%, in 1990 it was 6%, whereas in 1991 it ranged from 8% to 12%. The opportunities arising from the transition to a free market economy were put to use. The money raised at low bank rates was used to buy goods at the prices set by the state (which were still low) and then those goods were resold in the free market at extremely high profit.

During the period of the Soviet occupation, Latvia's economy was integrated into the economic system of the USSR. Latvia's economy received cheap raw materials and energy resources, but at the same time became increasingly more dependent on those. The outputs were sold in Latvia or imported to the USSR (more than 90% of Latvia's exports went to other regions of the USSR).

Certain market elements survived also during the years of the Soviet power (for example, the agricultural goods markets). The state-controlled enterprises also tried to earn higher profit. Therefore, for example, the role of cattle breeding increased in Latvia, whereas that of the cultivation of grain decreased.

The economy was much more focussed on manufacturing than on service providing. This was one of the reasons for the problems faced by the monetary policy of the USSR. By trading in goods alone, the state was unable to get the money back from the population and was forced to issue increasingly larger amounts of money.

Latvia's authorities were unable to influence the monetary policy of the USSR. Latvia's financial discipline, however, ensured quite a good performance, particularly at the end of the 1950s. That can be mainly explained by the relatively high volume of services provided in comparison with other regions of the USSR.

Latvia was one of the economically most developed republics of the USSR, with one of the highest outputs per capita both in manufacturing as well as in agriculture. At the same time, problems of a social nature were emerging in Latvia. The purposeful inflating of the labour force on account of immigration had serious consequences. Latvia found itself considerably behind Lithuania and Estonia in terms of the quality of life.

The USSR addressed its financial problems by a confiscatory reform in 1947 and by devaluing the ruble in 1961. After 1961, the USSR economy continued to develop, but at the same time the financial problems also aggravated. Gradually, the USSR started to face serious financial difficulties further exacerbated by the unfavourable developments in the oil export markets, large investments in the economy and the reluctance of the government to raise prices. In Latvia, where the output had started shrinking already in the 1980s, the abrupt collapse of the USSR economy resulted in hyperinflation, requiring immediate solutions.

## ENDNOTES

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<sup>2</sup> LSA, F. 101, descr. 10, f. 52, p. 24.

<sup>3</sup> Bleiere, D., Butulis, I., Feldmanis, I. et al. *History of Latvia. The 20th century*. Riga : Jumava, 2006, p. 372.

<sup>4</sup> SAL, F. 101, descr. 10, f. 52, p. 112.

<sup>5</sup> *Latvijas PSR vēsture*. 3. sēj., Rīga : Latvijas PSR Zinātņu akadēmijas izdevniecība, 1959, 494. lpp.

<sup>6</sup> SAL, F. 101, descr. 10, f. 100, p. 98.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid., f. 67, p. 7.

<sup>9</sup> Ibid., f. 69, p. 1.

<sup>10</sup> Voldemāra Kalpiņa atmiņas. *Cīņa*, Nr. 208, 1988, 31. aug., 3. lpp.

<sup>11</sup> *Okupācijas varu politika Latvijā 1939.–1991.* Rīga : Latvijas Valsts arhīvs, 1999, 355. lpp.

<sup>12</sup> SAL, F. 101, descr. 22, f. 2, p. 50.

<sup>13</sup> Ibid., f. 855, p. 21.

<sup>14</sup> Ibid., p. 143.

<sup>15</sup> Ibid., F. 202, descr. 1-a, f. 1, p. 89.

<sup>16</sup> Гайдар, Е. *Гибель империи*. Москва : Росспен, 2006, с. 182.

<sup>17</sup> *Latvijas padomju enciklopēdija*. 7. sēj., Rīga : Galvenā enciklopēdiju redakcija, 1986, 104. lpp.

<sup>18</sup> Ibid.

<sup>19</sup> Гайдар, Е. *Гибель империи*. Москва : Росспен, 2006, с. 396.

<sup>20</sup> Илларионов, А. Попытки проведения политики финансовой стабилизации в СССР и России. *Вопросы экономики*, No 7, 1995, с. 4.

<sup>21</sup> SAL, F. 277, descr. 16, f. 188, p. 8.

<sup>22</sup> *Latvijas PSR tautas saimniecība*. 1985. Rīga : Jumava, 1986, 249. lpp.

<sup>23</sup> Ibid., 355. lpp.

<sup>24</sup> Ibid., 133. lpp.

<sup>25</sup> SAL, F. 101, descr. 59, f. 114, p. 30.

<sup>26</sup> Ibid., F. 270, descr. 7, f. 1476, pp. 60 and 61.

<sup>27</sup> Гайдар, Е. *Гибель империи*. Москва : Росспен, 2006, с. 212.

<sup>28</sup> SAL, F. 270, descr. 7, f. 1795, pp. 12–20.

<sup>29</sup> Ibid., F. 101, descr. 55, f. 130, p. 24.

<sup>30</sup> *Latvijas statistikas gadagrāmata 1991*. Rīga : Latvijas Republikas Valsts statistikas komiteja, 1992, 134. un 135. lpp.

<sup>31</sup> Profit growth was accompanied by a sharp decline in the output in the manufacture of consumer goods (by 673.9 million rubles or 9.2% in the first half of 1991).

<sup>32</sup> Гайдар, Е. *Гибель империи*. Москва : Росспен, 2006, с. 243.

<sup>33</sup> Ibid., с. 396.

<sup>34</sup> Ibid., с. 416.

<sup>35</sup> *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, Nr. 29, 1990, 19. jūl., 1515. lpp.

<sup>36</sup> *Latvijas Republikas Valdības tautsaimniecības attīstības politika 1991.–1992. gadam*. Rīga : Latvijas Republikas Ministru padome, 1991. gada jūlijs, 6. lpp.

<sup>37</sup> Ibid., 7. lpp.

<sup>38</sup> Ibid., 87. lpp.

<sup>39</sup> Ibid., 6. lpp.

<sup>40</sup> *Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, Nr. 15/16, 1991, 25. apr., 576.–587. lpp.

<sup>41</sup> Ibid., Nr. 19/20, 1991, 23. maijs, 807.–810. lpp.

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