

Background Reading: Central Planning in a Command Economy

In 1973, the economic planners of the former Soviet Union decided that they needed to buy more than 50 million tons of grain from the United States.

- 1) The deal was a big change in the trading relationship between the two countries, which had been enemies in what was called the “Cold War” since 1945.
- 2) Many world leaders viewed the purchase as a kind of “public confession” that the centrally planned economy of the Soviet Union was not able to feed itself.
- 3) The sale set off a chain of causes and effects in the United States: the amount of stored grain decreased, the price of grain doubled, farm income increased, farmers tried to expand by buying land, land prices went up sharply, and land taxes also rose. Some farmers were caught in a price/mortgage/tax squeeze and went bankrupt.

Politicians in the United States took credit for the change in relations (item # 1). They passed laws to deal with the problems of prices and taxes (item # 3). And, they started to boast that the superiority of a free-market economy was the main thing that helped American farmers to produce more food than Soviet farmers were able to grow.

This analysis sounds reasonable at first glance. Individual farmers or corporations in the United States are able to keep most of the profit from their farming activity. For that reason, they usually try to use the best seed, fertilizer, and other technology. By contrast, workers in a Communist economy have less incentive to use new technology, because the government gets much of the profit.

(Definition: **Incentive** is a reward you get by doing something)

A simple analysis can be dangerous if it keeps us from seeing other things that might also have an effect on what we observe. In the case of food production in the Soviet Union and the United States, there was a basic difference in economic structure, but there was also a huge difference in geographical conditions. The best cropland areas of Russia are like South Dakota, not like Illinois, Iowa, Texas or California. Most of central Asia has a climate like central Canada, where trees grow better than food crops.

Here is a general principle: if land has few environmental problems, decisions are easy, because almost any use will be profitable. Making decisions is more difficult when land is cold, dry, swampy, or rocky.

In this Activity, you are a planner in a command economy. Your job is to decide where to produce specific kinds of food. In some cases you might have to make a tradeoff, putting one crop in a less favorable environment in order to make more points with another one in a good environment. This is called geographical displacement, and it is a very important principle. It applies to all kinds of decisions, in urban and suburban North America as well as the vast forests and grasslands of Asia.