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**Economic Reform and Its
Interpretations in Russia**

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PREFACE

The paper in this booklet, 'Economic Reform and its Interpretations in Russia', written by two distinguished Russian economists is one of the pilot papers of the project on the Evolving New Market Economies in Europe and Asia.

The economic implications of the transformation process have been analyzed by different organizations, academic groups etc. since the early 1990, mostly in the perspective of domestic changes in the former socialist countries. This project will have to focus on the external, regional and global implications of the internal changes and on the interaction of domestic and external factors. It will have to analyze the sources and the consequences of the successes and failures experienced by the countries in the first stage of the transformation process in a comparative perspective. The project includes also the analysis of marketization in China and in Vietnam. The transformation process in the European 'transition countries' is very difficult and painful. They have to change the inherited, distorted and obsolete production structures, modernize the underdeveloped infrastructures, not just only transform the formerly state run system into market based economies, they have to face the difficult macroeconomic stabilization tasks, which are often in conflict with their other tasks, under the pressure of a deep recession and growing unemployment. The highly competitive and slow growing world economy makes the reintegration of the countries difficult.

There are major differences between the interests of the various groups of their societies concerning the priorities, the implications of the costs and benefits. If the first experiments with democracy for the 'silent majority' of the population are inflation, unemployment, increasing inequalities, and a declining standard of living, the result will be fear, alienation, and distrust. For decades, the etatist regimes, under the slogan of communism, sought to convince people of the necessity of sacrificing their present welfare for some future promise. Many see a parallel between the past promises and the vague promises of democracy, an association that could be destructive of these countries' aspirations, governments, and institutions.

The former socialist countries in Europe have been parts of the world economy and they have been connected with the global markets also before the political changes. Their participation in the global economic relations has been specific and their role has been in most cases marginal.

There have been major differences between the countries in this respect, but also in the state of the economy and in the functioning of the economic system before the transformation. In the former Soviet Union under the slogan of the 'perestroika' steps have been taken toward decentralization without the markets and they increased anarchy and disintegration.

The pilot paper is about the domestic debates in Russia, which is the largest country of the world concerning territory, 5-6 place concerning population and 4-5 place according to GDP size. Out of the former USSR 76 per cent of the territory, over half of the population, (80 per cent Russians) about half of the natural endowments, preponderance in economic power (60 per cent of total output, two third of exports and imports, 80 per cent of the R&D potentials. All these figures indicate, that the changes in that country are of great importance not only domestically, but also in global framework. While in the economic literature, there have been a number of publications by different experts from the Western countries and international organizations, concerning the main theoretical and practical problems of systemic changes, much less attention has been devoted to the alternatives offered by the domestic specialists, academic economists and others.

In the literature as well as in government policy statements, several tasks have been formulated in the first period of transition to the market system. Macroeconomic stabilization was one of the most important and probably the most controversial of them.

The macroeconomic stabilization programs aimed at a wide range policy objectives. The general objectives were: restoring or maintaining financial balance on domestic markets, eliminating market shortages, combatting inflation, moderating the recession, reducing unemployment. There were two different attitudes from the very beginning in formulating the macroeconomic stabilization and control programs: the gradual and the shock therapy, the 'big bang' approach: those countries, which wanted to avoid the political and social traps of the 'big bang' approach started the gradual changes. Debates developed in the process of the implementation of the stabilization programs also between those who wanted the complete reliance on the market forces and those who wanted more direct state involvement on the basis of detailed plan to implement the programs.

Privatization has been another important component of the transformation process. While its necessity has been generally recognised and understood, there have been heated debates about its forms, speed and scope. Different motivations and arguments characterised those debates: ideological, social, political, managerial. Postulates of economic rationality and efficiency were often mixed with political demagogy in the debates.

For the framework of the project of UNU/WIDER, the discussions about the external aspects of the transformation process and its global implications are particularly interesting.

The role of any region or country in international economic relations is determined by a number of external and internal, political and economic factors. It has been relatively easy to identify the role and interplay of those factors in the case of the former CMEA region. Beyond the objective factors, like the volume of the output, the structural dependence of external economic relations, international economic relations

of those countries and especially of the U.S.S.R. have been very strongly influenced and in fact they have been often subordinated to ideological considerations, strategic goals and interests. The character of the changes could be more clearly defined in the case of the Central and Eastern European countries. It will be much more difficult to identify and analyze the main factors and their interrelations in the successor states of the Soviet Union and especially in Russia. A major part of those relations which have been internal within the former Soviet Union became external and they will be influenced by a mixture of conflicting and converging interests. Each one of the successor state is in a process of transformation, which by definition implies the reformulation of their political and economic interests. This is and will be an especially complex and difficult process in the case of Russia, which is the main subject of the paper. The changes in the geostrategic position of Russia have important implications on the system of international relations. A belt of independent states, now large enough to be more than just a traditional 'buffer zone', has been interposed between Western Europe and Russia. This belt has pushed Russia far away, geographically, from Central Europe. The membership of the European Community is expanding toward the East. At the same time, Russia extends across two continents, and has now direct frontiers with 30 countries concentrating about 2 billion people. The interplay of the political and economic factors and processes in the economic relations with the rest of the world is also changing. Economic relations will be based more on realities and rational needs than on strategic goals or ideological, political considerations. This is influencing relations with the Central and Eastern European countries, with the industrial West and the developing countries.

A second pilot paper of the project, comparing the Russian transformation and the Chinese reforms, will be published in a separate booklet in the series 'Research for Action'.

Mihály Simai
Director, UNU/WIDER
May 1994

I INTRODUCTION

In the flow of publications, dealing with the different aspects of transition to market economy in Russia, there is one almost empty niche. This niche is the links between level of economic thought and actual economic developments. To follow this intercommunication is not an easy task because it is often violated by political interference. However one can trace some more or less definite trends in the development of economic thought as well as in the actual economic life.

This paper is devoted to the current (up to October 1993) problems, but one should bear in mind also other attempts to introduce market economy made during a socialist period of the Russian history. We mean in the first place the transition to the New Economic Policy (NEP) and the debates on interpreting the NEP in the 1920s. Unfortunately this apparent concession to liberalism was found to be only a running start for the establishment of socialist totalitarianism in all the spheres of the social life. A reader may learn much about this experience, for instance, from the book *First Models of the Socialist Economic Systems*, published in English by a Hungarian economist L. Szamuely (Akadémiai Kiadó, Budapest, 1974).

Another surge of discussions on the problems mentioned took place in the 1960s. Then Soviet economists divided themselves into two camps, *tovarniki* ('marketeers') and *antitovarniki* ('anti-marketeers'). The discussions entailed some progressive changes in the economic mechanism (1965). It is worth to emphasise a big contribution of the Economic Section of the Academy of Sciences to the market innovations during that period. A comprehensive survey of these, but mainly of the 1980s debates and performances in Russian economy, which meant nothing more than the swings of the economic pendulum in the framework of the socialist system yet, one may find in English-written book by A. Åslund entitled *Gorbachev's Struggle for Economic Reform* (Pinter Publishers, London, 1989).

Lately the assimilation of the newest achievements of western economic thought are proceeding in the country. At the same time attempts are being made to push into the foreground the specific characteristics of Russia in order to prove the impossibility of following the way of development common to all the civilized societies. This is just further evidence of traditional Russian history drama consisting in the fact that up to now it has never happened to plant liberalism in the native breeding-ground. These are the two poles the political forces and economic schools are dragged to now.

The sovereign Russia has from the very beginning faced two important economic problems - the outcomes followed the break of the economic links between the former Soviet republics and the necessity of rapid transition towards market economy. After August 1991 the problems of economic reforms were put forward. And only recently the

problems of revival on a qualitatively new basis of a single economic space were put on the agenda.

In 1993 political questions were found to be in the focus of attention, because, on the one hand, neither overcoming the crisis, nor a success of economic reform are possible without solving such problems as borders and custom services, sovereignty in monetary sphere, distinct division of power, the clear definition of rights and responsibility of regions, that is to say without forming a genuine democratic state in Russia. On the other hand, numerous parties and movements do not reflect yet the interests of different social strata. The latter have not yet identified themselves according to the market criteria either.

In short, economy has become a hostage of politics. In such atmosphere spontaneous processes of redistribution of property have become to dominate. A two-class society has been emerging that is fraught with class and ethnic conflicts.

That is partly why the tragic events aimed at the preservation of the old constitutional order occurred in October 1993 in Moscow. The President and the government dismantled this order. We believe that after the approval of the new Constitution by the referendum held on the 12th of December 1993 formal legal bans could no longer be allowed to inhibit the rapid creation of the mechanisms of a new state and economic order.

In the study below we have made an attempt to follow the official approach and the views of opposition on the main economic problems of the transitional period in Russia - gradualism vs. big bang, liberalization of prices, macroeconomic stabilization, commercialization and privatization. It is worth noting that the variety of views on the economic reform has nothing to do with the traditional social strata, it concerns each group of the population. For instance, there is no unanimity in the position of the managers of the enterprises including those of the military industrial complex, or in the position of workers, peasants and intelligentsia.

The paper is concluded with a survey of Russian foreign trade in 1992-1993 and the interpretation of it by the adherents of different approaches to the economic transformation.

II OFFICIAL POLICY

The government headed by President B. Yeltsin and Y. Gaidar from the very beginning of the economic reform was determined to change the economic system radically, though they realized very well the big social risk of such an action. Nevertheless the decisive step was made, because all the attempts of the predecessors to revitalize the economy within the framework of socialism failed. Now the task was set to introduce a developed market economy.

Being untouched and successive in essence (liberalization - financial stabilization - systemic changes - structural changes), the official concept has undergone some modifications.

The first variant prepared with the assistance of the group of foreign advisers to the government, J. Sachs, A. Åslund, M. Dabrowski and others, was supposed to implement a classic shock therapy, i.e. freeing the prices together with curbing the incomes and establishing a fixed exchange rate.¹ The authors intended to change a suppressed inflation for open, to remove a monetary overhang and to put an end to the ugly combination of inflation and shortage (a so-called 'shortageflation'). The door seemed to be open to overcoming recession while preserving moderate inflation. However, it occurred to be impossible to implement a programme of immediately stopping inflation. One of the reasons was that prices of several products remained untouched, i.e. in the first place the energy prices which were raised administratively several times until the summer 1993, when they were at last liberalized. The next reason was not freezing the incomes. The proper exchange rate policy was also not carried out because of the shortage of hard currency reserves. But the main reason of not implementing a pure monetarist methods of the transition to market lay in heavily monopolised economy. There are still no genuine economic subjects capable of responding to the shock therapy signals. So, one could hardly say that the Russian reformists strictly followed the Milton Friedman's formulas and that they were simply obedient Chicago boys.

Virtually a second variant of the transition to the market was implemented. It comprised freeing prices (with the exclusions mentioned) followed by the growth of incomes and a floating exchange rate. As a result the inflation became open and in the course of the first two months of the reform the shortage of goods changed for the lack of money. The country gained an almost zero budget deficit. The exchange rate of the rouble rose. But the economy continued to be in decline. And what is worse this process was found to be uncontrollable. Thanks to the credit and money expansion, which was

¹ See R.F. Government's Memorandum to the IMF (*Nezavisimaya gazeta* - Independent Newspaper, 3 March 1992).

put in force in March, a wave of inflation surged. It entailed the combination of cuts in living standards and a slump in production (a so-called slumpflation). Such state of the economy prevented all the endeavours from making things better by means of strict macroeconomic controls and cuts in state expenditures.

In June the government retreated from the tight monetary and budget policy in June in order to return to it in September-October 1992.² Thus a start was made to the regular alternation of the monetary and inflation methods. We may call this a 'pendulum' approach - first forced and then more and more deliberate - as a third variant of the official concept of the transition to market economy.³

Does it mean that the two previous attempts were wrong? There is no unanimous answer to of this problem. From the official point of view the economic situation at the end of 1991 did not permit other than a liberalization of prices method to start up an actual market mechanism. But the further movement towards the market, limited by social, systemic and other restrictions, required careful balancing between Scylla of hyperinflation and Charybdis of recession.⁴

In summer 1993 the government managed to get some positive though rather fragile results. The rate of the inflation lessened. The reduction in industrial production stopped. The global crisis was about to change for a structural one. The exchange rate stabilised and the hard currency reserves began to grow. The privatization process sped up (a non-state sector soared from 13 per cent in 1992 to 42 per cent in the middle of 1993). The first signs of improving investment activities appeared.⁵

A governmental programme 'Development of the Reforms and Stabilization of Russian Economy in 1993-1995' was adopted at the meeting of the Council of Ministers on the 6th of August, 1993. The programme includes three stages:⁶

² See 'The Reform According to Gaidar: 500 Days Later'. A paper released by The Experimental Institute of the Russia's Union of Industrialists and Entrepreneurs. Moscow, March 1993, p. 18.

³ A very similar approach to the problem was demonstrated in Sh. Islam and M. Mandelbaum, eds: *Making Markets. Economic Transformation in Eastern Europe and Post-Soviet States*, New York, 1993. Shafiqul Islam, generalizing the experience of the countries mentioned, says that 'in reality, we are dealing with a four-by-four matrix - where the real policy question for a transitional economy at hand is the design of a strategy involving the four issues of sequencing, speed, stress (strength of implementation), a sectoral dimensions of the four core component reforms' (p. 188). These four components are: macroeconomic stabilization, liberalization, privatisation of the economy, development of a market-supporting institutional infrastructure.

⁴ Academician P. Bunich in his interview in September 1993 on the occasion of the establishment of a new party 'The Democratic Initiative' expressed the same idea in the following words: 'A shock therapy was justified at the beginning to make the irreversible important step forward. But we are convinced that we cannot stay in a shock therapy situation forever... To take a leap at the beginning is necessary, now we should move gradually.' (*Delovoy mir* - Business World, 11 September 1993)

⁵ *Delovoy mir*, 10.8.93; *Rossiyskiye vesti* - Russian News, 7 August 1993.

⁶ *Rossiyskiye vesti*, 21 September 1993.

1. The crisis period - up to the end of 1994

The main priorities of the economic policy are the control over inflation and a financial stabilization.

The mass privatization and the establishment of the infrastructure of commodity and financial markets remain in force. A social policy has to be aimed at the direct promotion of the socially weakest strata of the population.

Ceasing the general recession and stabilizing the living standards. Cutting the budget deficit up to 8-10 per cent of the GDP and the rates of inflation up to 5-7 per cent a month. The exchange rate of the rouble is to remain on the stable level. The share of state purchases is to be lowered up to 20 per cent, while the share of regulated prices lowered up to 3-5 per cent of the GDP.

2. The stabilization period - up to the end of 1995

The main priorities of the economic policy are the institutional changes and the encouragement of investment activities.

Carrying-out the main programme of minor privatization and the reform of the state-owned enterprises.

Reducing the tax-burden and the rate of interest along with the improvement of the banking system and financial institutions as prerequisites for the accumulation of capital and efficient investment policy.

The industrial policy should aim at the encouragement of effective and bankruptcy of inefficient enterprises. All the necessary steps will be provided to avoid unemployment and to help those who are fired.

The stabilization in production sphere. The share of the state sector in the GDP will be reduced up to 30-35 per cent. The revitalization of business activities will take place. The share of private investments in the accumulation will be raised up to 60 per cent.

3. The economic upsurge - from 1996 onwards

The main priorities of the economic policy are the technological reconstruction and creating the preconditions for qualitative changes for the better of the living standards for most of the population.

By the end of the 90s the growth rates will reach 4-5 per cent a year, while the investment rate will account for 20-25 per cent in the GDP.

Until the election of a new parliament in December 1993, the attempts made time and again by some members of the government to regard the prevention of the slump as a separate task, independent of the financial stabilization policy and apt to be solved by customary GOSPLAN methods⁷, failed. It was obvious that in the conditions of the dual power these measures could lead not only to hyperinflation, but to the resurrection of the central distribution of resources, regulation of prices and incomes and, in the long run, to the end of the economic reform as a whole.

A successive liberalization and stabilization policy as well as creating a competitive environment required special attention to be paid to the problems of privatization - first of all minor and then mass (voucher), preceded by a so-called corporatization, i.e. changing the most part of large state-owned enterprises for joint-stock companies. Privatization has become the crucial point of the reform. By its nature it cannot be 'avalanche', but at the same time it should not be prolonged too much lest to slow down the process of the reform itself. This is not a pure economic question, but a political as well, because state property is the last defensive line for the opponents of the reform. The branch ministries are eager to control the process of privatization and to get the control package of shares or to create huge industrial-financial corporations in order to restore the traditional forms of the management.

According to the figures released before 1 July 1993, 34 per cent of state-owned enterprises were already changed for private ones, including 57 per cent of enterprises set for minor privatization. The enterprises set for minor privatization were mostly taken into possession by their new owners. The privatization of large-scale objects by means of vouchers is to be completed by July 1994. In the end a stratum of effective owners has to be created as a result of a real competition.

The first two governmental programmes of privatization (1992 and 1993) encountered two very important complications. The first one consisted in the fact that the programmes envisaged in the first place the distribution of the property between millions of small shareholders, while actually the corporate structure of property at the large-scale enterprises had been formed. The second complication touched upon the balance of interests of various strata of the population. In order to balance these interests three models of privatization were put in action, but actually two thirds of the enterprises use the second form, which envisaged buying-out 51 per cent voting shares by the collective of the given enterprise.

As an experiment a management buy-out is implemented at several state-owned enterprises. This method is close to the Employees Share Ownership Programme system in the USA. The only reason why this method was not included in the governmental programmes of privatization was that it was regarded as unjust to the persons, who do not work at an enterprise and therefore have no rights to any shares. Nevertheless the aspiration towards creating enterprises owned by workers is becoming more firm. They

⁷ See, for example, the decision of the Council of Ministers of the Russian Federation 'About the Selective Structural Policy' (April 1993) or 'The Programme of the Urgent Measures to Overcome the Economic Crisis in Russia' proposed in August 1993 by the then vice-premier and minister of economy O. Lobov.

serve as a kind of shock-absorbers during the transition to the market. Meanwhile the shortcomings of such a form are obvious - it prevents long-term investment activities.

Step by step new private entrepreneurs are involved into large-scale privatization alongside the State Privatization Committee to endorse the process (a so-called 'privatization of privatization' process). A financial support from abroad is also used (in particular, 100 mln dollars' privatization loan granted by the World Bank).

The third governmental programme of privatization (1994) envisages the strengthening of the positions of the regions in this process as well as the increase in the number of the enterprises to be privatised.

A success in the realm of privatization is a good precondition for removing huge structural distortions in Russian economy, especially by means of conversion, and for progressive industrial policy on the basis of market criteria.

III PRO-GOVERNMENTAL POSITIONS

The number of opponents of the official policy outlined above is not fewer than the number of its proponents. It is quite understandable if we take into account the serious socio-economic confrontations which accompany the economic reforms. The large vote won by the ultra-nationalist Liberal Democratic party in the elections of December 1993, was a vote against poverty by those who have low incomes. As Adam Michnik once said, 'those who knocked out the old system did knock out themselves as well'. Nevertheless this course is backed in general by several research institutes and scientists as well as by the representatives of business. Let us look at some of them.

1. Economic science

The first one to be mentioned among the research institutes endorsing the economic transformation is the Institute of the Economic Problems of the Transition Period (a successor of the Economic Policy Institute). The institute was founded in 1992 by the Academy of Economics of the Russian government and Russian Academy of Sciences, and was headed until recently by Yegor Gaidar.

The analytical survey 'Russian Economy in 1992. Trends and Prospects'⁸ (February 1993) pointed out the importance of the cessation of the existence of the USSR for the economic reforms in Russia. The political space for these reforms has become more or less clear (p. 6).

The authors of the survey believe that there was no alternative to the shock variant of the reform. 'The choice was only among the forms of a shock influence on the economy: either it should be an attempt of a tough anti-market control over delivering the lessening volume of production, or an immediate change for a standard system of the market values including free prices and a flow of goods' (p. 7). The decision to liberalize prices was regarded in the survey as an equal to the decision of the liquidation of the Soviet Union: a fundamental basis of the totalitarian system was abolished. Both of these, 'by all means, the most radical since the October revolution measures were not only aimed at the abolition of the old system, but were simultaneously the first steps towards the construction of new social relations' (p. 7).

As the survey notes, 'the Gaidar government, though changed the inflation for open could not change the same way the unemployment' (p. 10). It is worth pointing out that the unemployment is still less than 1 per cent of the labour force. The government

⁸ 'The Russian Economy in 1992. Trends and Prospects'. An analytical survey, prepared by the Institute of the Economic Problems of the Transition Period. Moscow, February 1993.

did not manage to free the energy prices. Anti-inflationary policy, which ought to be accompanied by the bankruptcies of many enterprises and by structural changes, encountered the resistance of the advocates of the inflationary way to the market. As a result, the practical steps proved to be between these two alternatives.

A scrupulous analysis of the macroeconomic problems, of the demand in production and investment spheres, as well as on the consumer market and in foreign trade gave the authors a right to conclude that the main idea of the first period of the reform, i.e. financial stabilization, was carried out well enough in spite of the force of the inertia of previous economic processes (p. 34). At the same time 'breaking the economic links, cuts in imports, financial difficulties, reduction in demand, shrinking investment activities etc.' aggravated a general slump (p. 77). This slump, especially in the fuel and energy complex, as well as plummeting exchange rate of the rouble entailed by more expensive imports and dumping, the necessity of serving current credits and the indebtedness of the former USSR, some mistakes in the custom and currency control led to the slump of the foreign trade in 1992 which, as it turned out, was even deeper than the industrial recession (p. 108).

In the next survey, named 'The Russian Economy in Spring, 1993. Trends and prospects'⁹ (June 1993), such positive tendency as slackening the rates of the economic recession was traced. The main factors that caused the recession in the previous year were the external ones (breaking the economic links not only within the framework of the former Soviet Union but within the economic complex of Russia itself). These factors were responsible for about one third of economic decline. 'By the beginning of 1993 these factors in fact exhausted'. Along with them another one, i.e. 'the potential of adaptation, was used up too. Thus, further development of the economy will depend to a greater extent on traditional factors of economic growth' (p. 5).

Among the negative macroeconomic tendencies the authors note in the first place the too high rates of inflation accompanied by a so-called 'redistribution trap', which is immanent to all the inflationary economies. The crisis of inflationary character undermined the liberalization policy, which was the core of the reform in 1992. Real incomes of the population and enterprises tended to decrease with the effect of limiting a final demand and discouraging the economic growth. In the words of the authors, 'the further development of the reform, which now depends first and foremost on preventing the excessive inflation and helping the economy out of the redistribution deadlock', demands a decisive and well coordinated state policy (p. 6). The survey deals with the starting-points of the three key problems of such a policy: stabilization of currency as well as macro- and microeconomic adaptation to the new conditions.

It is worth-while to point out the attitude of the authors of the survey concerning the new problems of the privatization:

⁹ 'The Russian Economy in Spring, 1993. Trends and Prospects'. An analytical survey, prepared by the Institute of the Economic Problems of the Transition Period. Moscow, June 1993.

If the balance of interests in the acting privatization model did not suit until now the pro-communist forces, today the same balance does not suit the regional economic 'liberals' in power. But such demarches being made in separate regions act in favour of the opponents of the radical privatization. The only outcome is a guaranteed strong federal control over the privatization policy. ...It is not excluded that such a policy could strongly counteract the branch ambitions in the process of privatization too (p. 134).

Some signs of strengthening of such ambitions showed up in 1993, when the projects to create so-called financial industrial groups were put forward. These groups were to be formed as conglomerates created by force out of hundreds enterprises to substitute old ministries.

The survey entitled 'The Russian Economy in Summer, 1993. Trends and Prospects' (October, 1993) deals with three main problems: stabilization, tendencies in productive sphere (a 'transformational recession') and the process of privatization. 'In the forthcoming future it is anticipated a struggle of the strengthening economic groupings for the forms and mechanisms of influence on the making of economic and political and pure political decisions. This factor will determine the nature of further events in the sphere of the economic policy', - that is one of the main conclusions of the authors.

The Experimental Institute of Russia's Union of Industrialists and Entrepreneurs, headed by Y. Yasin, from the very beginning of the reform stands firmly on the pro-governmental positions though it is patronized by the Union mentioned.

In his comments on the government's actions undertaken in 1992,¹⁰ Y. Yasin did not agree with the opinion that the liberalization of prices should be preceded by privatization, demonopolization and cuts in state expenditures as it was envisaged by the '500 days' programme. 'Privatization and demonopolization are complicated and prolonged processes. To make them a precondition for freeing prices means to postpone the reforms for many years. Besides, it will be soon clear to everyone that privatization and demonopolization simply cannot be implemented without free prices'. In response to those who insisted on the gradual liberalization of prices he noted that 'in such circumstances gradualism will be rather an illusion, ...it will be an additional burden on the state budget'. Y. Yasin admitted that monopolism in the absence of competition gives the enterprises a free hand to raise prices and countenance inflation, 'but maybe to put an end to such a practice it is better to bend every effort to antimonopolist activities and promotion of competition than to leaving the prices frozen'. He did not regard the liberalization of prices as a mistake because it supposedly stimulated reduction of production instead of its growth: 'The liberalization of prices is painful just because it leads at first to a slump and to a complicated process of establishing new ratios between prices, costs, demand and supply. But this process is inevitable to give birth to the genuine market mechanism'.

¹⁰ *Nezavisimaya gazeta* 4 December 1992. See also the author's article 'A Fate of the Russian Economic Reform' in the journal *Voprosy ekonomiki* - Questions of Economics, 1993, No. 2, pp. 124-135.

On the grounds of the critical situation in the economy many experts believed that there were no reforms at all or if they were then they failed. The author of the article does not agree to this assertion. From his point of view the reform cannot show the positive outcomes very soon. Y. Yasin opposes any proposals 'to introduce special anti-crisis measures... All the fuss around emergency measures which supposedly change the course of events... is of no use. On the contrary, it can do a big harm'.

Let's review one of the publications of the Institute - 'The Reform according to Gaidar: 500 Days Later'¹¹ (March 1993). Among other problems the survey deals with the problem of the swings of the 'economic pendulum' in 1992 (pp. 18-20):

- January-April - a tough monetary policy aimed at the liquidation of the budget deficit and the suppression of the inflationary wave followed the freeing of prices. Removing a monetary overhang together with a zero budget deficit and a shortage of currency in cash contained the inflation but did not bring it down.
- May-August - a retreatment from the tough financial policy. Enhancing the energy prices instead of their liberalization in May and introducing from 1 July a free exchange rate were the last attempts to meet the IMF commitments. An outflow of cheap credits to the enterprises and to commercial banks, especially after the dismissal of the former chairman of the Central Bank.
- September-December - a financial policy again became harder. In September and October the budget was once more fulfilled without deficit. Nevertheless the VIIth congress of People's Deputies (December 1992) changed Y. Gaidar for V. Chernomyrdin. The second stage of the reform, according to Gaidar was characterized by shifting the accent from the economic to the political 'front'.

Thus, in the authors opinion, '...a shock by all means took place as a whole. And it promoted the beginning of the important qualitative transformations in Russian economy'. But one should admit that 'because of the mistakes in diagnosis and the dose of the prescribed remedies, as well as delays and lack of organization the effectiveness of the shock turned out to be much less than it was expected'. (p. 17)

Being sure of the inevitability of the continued recession in 1993, the authors of the paper note, that 'the hopes of the economic growth could be connected only with efficient investments, which are impossible to make on the large scale until the rouble was stabilized'. (p. 47)

One of the key issues of the reform is Russia's relationship with the CIS countries. In the opinion of the authors, 'the industrial level and the welfare of the people in all the former Soviet republics will depend in the nearest future on the nature of the relations between them not less than on the financial stabilization or the

¹¹ 'The Reform According to Gaidar: 500 Days Later'. A paper issued by The Experimental Institute of the Russia's Union of Industrialists and Entrepreneurs. Moscow, March 1993.

institutional changes in each of them'. (p. 25) In the autumn 1993 six republics of the former USSR set about the establishment of the rouble currency area of a new type providing - along with the utilization of Russian rouble as a common currency - for the restriction of the sovereignty of the partners of Russia in this sphere. But the republics decided the price was too high. So, they were encouraged to move as quickly as possible to issue their own currencies and then establish an efficient and clear mechanism to exchange them for roubles.

Y. Yasin belongs to a small number of Russian economists who remained optimistic even in the gloomy situation of the autumn 1993. While discussing the draft of the 'Programme of the Russian Federal Government for 1993-1995', elaborated by himself together with S. Vasiliev, Y. Urinson, Y. Saburov, A. Granberg, A. Illarionov, S. Alexashenko and others, he paid attention to such significant signs of economic recovery as, first, establishing a new structure of relative prices, approaching, when they are freed, the price ratios of the world market. These prices 'are used already as signals for capital to move into the most effective investment spheres'. Second, trade and banking activities are becoming a stimuli of structural changes. Third, a privatization process is gathering speed. The author sees pretty well the shortcomings of the methods of privatization chosen, but he is certain that 'any other model would be criticized not less than the acting one'; by the way, he considers that 'vouchers gave a powerful incentive to the development of capital market'.

The author believes that today 'the main problems are leaving macroeconomic level and are moving to the microeconomic one'. And he bitterly adds, that 'to work out the rules for the economy is a matter of politics, while we play our political games without any rules'.¹²

The former minister of economy in the I. Silayev's cabinet and the author of the next programme of the transition to market after 'the 500 Days', Y. Saburov, who is now the head of the governmental Centre for the social technologies research, is also an active supporter of the official policy. In his interview given last May¹³ he pointed out one of the factors of a 'shortageflation' which took place during first months of the reform: 'an organizational muddle' in the economy caused by the Law on the Enterprise, adopted by the USSR government, as well as the so-called half-privatization, when 'an enterprise remains presumably state-owned but is not managed already by the state'. 'This gives all the rights and no responsibility to an enterprise'.

Having realized that it was inevitable to pump currency into production sphere, Y. Saburov urged to do it deliberately. He said that 'there are some critical points in the reforming process, when the priorities ought to be changed. In my imagination we have just approached such a critical point'. At the end of 1992 he made an attempt to settle these priorities in the draft of his 12 points programme of overcoming the crisis.¹⁴

¹² *Delovoy mir* 17 September 1993.

¹³ *Nezavisimaya gazeta* 19 May 1992.

¹⁴ *Delovoy mir* 5 November 1992.

The fate of the Russian reform becomes very often a subject of considerations for N. Shmelyov, a well-known economist and writer. For instance, being asked once whether a succession of the reform was to be the following - liberalization of prices, privatization, monopolization, - or it would be carried out some other way, he answered: 'As before I am perceived that all the changes were to be implemented simultaneously..., it was wrong to free prices without any shock-absorbers'.¹⁵ In one of his latest interviews¹⁶ N. Shmelyov marked as a mistake made by the government that it did not compensate the population for the losses of their savings arisen out of the liberalization of prices. This fact as well as a sequestration of the Vneshekonombank accounts shook the people's faith in the government. The second mistake was according to him the fact that the energy prices were not freed together with other ones. The third mistake he mentioned was that in the middle of 1992 the government did not manage 'to launch the first, even if pedagogical, ... chain of bankruptcies'. The fourth mistake, as he thinks, was that 'no freedom was given ... to private sector' and that the principle of a permission (i.e. licence) instead of a registration of private activities is still in force, that leads inevitably to corruption. The fifth mistake consists in too heavy tax burden which in the conditions of the galloping inflation prevents investment credits.

Nevertheless N. Shmelyov backs the official policy as a whole. He believes that 'the main task is to curb the inflation. If we win support from the western financial circles, then the inflation could be reduced up to 5 per cent a month'.

2. Structure of private entrepreneurship

The Economic Freedom Party (the co-chairmen K. Borovoy and V. Zolotaryov) was founded in summer 1992. From the very beginning it expressed solidarity with the governmental economic policy. 'Maybe we are the most consistent adherents of this programme, we are not the opponents of the government. On the contrary, we strive for cooperation with it on large scale and on equal terms'¹⁷, the Programme principles of the Economic Freedom Party declared. Here are the extracts from these principles:

'The privatization process is to be radically sped up ... Any programme aimed at converting a state-owned enterprise into an open joint-stock company, including management buy-out, is to be adopted'. The competitions and auctions are to be delivered to private structures too. 'Maximum rights in the sphere of privatization are to be delivered to the regions'.

The encouragement of competition ... To wait until all or even the majority of the problems of competition could be solved by means of privatization is at least naive.

¹⁵ *Rossiyskiye vesti* 17 October 1992.

¹⁶ *Nezavisimaya gazeta* 9 September 1992.

¹⁷ *Nezavisimaya gazeta* 11 June 1992.

The taxes. The government should reduce to a great extent the taxes for the sake of the encouragement of small, medium and big business. It is much more important to refuse the sectoral differentiation of the taxes...

The state budget. ... It is necessary to seek to maintain a balanced budget... It would be a tragic mistake to increase state subsidies or credits granted to the manufacturing industry, especially to defence industry, under the pretext of stabilization of production and prevention of unemployment. Then the hyperinflation and all its consequences would be absolutely irreversible.

A state support, but not a patronage of the entrepreneurship is needed.

A social policy must be aimed in the first place at providing all the members of the society with equal opportunities. A direct state assistance to socially weak categories of population, mainly during the transition period, is extremely important.

Regionalism... It is necessary to ensure the natural process of decentralization and increasing the rights of the regions without undermining the market reforms and the substitution of one bureaucratic clans for others, without breaking up a single economic space and introducing economic and cultural autarchy of the regions, territories and republics.

One of the resolutions of the first congress of the Economic Freedom Party (December 1992) declared:

The outcome from the crisis calls for an essential adjustment of the governmental programme of the reforms, including a revision of some priorities of the economic policy. At the same time these corrections should not overstep the definite limits beyond which the market transformations could be changed for partial revival of the totalitarian planned economy that will make a transition period a long-term painful process entailed by the deepening of the gap between Russia and the developed countries.

The Economic Freedom Party names the following limits not to be broken: no delay with privatization, the refusal of financing and crediting of state-owned enterprises, banning of centrally planned prices and wages, state orders, distribution of raw materials and investments, a retreatment to the closed economy.

The official policy of the reforms is supported consistently by the Association of Privatized and Private Enterprises headed by Y. Gaidar and P. Filippov. The Association was formed in June 1993 and at once encompassed several thousand enterprises. As it was announced at the press conference devoted to the registration of

the Association¹⁸, it would adhere to the principles of economic freedom, stability of economic legislation, giving a priority in the development to non-state sector of the economy, defending the interests of the privatized and private enterprises. Among the immediate tasks the following were mentioned: changes of the anti-market clauses of the Criminal code, adoption of a new Civil code, laws on joint-stock companies and on trusts. As it is anticipated the files of the Association will be enhanced at the expense of the market leaders having by the way the most financial opportunities to back their political lobby.

In June 1993 one more political organization - Entrepreneurs for a New Russia was established in Russia. K. Zatulin, the leader of the organization, at the beginning made an attempt to cooperate with G. Yavlinsky as ideological leader, but later the latter refused to join them and made an independent electoral block. Nevertheless their economic platforms have much in common. For instance, the Zatulin's organization agrees with Yavlinsky's thesis that 'a state or semi-state economy has no chance to ensure an effectiveness of the economy'.¹⁹ One of the leaders of the new organization formulated its position as 'based on social market economy neo-liberal model of a civil society, which is inherent to Russian conditions'.²⁰ Meanwhile one can observe a constant inclination of this association to 'centrism' and a secret rivalry with other entrepreneurs' groups, especially with the Gaidar's association. Having in mind to distinguish himself from all other movements of entrepreneurs K. Zatulin once explained the creation of his organization as an attempt to put forward the third force, which 'did not stain its good name yet'.²¹

Besides the political representatives of the private structures mentioned it is worth to name the Party of Democratic Initiative based on the Union of industrialists and leaseholders (chairman P. Bunich), the Party of the Free Labour (chairman I. Kivelidi), the Peasants' Party (chairman Y. Chernichenko) and others. All of them have come to the conclusion to become independent participants of political life and the leadership of the country. In the words of I. Kivelidi, 'so far we have an impression that our ideas are 'scored for sound' by the politicians, for whom free entrepreneurship is an abstract or even dangerous notion, because it threatens their positions'.²²

In spite of all the differences between the private entrepreneurs' movements they constitute the forces which are the natural allies of the reformers.

¹⁸ *Izvestia-News* 4 June 1993; *Nezavisimaya gazeta* 4 June 1993; *Chastnaya sobstvennost* - Private Property 28 April 1993.

¹⁹ *Nezavisimaya gazeta* 14 June 1993.

²⁰ *Nezavisimaya gazeta* 17 June 1993.

²¹ *Delovoy mir* 7 July 1993.

²² *Delovoy mir* 3 July 1993.

IV OPPONENTS

The openness (*glasnost*) policy, started in the years of the Gorbachev's *perestroika*, could not help concerning the economic policy of the Russian Federation. The official policy from the first days has undergone an onslaught on the part of its opponents, especially the leftists.

The ultra-leftists (communists and national patriots), united in the National Salvation Group, banned after the October (1993) putsch, were practically speaking the advocates of the rebirth of the command economy. On the eve of the putsch their positions strengthened very much in the Supreme Soviet, which tried to maintain itself as an organ parallel to the government, i.e. too far from a genuine parliament. Other parties and forces opposed to the President and the government, as well as the 'centrists' sought and seek to come into power on the wave of criticism to continue the movement to market according to their own conceptions. A group of well-known academic economists were and are anxious mainly about a social tension, that is why their criticism is on the whole of a protection character.

Pursuing their own aims each of these groups criticizes the official policy, however paradoxical it sounds, in almost the same expressions. And what is even more surprising, this criticism relates in essence to the radical rhetoric of B. Yeltsin and his surroundings, but not to their practical activities. In practice the government itself makes constant corrections in the course of the reform, though not, of course, for the sake of compromises with the opposition or at the cost of a retreatment from the tenets of the reform, but taking into consideration an actual economic situation.

At first sight the differences between the proponents and opponents of the government consisted only in nuances, but these 'nuances' are of principal character. The accent on the financial stabilization meant the maintenance of the market course of reform leading ultimately to a new economic model. The accent on the 'revitalization of production' was until recently basically an anti-reformist irrespective of the personal wishes of the authors.

1. The supreme Soviet and near-by structures

The last chairman of the Russian Supreme Soviet R. Khasbulatov and his supporters charged the executive authorities with the violation of the Constitution. On the one hand, they did it not without any reason. But on the other hand, market economy could not be arrived at constitutionally. The Brezhnev's Constitution, though slightly changed, locked many of the alternatives of formal (and informal) democracy.

Meanwhile R. Khasbulatov said in one of his numerous speeches²³, that 'a poetic style of revolutionism defying the constitutional law' led to the situation, when Russia 'inherited not only a too heavy economic structure, but the structure torn mechanically to pieces and lack of the signs of a single economic complex of the former Soviet Union' (let us note in brackets that it was a highly militarized complex). 'And the band of the experimenters', continued the author, 'attacked this sore body to fulfil a pseudo-revolutionary task - to breathe a new life in it during a few months. They performed an operation bravely, without any anaesthesia'. Here we meet a standard imputation of the liberalization of prices and again an appeal to gradual transformation. But the experience of the neighbouring Ukraine, for instance, showed very well the tragic consequences of such a method of transition. The author tried to frighten the public with 'a Latinamericanization of Russia in its Columbian variant'.

Enumerating the mistakes of the reformers in the agricultural sphere he accused them of a rash reallocation of land (though the Supreme Soviet to its end contained the adoption of a Law on buying and selling the land). In the speaker's opinion, an agrarian reform 'must not destroy artificially the framework of agricultural production' (i.e. kolkhoz-sovkhoz agro-industrial complex, called by the people as Agrogulag).

R. Khasbulatov's deputy in the Supreme Soviet, Y. Voronin,²⁴ was one of his truest followers. He did not see in the recession any positive elements (e.g., connected with the washing away of non-effective production), considered freeing of prices only as a 'knock-out for industry' (but by no means a catalyst of marketization), insisted on the introduction of state orders and other elements of direct state management. He was strongly against any corrections of the official policy. Only a retreatment to centrally planned economy could, to his mind, save the situation.

A round table convoked by the Supreme Soviet and the government in accordance with the decisions of the VIIth congress of the People's Deputies, prepared in July 1993 'Declaration of National Economic Concord'.²⁵ It represented an eclectic collection of measures which included simultaneous reducing of the inflation and overcoming the slump. In the theses of the economic conference²⁶ prepared on the basis of the Round Table ideas and held under the aegis of the Supreme Soviet it was envisaged the creation of a two-sectors economy, i.e. consisted of parallel existence of socialist and market sectors upon the pattern of China. As a top priority the adoption of anti-crisis measures was declared, including among others introducing a forced exchange rate, freezing of prices and revenues, creating large corporations and so on.

Certainly, the Supreme Soviet was not homogeneous: between the two poles ('Democratic Russia' - 'National Salvation Group') a wide spectrum of different deputies' factions and independent deputies were disposed. Their views were sometimes rather contradictory, because they were taken from the different platforms. For instance, 'Free

²³ *Rossiyskaya gazeta* - Russian Newspaper 17 April 1993.

²⁴ *Ekonomika i zhizn* - Economy and Life No. 4, November 1992.

²⁵ *Izvestia* 6 July 1993.

²⁶ *Izvestia* 17 July 1993.

Russia' faction and at the same time opposed a proposal to revive a state orders and a proposal to regard as a paramount importance a liquidation of the budget deficit.²⁷

However, the leftists prevailed in the Supreme Soviet. Among the most offensive factions one should mention The Industrial Union headed by Y. Geht, who was an initiator of the All-Russian conference of commodity producers held in August 1992. A year later these directors of state-owned enterprises united in the Federation of commodity producers under the leadership of Y. Skokov. This Federation unified 'producers of the goods, which nobody wants to buy on the prices fixed by these producers'.²⁸ Let us remind that on the opposite flank a month earlier, in June 1993 the Association of privatized and private enterprises headed by Y. Gaidar was set up. This Association unified 'the enterprises which managed to adapt themselves to a new market environment'. An intermediate position occupies Russia's Union of Industrialists and Entrepreneurs headed by A. Volsky. There are some signs that his Union will eventually supply with its volunteers both of the extreme structures.

The above mentioned All-Russian conference of commodity producers²⁹ came out sharply against the government's financial policy and the bankruptcies of loss-making firms; backed settling debts incurred between the enterprises themselves; spoke for preferential credits and, accordingly, for additional credit emission; supported state control over prices and monthly indexation of wages, central control over technological development, protectionist foreign trade policy and a variety of exchange rate. In other words, the conference declared a refusal of the economic reform. And it is not incidentally that the Moscow delegation of the councils of working collectives officially dissociated itself from the decisions of the conference and pointed out that the conference reflected 'the interests of bureaucratic system of management, as well as the interests of a conservative part of the directors' corps, which resists the reform'.³⁰

'The Brains Trust' of the Supreme Soviet was embodied in the Higher Economic Council (chairman V. Ispravnikov, who became R. Khasbulatov's deputy in 1993). Just here³¹ the conclusions were derived how to change the monetary priorities for production ones. The Council joined The Moscow Round Table, an association consisting of V. Balan, V. Ikonnikov, V. Dadayan, V. Kamayev, M. Lemeshev, D. Chernikov and others. At the end of 1992 these authors prepared their own draft programme of the economic reform.³² They proposed three kinds of decisions: urgent measures to be realized immediately, extraordinary measures independent of the urgent ones, programme of long-range changes.

The urgent measures are undertaken with a view to stop further recession entailing an economic collapse, to prevent the living standards from further plummeting,

²⁷ *Delovoy mir* 4 April 1992.

²⁸ *Segodnya* - Today 30 July 1993.

²⁹ *Izvestia* 12 August 1992.

³⁰ *Delovoy mir* 21 August 1992.

³¹ *Birzheviye vesti* - Stock Exchange News, No. 9, 1992.

³² *Delovoy mir* 4 December 1992.

to stabilize the social and political situation in Russia'. Correspondingly, a tough character of such measures was envisaged: state control over the prices; more different rates of the taxes; state subsidies and preferential credits to firms producing the goods enumerated in the special list prepared by the government (the prices on these goods are to be established quarterly).

Among the extraordinary measures one has to mention the agrarian reform, stabilization of finance and currency circulation, wide-scale privatization of state-owned enterprises, social protection of the population (first and foremost the indexation of savings and partly compensation of the losses of the savings, as well as the indexation of the incomes of those who are employed in the budget organisations, indexation of pensions and grants), stabilization of foreign trade relations.

The programme of long-range changes includes two interlinked packages of measures: demilitarization of the economy and the reorganization of its macrostructure.

A group of Russian economists (mainly the authors of the programme mentioned) together with the American advisers to the Higher Economic Council published under the guidance of V. Ispravnikov a book entitled *Reform without Shock. The Option of Socially Convenient Decisions* (Moscow, Foundation 'For economic literacy', 1992). The book deals with the two possible approaches to market reforms. First one, which is usually recommended by the IMF, is based on the necessity of simultaneous decrease of money supply and the demand for commodities. The essence of the second approach consists of a simultaneous increase of demand for money and supply of commodities.

The authors argue for the second variant as more appropriate for the Russian conditions that means for a gradual transition to market economy. The choice of business activity instead of slump guarantees maximum painless transition to market economy. We had already a chance to show the error of such a pure inflationary approach to reform.³³

One of the authors of the book, an adviser to the Higher Economic Council and a professor of Stanford University, USA, M. Bernshtam, is rather popular in Russian mass media. He was, in particular, absolutely right in his assertion that enterprise and state finance in Russia were merged. Therefore it was impossible to limit the demand. That was why, as he thought (and theoretically that raised no objection), it was necessary to begin with dividing the enterprise and the state finance before setting prices free. 'In these conditions liberalization of prices, which is in itself has to be done, turned out to

³³ Boris Fyodorov, then minister of finance, expressed it in a harder way: 'It is not possible to achieve a normal economic performance and a rise in living standards in the conditions of a non-controlled inflation. On the contrary, the inflation ruins savings, investments and long-term credits, brings about capital flight, technological backwardness and the stratification of the society, the appearance of a small group of super-rich people side by side with the impoverished majority of the population. Just because of it we are strongly against the state budget passed by the Russian Supreme Soviet. This budget is destined directly to the collapse of the economy and the impoverishment of the population'. (*Izvestia*, 15 September 1993)

be a strategic mistake of the government'.³⁴ And, as he wrote in another article, until the state 'cuts its dependence on enterprises, until it establishes a new market financial mechanism, the economy will degrade and the population will be pauperized'.³⁵ But, to our minds, before freeing prices it was impossible to tear the economy off the totalitarian socialist system. And only then it became possible to commercialize and later on privatize state-owned enterprises.

The author ignored this fact once more when he estimated the devaluation of personal savings. He believed it was a big strategic mistake that 'the state consciously devalued internal debt in order to lift a so-called inflationary overhang'. This money ought to be delivered, in his opinion, to private credit markets for future private investments. But who there were no private credit markets in Russia at the very beginning of the reform.

2. 'Centrists'

'Centrism' as a conciliation of irreconcilable views in the framework of a single conception is hardly possible now in Russia. The only realistic centrist position today may be one that is based on the 'pendulum' principle. And that, as a matter of fact, is the policy conducted by the government since the summer 1992.

'The Civic Union' attempted to place at the head of the centrist movement. But actually this organisation, in spite of all the statements about its loyalty towards the government, has every time proved to be leftist. For example, in summer 1992, when the market elements were still too weak in Russia, the Union delivered a letter to B. Yeltsin, where it insisted on 'the transition from the macroeconomic to the direct control over economic processes'.³⁶

The programme of 'The Civic Union' is an alternative to the governmental one. It concentrates on four main issues: 1) encouragement of demand in consumer and investment sectors at the cost of the indexation of wages (up to 90 per cent of the price rise); 2) institutional changes: speeding up the processes of commercialization and privatization, state support for medium and small business, commercial banks and investment funds, making the market infrastructure; 3) structural policy aimed at maintenance of high-tech production, intellectual potential in research and development sphere, promotion of economic sectors of vital importance, i.e. fuel and energy complex, agro-industrial complex, transport; 4) improvement of the anti-inflation strategy, i.e. preservation of the state control over prices on energy and main foodstuffs, reduction of VAT not over 15 per cent, introduction of progressive tax on the increment of wage fund.³⁷

³⁴ *Nezavisimaya gazeta* 7 August 1992.

³⁵ *Delovoy mir* 30 October 1992.

³⁶ *Nezavisimaya gazeta* 18 July 1992.

³⁷ *Delovoy mir*, 1992, No. 7; *Delovoy mir* 11 August 1992.

All the points enumerated are distinctly alternative to the governmental programme except for the second one. But let us listen to how it is motivated by I. Diskin, one of the most active leaders of The Civic Union. He as well as the Committee for the Management of State Property asserts that 'privatization designs to make enterprises more efficient'.³⁸ The only difference in their positions is the question of who ought to be a proprietor. In accordance with I. Diskin's position, only the directors of state-owned enterprises and by no means 'compradors' know how to manage enterprises and what national interest really means. In another article he openly declares that he did not see any 'other way of establishment of national bourgeoisie than by producing it out of market-oriented directors'.³⁹ Ergo, this position of 'The Civic Union' programme also does not coincide with the governmental one.

In conclusion we should like to cite an article written by G. Diligensky, the head of the Centre for comparative socio-political studies, who shows that the 'centrist' position 'leads, in essence, to the strengthening of the state-monopolistic, administratively managed economy. In a sense such "centrism" is more dangerous for the cause of the reforms than the anti-market radicalism...', because it can

exploit a spontaneous mass conservatism, the fear of any changes naturally becomes stronger in a society which experienced a stormy modernization and breaking of habitual foundations. Today a "centrist" conservatism is becoming more and more popular amongst the old and new, ex-democratic, political and intellectual elite. It is becoming popular especially among those, who, on the one hand, are unable to propose any positive programme of development and, on the other hand, are afraid of losing their social status and "falling out of the boat" as a result of the new changes.⁴⁰

3. Academic institutes

The institutes of economic profile belonged to the Russian Academy of Sciences, first of all the Institute of Economics, the Institute of Market Problems, the Institute for Economic Forecasts, as well as individual researchers of the mentioned and other academic institutes had launched the investigation of supposed directions and consequences of the economic transformation long before it was started. Already then they predicted the emergence of the difficulties that will fall upon the population after setting free prices, and worked out preliminary variants of less painful ways of the transition to market.

Further experience - both national and international - has shown that all the programmes of gradual transition of socialist countries to market proved not to be viable. It was impossible to tear the economy off the state navel-cord without a Big

³⁸ *Chastnaya sobstvennost* 23 June 1993.

³⁹ *Delovoy mir* 31 August 1993.

⁴⁰ *Nezavisimaya gazeta* 20 May 1993.

Bang.⁴¹ That was why even the most fundamental analyses made by the leading economists of Russia were found to be unclaimed by the government. The opposition took advantage of it at once to invite some of these scientists as their advisers or the authors of blueprints of their programmes.

Academician S. Shatalin, head of the Economic Section of the Russian Academy of Sciences, has established an international foundation called 'The Reform', destined for independent analyses of various aspects of current economic situation.

Already at the beginning of 1992 the foundation prepared a paper entitled 'About the Economic Changes in Russia'.⁴² The paper stated that 'a temporary decline in living standards is an inevitable payment for the reformist rush to the market', but the government unfortunately makes little to minimize the social costs.

The paper did not call in question the necessity of beginning the reform with freeing of prices. But at the same time the authors accused the government of being captured by the fixed idea of cutting the budget deficit. As the document stated, 'the control over the circulation of currency remains the weakest point in the package of measures aimed at stabilization of the economy'. The authors put forward their own 'flexible pragmatic approach to the solution of these tasks' (e.g., concerning co-ordination of the activities of the central banks of the republics using the rouble as a means of payment).

The same way the document supported 'as undoubtful the course pursuing openness of economy and liberalization of foreign trade', but it pointed out at some practical measures which did not coincide with this course.

The authors emphasized the fact that 'the central element, the key issue of the market reform is privatization', and that this process 'is not a one-moment act, but will take much time'. The foundation spoke for mixed economy, for a variety of approaches towards privatization, including an optimal combination of redemption and free of change distribution of property. The paper appealed for 'reconsidering basically the policy of involving foreign investors into privatization processes. In our situation just foreign capital may be the most effective source for structural changes, modernization of production and raising the quality of our goods up to the world level'. 'The foundation believes that the ultimate goal of the agrarian reform should be the introduction of private property on land that the land may and must be sold, bought, mortgaged, presented etc'.

⁴¹ A well-known political scientist A. Kiva noticed, that '...there was the alternative, i.e. a dictatorship or even a hard authoritarianism. Then the country could move slowly from state socialism towards state capitalism, as it had been in Taiwan, South Korea... But I ask myself whether the anti-communist forces are capable of establishing a dictatorship and making a transition from pre-market to genuine market relations more gradual and less painful for the people? To my mind, such forces did not exist' (*Novy mir - New World*, 1993, No. 8, p. 169).

⁴² *Nezavisimaya gazeta* 29 February 1992.

As one could anticipate, one of the most fundamental divergences of views between the government and the foundation was and continued to be the fact, that the former 'overestimated too much the monetarist methods and had illusory hopes on fast creation of full-fledged market and self-regulating mechanisms'. The authors were good prophets having written that 'a macro-economic stabilization will be more and more impeded by the slump'. They advised 'to choose the priorities and to implement the state programmes of support and development of those enterprises, whose production is of first and foremost need for the population'.

We have explained already before why some of the foundation's advices, including the last one, were then not taken into account. Otherwise, it is difficult to notice a visible difference between the positions of the foundation and the government at the first steps of the economic reform.

A month later, in the next paper devoted to the analysis of the Memorandum of the government on the problems of the economic policy of Russian Federation⁴³ the authors repeated their thesis about the necessity to find 'the golden mean' between reducing inflation rates and maximum resistance to the recession. That time they spoke decidedly against the liberalization of the energy prices in 1992 (later on Y. Gaidar called it the biggest mistake of his government) and demanded all possible encouragement of production in the priority spheres by means of preferential taxes and wide use of crediting and budget financing. 'We proceed from the assumption that inflation in the conditions of maintained volume of production and consumption is more preferable than inflation against a background of their sharp decline and social tensions'.

The third paper of 'The Reform' foundation (July 1992) determined its position on the strategy and tactics of further movement to market economy. The authors found it appropriate to underline the thought that 'it would be extremely tendentious and illiterate to link the continuous worsening of the economic situation in the country only with the current policy of the Russian government', because 'none of the long-term factors of the crisis have been eliminated, all the basic reasons that had an effect upon the slump last year and earlier are still in force now'.

At the same time the paper paid attention to some new dangerous processes stemmed, in the authors opinion, from the impossibility of a one-moment leap into market. To contain these processes the paper recommended to arrange the following spheres of state control: financial support for the priority branches; exchange-rate policy; price formation (its methods and direct forming of the prices on a limited list of goods); circulation of flow of limited material resources; social protection.

The foundation proposed, in particular, not to insist only on introducing open joint-stock companies and regarded collective (people's) enterprises in the existed

⁴³ *Nezavisimaya gazeta* 21 March 1992. The same newspaper issued the third paper of 'The Reform' foundation in July and a joint paper of the foundation and the Economic Section of the Russian Academy of Sciences in November 1992.

circumstances as also useful, though of course intermediate stage 'on the way of formation actual owners, strategic investors'.

In autumn 1992 a paper entitled 'On Strategy of Socio-Economic Transformation in Russia' was prepared jointly by 'The Reform' foundation and the Economic Section of the Russian Academy of Sciences. The paper stated that 'the crisis in the economy is not of structural, but of global character' and that 'fixing of low demand of population ... is becoming a stable factor of further recession' and, at last, that the enterprises lack 'financial resources for reproduction quite naturally slackened their investment activities'.

The main reason for 'such a disastrous failure of the governmental policy' consisted, according to the authors of the paper, in 'the wrong option of methods of revitalization of the economy', in the fact that the government 'decided to remove from the state the functions of control over actual economic processes and to concentrate solely on macroeconomic policy and financial stabilization aimed at zero budget deficit, introduction of a convertible rouble and increasing its exchange rate'.

The paper added to the causes of the failure also the fact that 'the new economic agents arisen in the course of privatization did not prove to work better' (though it was clear, that the efficiency of the enterprises depended to a large extent on the competitive environment which is not created in Russia yet).

The authors declared their adherence to a socially-oriented, unlike a liberal model, to mixed economy and to more decisive interference of the state into economy in the transitional period. Three priorities, including the promotion of the consumer goods were concentrated on: fuel and energy, the military-industrial complex. They argued for this manoeuvre with the financial and credit resources for the sake of promoting incompetent branches. At the same time they noticed that 'these measures should not impede the transition to market'. In other words they put forward not a financial stabilization as a necessary prerequisite of the changes in the production sphere, but 'a prevention from a further slump, converting it into a structural one, strengthening of the rouble, stabilization of living standards and lessening of social tension'.

Now let us dwell upon the views of the most competent representatives of the academic science on the problems under consideration. These opinions do not bring anything new to the understanding of the problems set forth before.

Academician L. Abalkin, the director of the Institute of Economics Russian Academy of Sciences, who estimated in 1992 a continued slump and inflation as the most dangerous factors for the further development, proposed 'to turn the face upon the producers, to create stimuli for the revival of the economy. Certainly, it would be wrong to make a sharp turn. We need a tough financial policy and a sound rouble, but we should prepare the zones for the attack... To choose the priorities, to soften financial

policy, to find the necessary resources and to stop the recession... That is our main task now'.⁴⁴

Under the guidance of L. Abalkin the Institute of Economics worked out in November 1992 'The Programme of Anti-Crisis Measures',⁴⁵ provided serious corrections of the economic policy, but by no means a retreatment from the mainstream of the reform. In essence, the Programme envisaged a combination of monetary methods with the methods of direct control over the economy. As L. Abalkin stated a month later, 'we should at last encourage production and business activity by word and deed'.⁴⁶

L. Abalkin's detailed views on the up-to-date economic policy were presented in his seminal article entitled 'A Dominating Factor: the Economic Crisis and How it has to be Overcome'.⁴⁷ In particular, he wrote: 'the liberalization of prices, which was introduced in a hurry and lacked all the necessary preconditions namely: demonopolization of production, creating a competitive environment, a "hot money" immobilization etc., entailed a skyrocketed inflation followed by a hyperinflation'. In L. Abalkin's opinion, 'such a large-scale and economically and socially disastrous crisis was not inevitable' and could be avoided if not to rely upon 'the omnipotence of monetarist methods of economic control'.

Based on a statistical analysis the author made a number of gloomy conclusions in regard to the economic situation in the country. First, he stated that the process of 'the deindustrialization of the economy, destroying of the scientific and intellectual potential of the society has begun'. Second, the process of formal washing out of such sources of accumulation as amortization, savings and so on is over. Third, 'the level of the wages is completely independent of the production results' and to a large extent it depends now on 'the dynamic of consumer prices on the goods and services as well as on various forms of pressure on the government and local authorities'. At last, 'the process of depopulation and the disappearance of the national genetic fund is gathering strength'.

In the second part of his article the author posed the stages and logical scheme of the reform that look very much like the latest governmental programme. And along with that some of his points differ from the above mentioned paper prepared jointly by 'The Reform' foundation and the Economic section Russian Academy of Sciences. For instance, contrary to this paper L. Abalkin believes that 'it is not correct to regard as priorities the whole complexes, fuel and energy, agro-industrial or conversion. Such an approach seems to be unrealistic. One can regard as priorities only concrete decisions which have special purposes. The yardsticks for such decisions, encouraged by budget financing, cheap credits and low tax rates, should be their social importance and multiplying effectiveness'.

⁴⁴ *Delovoy mir* 29 October 1992.

⁴⁵ *Delovoy mir* 11 November 1992.

⁴⁶ *Delovoy mir* 26 December 1992.

⁴⁷ *Delovoy mir* 24 July 1993.

The official policy was sharply criticized by the Institute of Market Problems Russian Academy of Sciences and its director academician N. Petrakov.

One of his first arguments against the official conception produced already at the end of 1991, was then time and again repeated by other opponents: you must not free prices before demonopolization and privatization. 'The ideas like the liberalization of prices are in such conditions not else than a delusion of the half-educated liberal economists'.⁴⁸ But we should notice, that in the conditions of fixed prices it is not easy to find a potential privatizer of the enterprises, which could become insolvent. Besides, privatization and demonopolization cannot be implemented at once simply by their nature.

The next reproach expressed at the very beginning of the reform was the following: 'For the first time in the history one country supplies the other with its own currency... so, either Russia as a state that issues money will suppress other countries with its monetary policy, or, on the contrary, these countries will in the end destroy the currency system of Russia'. 'What is indeed necessary is not a single currency, but a single monetary policy'.⁴⁹ We agree with the author, but we have to add that for political reasons it was almost impossible to carry out this project immediately, though some steps were taken, e.g. the accounts of the Central bank of Russia with all the republican banks were introduced.

A complex assessment of the reform was done in the appeal of the directors of the Institute of Market Problems to the leadership of Russia and the Democratic movement as a whole (March 1992).⁵⁰ In particular, it stated that an enormous capital flight abroad makes impossible 'not only a growth, but even the maintenance of production on current level'. To our minds, the decrease of production is not a result, but a reason of the capital flight. Similarly, we cannot agree that the cause of the parcelling of the economy is a floating exchange rate and therefore a fixed exchange rate ought to be introduced. In fact, the reason of breaking up the economy into parts is a macroeconomic disbalance, which can be overcome by means of financial stabilization. Standing up for low prices on raw materials and labour force as a means of inflow of foreign capital to the economy, the authors ignore the fact that it would entail the pumping of currency into the fuel and energy complex with all its consequences. A proposal to introduce 'a state control over prices beginning with fuel and raw materials and ending with consumer goods', if it was realized, would overburden the state budget with subsidies and destroy it. Another proposal - to restore 'a strict control over the distribution of the credits for a low rate' - would be succeeded inevitably by the encouragement of non-effective and loss-making enterprises.

In one of his articles N. Petrakov sharply criticized the establishment of the exchange rate 'according to an exotic consumer goods basket' at a so-called currency auction. Certainly, it is far from a genuine exchange market and therefore 'it does not

⁴⁸ *Stolica* - Metropolis, 1991, No. 46-47, p. 5.

⁴⁹ *Rossiyskiye vesti* No. 4, January 1992.

⁵⁰ *Nezavisimaya gazeta* 6 March 1992.

play a role of one of the barometers as all over the world'.⁵¹ But one should admit that an established exchange rate is more real than an artificially established fixed one.

N. Petrakov like some other economists (V. Belkin, O. Bogomolov, V. Volkonsky) has advocated for many years the idea of a currency parallel to the rouble. In his latest article⁵² N. Petrakov again proposed to introduce 'a new currency like the gold "chervonets" of the 1920s. Let us call it an investment rouble. It should be secured by such real liquid assets as gold, precious metals, non-ferrous metals, oil. What is important, however, is that it should be quoted to dollar at a stable rate. A "wooden" rouble will continue to fall down and before long will be supplanted by an investment rouble. I do not see anything bad in the dollarization of the economy'. If we may comment this quotation, a gold 'chervonets' appeared and proved to be stable because the economy was then on the rise, and a sound currency appeared against this background as an additional means to the all-encompassing economic reform. In contrast to that period to introduce a new currency in today's Russian conditions means nothing else than to give a mighty additional impetus to inflation. Next to the first currency the second one will be devaluated as well.

Later, N. Petrakov's views sound a little bit softer.⁵³ In particular, he recommends to the government to commit itself to self-restricting of the financial stabilization, to limit 'painful methods' of implementing the reform. He brings forward a proposal to go on to the policy of strategic grounds for budget spendings. He also advises to create the market of land bearing in mind a preliminary land reform including the right to sell the land with the obligation to use it in a proper way. All these proposals consist in essence with the economic policy of the government.

Serious investigations of the Russian economy are taking place at the Institute for Economic Forecasts Russian Academy of Sciences (Director: Academician Y. Yaryomenko). The attitude of the Institute towards the economic reform was clearly expressed in one of its publications released last year: 'The priority given to the stabilization in production sphere helps the financial balancing more than a straightforward strategy of financial stabilization, which makes the crisis slump just more dramatic'. Otherwise 'to overcome "a stagflation trap", to bring down the inflation, to stop the recession and the breaking up of the investment sector is hardly possible'.⁵⁴ The paper entitled 'About the Ways out of the Crisis Convenient for Russian Economy',⁵⁵ prepared by the Institute, contains the elaboration of the directions and the forms of utilizing the hard state policy in relation to the current stabilization as well as to the structural, technological and organizational changes essential for minimizing the social and economic costs of the reform. This paper was designed for the preparation of the economic programme by 'The Civic Union'.

⁵¹ *Moskovskiye novosti* - Moscow News, 12 July 1992.

⁵² *Finansoviye izvestia* - Financial News, 12-18 June 1993, No. 33.

⁵³ See, for instance, *Moskovskiye novosti* 5 September 1993.

⁵⁴ *Ekonomicheskaya gazeta* - Economic paper, No. 26, June 1992.

⁵⁵ *Problemy prognozirovania* - Studies on Russian Economic Development (the Russian journal published in the USA), 1993, No. 1, pp. 5-28.

Among the representatives of the academic economic science, who unanimously reproached the shock therapy methods one should mention also academician O. Bogomolov, the director of the Institute for International Economic and Political Studies, Russian Academy of Sciences. Already in January 1992 in his interview to *Der Spiegel* he considered a rash liberalization of prices as a dangerous experiment. Since then he continues to criticize the official policy, moderately at the beginning⁵⁶ and in harder and harder forms later on. In effect, in all his oral and written texts he shares the arguments of the above mentioned academic institutes, including the main of these arguments concerning the alternative to the reform course chosen. Lest to repeat them let us cite the only short remark made by Y. Yasin in his discussion with O. Bogomolov: 'I think that there are alternatives concerning details, but not the essence of the problem'.⁵⁷ Denying the academicians' assessments regarding the commencement of the reform one cannot but admit that many of their recommendations concerning the continuation of the transformation, especially the industrial policy, can be used in the new conditions determined by the results of the December (1993) elections to the parliament.

4. Far-right liberals

The official policy is subject to criticism not only from the left side, but from the right side as well. The far-rightists consider the economic policy carried out by the government not liberal enough. To say the truth, this kind of opposition in Russia was and is too weak. This direction is represented, in particular, by V. Naishul, the director of the Institute of the National Economic Model. Considering 'the prices as very important, but only one parcel of the economic life', the author believes that 'liberalism must run through absolutely all the spheres'. He thinks, that the Gaidar's government was to a large extent under the influence of the distribution ideology and made no efforts 'to create a state which will not distribute anything' and that for the time being 'the economic freedom is not a moral value in our society'.⁵⁸ The peculiarity of the V. Naishul's approach to the reform depends on the fact that he apprehended Brezhnev's economy not as a usual over-centralized economy, but, in J. Buchanan's terms, as a bureaucratic market. Making a start from this notion he arrived at a conclusion that the most reasonable means of making a normal market would be the legalizing of the already functioning relations between the economic agents (a trade or the exchange of the rights) and, accordingly, depriving the obsolete bureaucratic interactions of their legitimacy. In other words, in V. Naishul's opinion, the liberalization could be implemented in Russia very easily: the state should merely declare that it does not back up any obligations between the juridical and physical persons apart from those which stem from their free-will agreements.⁵⁹ We believe, however, that no references to the

⁵⁶ 'It seems to me that the government of Russia had neither time nor real possibilities to act some other way. It seems to me that it had no hopes to stop the surging wave by means of the administrative measures. The result could be to the contrary: the further worsening of the supply of the towns, the wild outburst of profiteering and the abuses of all sorts' (*Nezavisimaya gazeta* 7 February 1992).

⁵⁷ *Rossiyskiye vesti* No. 29, July 1992.

⁵⁸ *Nezavisimaya gazeta* 3 July 1992.

⁵⁹ *Nezavisimaya gazeta* 26 September 1991 and 21 October 1992. See also *Segodnia*, Nos 75-77, 1993.

international experience (including the famous British common law) are convincing enough regarding Russia, where the natural development of capitalism like in the West was out of the question, but where the question is how to liberate the economy from the same centralized, though maybe a little more refined system, which was created in the course of seven decades of the Soviet history. In such circumstances all the hopes that the state will resign its commission voluntarily look too naive. To say more, the transition to the market would be made even more complicated.

For the Russian far-right liberals a very hard, even aggressive tone of polemics, is typical. It is immanent, in particular, to the 'Liberal Charter', prepared by G. Lebedev, V. Naishul and G. Sapov.⁶⁰ Its characteristic features are extreme universality and the lack of any wish to make a compromise in their demands to bring the acting legislation into line with the letter and the spirit of their stances. The same style is typical for the articles of another group of the far-right liberals - L. Pyiasheva, B. Pinsker, V. Selyunin and others. L. Pyiasheva devoted the most part of her works to so-called avalanche privatization. This proposal is very much similar, to our minds, to the support by V. Naishul of so-called spontaneous privatization instead of that imposed from above. Already at the very beginning of the reform L. Pyiasheva wrote: 'All the privatization of all the state-owned property (...except electric power stations, infrastructure and communications) was to be fulfilled in the course of one year. The privatization should be spread all over the country, include simultaneously all the technological links, ought to be implemented quickly and according to a single scheme with the participation of all Russian citizens'.⁶¹ This idea was expounded in the paper addressed to the president of the Russian Federation.⁶² The privatization programme approved by the government, the above mentioned authors stated in the paper, is of forced character. Besides, it does not envisage the transfer of the enterprises to the private owners. The authors, in their turn, proposed to transfer all the property, including the land, free of charge to the working collectives, 'which will get a status of private joint stock companies with the personal share for each member of the collective'. Those enterprises which will survive will become 'the best owners in the actual conditions'. In another address to the president these authors provided 'the complete retreatment of the state from the sphere of immediate control over the economy'⁶³ as the main task of the reform. They considered that Y. Gaidar's reform did not risk to take this revolutionary step and therefore failed. In her interview to the magazine *Stolitsa* L. Pyiasheva stated, that 'it is difficult to imagine such a state-oriented government as ours' and then, after including in this band the president, added: 'Our world is ruled by the socialists who interfere in the business of others'.⁶⁴ Indeed, both the left and right opponents of the official line see the reality distorted because they look at it through the glasses of ideological dogmas and patterns.

⁶⁰ 'The Way to Freedom: Economy and Politics in Russia by the end of 1992'. A collection of the materials for the congress of the Economic Freedom Party. Moscow, 1992, pp. 63-65.

⁶¹ *Moskovskiye novosti* 2 February 1992.

⁶² *Izvestia* 14 February 1992.

⁶³ *Nezavisimaya gazeta* 29 October 1992., 25 November 1993

⁶⁴ *Stolica*, 1992, No. 46, p. 8

V FOREIGN TRADE POLICY

Reform in Russian foreign economic activity has firstly manifested in the form of liberalization. Certain steps in this direction were already made in mid 1980's, when to improve the export structure some measures were taken to get the producers of products and services directly involved in foreign trade. While maintaining the state monopoly in foreign economic activity, the USSR government adopted a series of decrees which intensified links between foreign trade organizations and producers. Branch ministries, enterprises and other producers of export production were granted the right of direct access to foreign markets. They could now develop export-import operations based on principles of self-repayment and self-finance. Since 1 April 1989 all associations, enterprises, production cooperatives and other organizations registered as artificial persons were granted the right of direct export/import operations.

Development of direct links between Russian enterprises and their foreign partners have been further improved after the Presidential decree of 15 November 1991 entitled 'On Liberalization of Foreign Economic Activity in Russian Federation'. This decree cancelled special registration procedures for enterprises participating in export/import operations, which was mandatory for the previous 3 years, dealership, including private, was allowed, other incentive measures to encourage foreign trade were assumed. Together with the direct access to the world market the enterprises also got the right to decide on the levels of the export/import prices⁶⁵. Shortly speaking, that was the end of the state monopoly on the foreign trade in Russia.

However, it may be noted that by the end of 1991 the situation for liberalization of foreign trade was far from being favorable. While debt service obligations were increasing, export was decreasing and so was the inflow of hard currency. The national economy, well protected from the competition in the world market, could hardly react to its price signals. At the same time the exaggerated orientation toward the markets of industrially developed countries and a lack of state support for high technology export resulted in souring exports of raw materials. The situation was further aggravated by very high resource intensity of production and its dependency on imports, that increased during the oil-dollar boom. Moreover the disintegration of USSR half opened the Russian customs control, and the liberalization of bank operations and destruction of the banking system resulted in a loss of control over currency. In such conditions making the national economy completely open could stop a major portion of industries, result in mass exports of both raw materials and capital and trigger deindustrialization and pauperization of the nation.

⁶⁵ *Ekonomist*, Moscow, No. 10, 1992, p. 82.

However, according to the supporters of deep reforms (E. Gaidar, P. Aven), any further protection of the administrative control over foreign economic activity from collapse would assume that receipts from raw material exports will still be used to support inefficient capacities during ongoing recession. Therefore liberalization of foreign trade was considered to be inevitable and it was supposed to be accompanied by gradual decrease of administrative restrictions and their substitution by market control mechanisms with appropriate measures of state control.⁶⁶ During 1992 the new foreign trade control mechanism was basically formed to match the requirements of the transitional period. It is based on limited applications of non-tariff methods of export regulation only with respect to strategically important raw materials, on compulsory sales of 50% of currency received by exporters, and on export-import tariffs to protect the internal market from the destructive effects of the rapid transfer to world prices and from foreign competitors. This introduction of export tariffs, for instance, has improved export efficiency, making the dumping sale of many raw materials non-profitable. To encourage exports of premanufactured industrial products they have been freed from export tariffs and from the obligatory sale of currency to the federal currency reserve which was generally based on higher exchange rate.⁶⁷

If in the past foreign trade has been a balancing factor in planning the national economy, now, according to the former Russian minister of foreign economic relations S. Glaziev, export becomes a source of economic growth by itself rather than simply covering the expenses of import. This he sees as the main consequence of the current foreign economic activity, which in turn revealed the lagging behind in many of the sectors of Russian economy. In present conditions the growth in foreign trade becomes a tool to combat the structural crisis. In this way the governmental programme is realized to gradually open the Russian economy, taking into account the specifics of the transitional period.⁶⁸

According to the new governmental decree, expected in 1994, entitled 'On Measures in Liberalization of Foreign Economic Activities', the list of licensed and taxed export commodities is going to be drastically cut. After exports of ferrous metals and products made of it, the exports of timber, coal and some non-ferrous metals are to be liberated also. Starting 1995 the export of oil and gas are to be exempt from duties. The regime of special exporters for several strategically important materials is to be preserved.⁶⁹

The leaders of the Ministry of Foreign Economic Relations (MFER) think that the liberalization of foreign economy and reform of its control in the transitional period call for an appropriate expansion of the norms and tools that protect the state interests. Therefore it is suggested to close the RF customs border, in particular with the former soviet republics. It is also assumed that there should be a common system of control over exports of licensed commodities and repatriation of the currency revenues. The

⁶⁶ *Moskovskie novosti*, No. 40, 4 October 1992, p. 16.

⁶⁷ *Op. cit.*

⁶⁸ *Finansovyye izvestiya*, No. 33, 12-18 June 1993, p. 2.

⁶⁹ *Izvestiya* 29 October 1993, p. 2.

currency control requires coordination between the activities of the Central Bank, Ministry of Finance, state customs control and MFER. This should be the function of a special federal service on currency and export control. The transfers of payments in the banking system need to be made quicker.

Another important target is to create a solid legislative basis to provide for the customs control and the enforcement in the foreign economic activities.⁷⁰

The policy of liberalization in foreign economic activities in Russia is under constant criticism, primarily on behalf of the left-wing parties. For instance, the fact that foreign economy liberalization and the conditions created for direct access to the world market for the many agents of economic activity belonged to all property forms still do not give the anticipated results, is explained not only by the objective reasons, but also by blunders in the system of state control over foreign economic activities and first of all by a poor mechanism of export currency taxation and inefficient protection of the internal market interests. It is especially stressed that a transfer from closed economy to an open one needs time and precisely defined stages with corresponding expenses and results. Otherwise, by revolutionary jumps, from limited crisis we can go on to deep depression and then to chaos.

Some economists think that the world prices present the economic level of industrially developed countries and therefore may not be used as equilibrium guidelines in a technologically backward distorted economy. Artificially driving the domestic prices to the level of the world prices is called premature because the former ones reflect the structure of production actually existing in the economy. The quality of production in the raw material sectors in Russia in most cases corresponds to that of the world level, while the production in the manufacturing sectors lags far behind. The assortment and quality of many goods is such that one can even hardly find their substitutes in the world market, however they are still necessary for running the Russian economy. It is anticipated that setting world prices for such goods may drive whole sectors (in light industry, some types of metallurgy, machine building, etc.) to bankruptcy. As a result negative structural changes may occur, the balance between the extracting and manufacturing industries may be altered.

The adjusting role of the state was clearly insufficient in the field of export and currency control. In 1991-92 certain regions, industries and enterprises received various benefits. A very low efficiency of foreign trade performed by regions and particular enterprises was reported in 1992. Some of the scarce raw materials, timber, metals, in particular, have been sold through the decentralized channels at dumping prices. At the same time luxury items, domestic hi-fi equipment were imported. Also, the development of a network of joint ventures as producers for export did not come up to the expectations.

At present there are about 15 thousand joint ventures in Russia. Among them only 4000 are actually producing goods and services. During the first half of 1993 their

⁷⁰ *Vneshnyaya trgovlya*, No. 2, 1993, pp. 2-9.

total sales of goods and services in the internal Russian market reached 521 billion roubles. Over the period of the last year and a half the amount of foreign investments into joint ventures (committed capital plus subsequent credits) exceeded \$10 billion. 80% of all joint ventures launched in Russia are assumed to be involved in mediatory business and only 20% are planning to organize production. The West is most interested in joint business in extracting industries and at enterprises under conversion. Most active are businessmen from USA, Germany and Italy.

In 1992 joint ventures contributed 11% to the external trade turnover in Russia, in 1993 this figure is anticipated to reach 20%. Joint ventures' export during the first 6 months of 1993 amounted to \$2,640 million. The leading role in export is played by joint ventures from the Central Region, Western Siberia and Russian Far East.⁷¹

The regional foreign economic policy was not well decided with respect to the critical import. As a result, with the acute socio-economic problems in mind, currency has been used irrationally.

It should be noted that within the government there are very different opinions with respect to the role of the state in the foreign economic activity in Russia. The Finance Ministry led by B. Fedorov, advocates a 50% decrease of export tariffs for most of the product groups. Moreover, the list of quoted and licensed export goods is to be significantly curtailed. However, a number of branch ministries put the government and parliament under pressure to increase export taxes for certain product groups. For instance in an attempt to save the national leather/shoe manufacturing industry, which has decreased the production of shoes by 50% and leather goods by 40% in the last two years due to a deficit of raw leather exported by trade companies, ROSLEGPROM has asked for an increase of 10 times of export tariffs for raw leather and customs benefits for its enterprises that export manufactured production. This was assumed to make the export of raw leather immediately inefficient and force the producers to sell it to the enterprises of the leather/shoe sector at dictated prices. Finding no understanding in the government due to the opposition of the Finance Ministry, the Roslegprom lobby decided to benefit from the clash between the executive and legislative powers. They approached the former Supreme Economic Council in the Supreme Soviet Presidium, where they got the needed support. The desire of the Supreme Economic Council to take over some of the functions of the government threatens the common foreign economic policy of Russia.⁷²

A series of reports stress the weakness of the legislative basis of foreign economy, which impedes its development in Russia. Normative documents need to be adopted to provide for the economic security in Russia, to ban trade in the domestic market for foreign currency, to license commerce activities abroad, etc. In conditions of an open economy restrictive tariffs are considered to be important to protect the internal production. Some suggest to revise the benefits given to sectors and regions, to improve the legislative/normative basis as well as the currency and export control and the

⁷¹ *Finansovye izvestiya*, No. 53, 05-11 November 1993, p. 8.

⁷² *Kommersant* daily 16 September 1993.

mechanism that distributes the foreign credits.⁷³ According to some expert's evaluation (A. Lifshitz) after the December 1993 parliamentary elections the trend to increase import tariffs for industry protection could develop. From 1 January 1994 the trade in RF domestic market for foreign currency was banned.

According to some estimates, Russia lacks necessary internal reserves, flexibility and efficient technical tools of control for the foreign economic policy to be successful, and to support trade and attract foreign investors. The macroeconomic and internal political situations impede a full scale application of tax-budget incentives for foreign economic activities and the credit-monetary levers for rouble stabilization. A certain period of 1-2 years is needed to improve mechanisms of customs-tariffs and currency control. All this contributes to the drain of capital from Russia. By forecasts of some experts the 'legitimate' foreign assets of Russian commerce banks by the end of 1993 will reach 20 billion dollars plus at least the same value accounting for the illegal drain.⁷⁴

By estimates of the Central Bank department of foreign operations and the Goscomstat agency on foreign economic statistics, the illegal capital drain in 1992 was about \$4 billion and reached \$2.5-3 billion in the first half of 1993. To improve currency control, the partners engaged in external economic relations - after January 1994 for strategic items and after March 1994 for all the export nomenclature - will have to fill up the so-called bargain passport - a document, containing all the information essential for control (attributes of the bank, exporter, receiver, etc.). After the General Customs Committee (GCC) of Russia sends the information about export transactions of its clients to the assigned banks, they in turn are supposed to inform GCC about the receipts of currency.

The legislation gives certain rights to fiscal and custom bodies, which should be sufficient to investigate and prosecute violators (which are probably almost a half of all exporters). The penalties are to reach 100-300% of the commodity value with confiscation or recovery of their value.

The introduction of export currency control is to be followed by similar measures in import, barter operations and non-trade turnover. These are to be accomplished by the end of 1994.⁷⁵

Many authors think that liberalization of prices and foreign economic links, liquidation of state monopoly in foreign trade, free access to the world market granted to enterprises, foreign currency circulation inside the state resulted in a sharp decline in economic ties between the CIS states. In conditions of the disintegrating system of money circulation in the country and rapid depreciation of the rouble, the policy of liberalization of links between Russia and the World market encouraged enterprises to sell abroad everything that could raise some currency with no account of the actual

⁷³ *Ekonomist*, Moscow, No. 5, 1993, pp. 86-91.

⁷⁴ *Finansovye izvestiya*, No. 40, 6-12 August 1993. p. 4.

⁷⁵ *Finansovye izvestiya*, No. 51, 22-28 October 1993, p. 2.

economic efficiency and the demands of the internal Russian and CIS markets. A similar policy, mostly unwillingly, was pursued in other republics of former USSR.

The Russian contribution to the USSR GNP in 1990 was 59%; to the national income produced 61%; in fixed capital stock it accounted for 62%; in industry output for 66%; and in agricultural output for 46%. At the same time the Russian economy was closely linked with the rest of the USSR regions. In 1990, 7-8% of products in gross consumption were imported to Russia from other republics (about 10% of industrial products and 2.5% of agricultural). The dependence of other republics on supplies from interrepublican trade and import (which was mostly provided by export from Russia) was as high as 20-40% of their total consumption (17% in Ukraine).⁷⁶ The importance of interrepublican links may be illustrated by the fact that their volume was 4 times that of all the foreign economic links of former USSR, with very high technological interdependence of enterprises. Export of USSR was 7-8% of its GNP, while interrepublican supplies accounted for almost 30% of GNP.⁷⁷ Export from Russia to the former republics in world prices in 1992 made 63% of all export, and import from the republics was 41% of the overall import.⁷⁸ The economic trade between Russia and other former republics was characterized mostly by an active saldo in the major sectors controlling the economy. In 1990 this saldo was estimated as 7.6 billion roubles, in 1991 10.4 billion roubles.⁷⁹ This means that until recent times Russia was trading inequivalently, to its own detriment, actually subsidizing the development of the republics by its own material and raw resources. As a result of such trade Russian budget was replenished by roubles at best, but usually there was just a growth of credited debt of the former republics.

While in former USSR the redistribution of national income in favor of the republics could be somehow justified, at present such course raises protests and demands that it should be changed. This is stipulated by the market ideology, used as a basis of the economic doctrine, accepted by all the former USSR republics, as well as by the general economic decline in Russia and insufficient economic aid on behalf of the leading world nations.

However, the active saldo in economic trade between Russia and other republics is to be decreased only to a certain level, taking into account the special interests of Russia as the leading state in the economic space of the former USSR.

Interestingly, due to the great technological interdependence between the economies of the former USSR republics, the economic reforms have shrunk the interrepublican links of Russia much less than the links with other foreign countries. But this process showed a growth tendency: while before 1990 the volume of interrepublican export from Russia fell approximately by 1%, and import by 5%, in

⁷⁶ *Rossiyskiy ekonomicheskiy zhurnal*, No. 2, 1993, pp. 33-41.

⁷⁷ *Vneshnyaya trgovlya*, No. 3, 1993, pp. 13-14.

⁷⁸ *Finansovyye izvestiya*, No. 26, 24-30 April 1993, p. 7.

⁷⁹ *Rossiyskiy ekonomicheskiy zhurnal*, No. 2, 1993, pp. 33-41.

1991 the corresponding figures were 7% and 9%, and in 1992 the decline is estimated to be 15-16%.

According to many authors, the main reason for this is that the economic mechanism actually formed by the reforms turned out to be the mechanism of destruction of interrepublican links of Russia.⁸⁰ The USSR Law 'On state enterprise (association)' adopted in 1987 is considered to be the first step in triggering this mechanism. The mass transfer of enterprises to new forms of operation, with a sharp change in the order of financial-cost proportions in the economy complex, was not backed by an appropriate reform of the mechanism of establishing the material-product relations. Under the adopted trend toward decentralization of economic control, it only aggravated the defects of the USSR national economy complex. The economic basis was formed for the centrifugal tendencies among the USSR republics. In general 1990 was marked by the 'parade of sovereignties', which resulted in the prolonged 'war' between the union and republic laws and produced the new phenomenon of republican autarchy.

An important factor of the destruction of the Russian economic interrepublican links was the change of the former state planning system for the state orders. These trends went on growing further in 1991. It became almost a norm to break the agreements on product supply between enterprises in Russia and in the other republics. Economic barriers started to appear between the newly politically independent former republics, customs restrictions became common, the price and monetary policies started to disagree in different republics, the strict mechanism of interrepublican agreements on mutual product supplies was disrupted.

By 1992 the broadening process of political and economic isolation between the former USSR states pushed them toward a kind of bilateral clearing, already known from the practice of CMEA. All the well known defects of the CMEA system of bilateral trade and payment balancing have been reproduced in the former USSR in their exaggerated form. What could operate more or less satisfactorily under the command-administrative system, went immediately wrong as market freedoms and market control mechanisms were introduced. As a result natural exchange of products (barter) became widespread, deliveries and payments became irregular, a substantial debt of the new independent states to Russia was quickly accumulated.

An avalanche of broken links between traditional partners is one of the most important reasons for the decline in production. In Russia this may account for 1/3 of the 20% decrease in the GNP in 1992. It was estimated that each of the 10% of decline in Russia's external ties diminish its national income by 3.8%. For other republics this relationship is even greater: for Ukraine 4.2%, for Kazakhstan 6.6%, for Georgia 7.9%, for Uzbekistan 8.4%, and for other republics up to 10%. If Russia completely cuts its interrepublican ties, its national income is estimated to go down by 4.5%, completely due to the 8% fall in the consumption fund. The decline in mutual exchange of products and services (by 34% in 1992) even beats the decline in output, which means that the

⁸⁰ *Rossiyskiy ekonomicheskiy zhurnal*, No. 3, 1993, pp. 3-12.

previously common economic space is being further disintegrated.⁸¹ It is reported that the old mechanisms die off and new ones are appearing spontaneously, with no predesigned scenarios. Besides there was no clear idea about the very initial basics for the reconstruction of economic links. The USSR property was split between the former republics also very irregularly and irrationally by the principle: all on my territory is mine. This gave rise to many uncertainties, arguments, claims, that needed to be set somehow.

In many statements (A. Volsky) it was noted that if the present economic policy is to remain unchanged, in the nearest future the new economic mechanism will further accelerate the disintegration of the interrepublican economic links of Russia. In particular this is motivated by the weakening inertial factors, that have been restraining the decay of all links. However hard the adaptation of the republican economies to the new regime of autonomous operation may be, it still gradually overcomes the various cataclysms. Moreover, the interest of all CIS states in the development of world market links assumes that gradually many of the resources are to be transferred from the sphere of interrepublican trade to the world market. The close foreign neighbours are being driven out by the farther ones. While in the past 3 years exports from Russia to the former USSR republics has fallen by 22%, it is forecasted to go further down by 28-30% in the next 3 years (1993-95).⁸²

On the other hand, there are factors contributing to the support and development of cooperation between Russia and the former USSR republics. This is the existence of common technological processes. The industries in Russia and former republics are oriented toward mutual exchange of products and parts of unified standards and technological requirements. It is a long and laborious process to match the more progressive Western technology. It is also an important factor that a lot of Russian products fail to compete on the world market and that there is a great deficit of hard currency. Besides it is understood that it is important to maintain the traditional markets for goods produced in Russia, because the vacuum in the newly created (after the disintegration of USSR) markets of the new states will be soon inevitably filled up by external supplies. Russia will have to compete with both its near and far foreign neighbours.

An economic union between the CIS states and a common foreign economic policy for them can be an important prerequisite for preserving and developing mutually beneficial economic links between Russia and its close as well as far neighbours. In order to stop the disintegration process in interrepublican economic relations over the territory of former USSR and to create conditions for their reconstruction and development two theoretical options are considered: creating conditions for economic partners in former USSR republics to become mutually interested in reestablishing the links; or prioritizing them with respect to the other links with the world market. This could be organized through a special mechanism stimulating such links by providing special benefits. However, this approach requires enormous financial resources, which

⁸¹ *Finansovyye izvestiya*, No. 25, 17-23 April 1993, p. 2.

⁸² *Rossiyskiy ekonomicheskii zhurnal*, No. 3, 1993, pp. 3-12.

neither Russia nor other republics possess at the present. This approach is difficult to realize with no efficiently operating management hierarchy, when the whole economic system is being oriented toward market relationships.

Therefore a radical solution to these problems is assumed in particular within the framework of a reconstructed system of planned economic regulation over the whole economic space of the former USSR. As a practical step along these tracks it is suggested for the CIS states to work out a coordinated mid-term economic projection, that would define common goals of economic development and the necessary structural, investment, scientific and technical policies. Efforts in creating this economic union of the interested CIS subjects will contribute in coordinating the measures taken for improving the economic cooperation between these states.

The existing experience indicates that bilateral treaties and agreements are still the most viable form of relations. Their mechanism can better take into account the balance of interests and they are easier to control. The major obstacle in developing multilateral relations is still the lack of a coordinating state authority, that is opposed by many CIS states. Therefore non-governmental international branch unions and concerns - such as those of oil, metallurgy industries, etc. - are considered to be the optimal form of economic cooperation, being relatively independent of various political views.

Despite considerable deviations in interests of CIS states in many fields, there are also factors that force these states to coordinate their economic activities. Among these factors are: the above-mentioned technological interdependence of enterprises in different CIS states. These enterprises are tuned to standards far below the world level. Therefore their appearance in the world market can hardly be a serious alternative to the already existing ties, which in turn stipulates a much greater interest in keeping and developing the international economic relations within the framework of CIS - millions of people who live outside the newly formed separate states. Their interests need be protected: interest in reliable defense capacity for all CIS states; the problems inherited from the former USSR, such as sharing the foreign and domestic debt, property, operation of common infrastructure systems. All these also need a coordinated policy and solutions.⁸³

As for the Russian government, according to Finance Minister B. Fedorov, there are two approaches to the problem of reconstruction of the disjoint links between republics of former USSR. One general: the cooperation is badly needed and we are to create an economic union. Another purely pragmatic one: yes, we need the union, but what are the conditions going to be? Economic relations are to be based on a normal inter-state foundation. If the union is to appear, it should be well designed. The advocates of this approach also insist on banning the limitless Russian credits to the other CIS states, on ending the thoughtless giving away of raw materials at cut prices.⁸⁴

⁸³ *Finansovyye izvestiya*, No. 26, 24-30 April 1993, p. 7.

⁸⁴ *Nezavisimaya gazeta* 7 July 1993.

In the end of September 1993 in Moscow at the meeting of government leaders of CIS states an Agreement on Economic Union was initiated. By this Agreement a common economic space is to be established with free trade circulation and unified customs rules for the nine participating CIS states, with Ukraine and Turkmenia joining the Agreement as associated members.

According to many experts, of all the lines of foreign economic activities of Russia, trade with former CMEA states is in the worst crisis of all. The trade between Russia and East European countries went down 2-3 and more times in the last couple of years. At the same time the trade-economic cooperation between these countries failed to keep up, which immediately affected the production both in Russia and in Eastern Europe, which for decades have been adjusting for long-term links.

Among different reasons of shrinking economic relations between Russia and other CMEA states, the most significant are the transfer to hard currency payments, destruction of former organizational forms of business interaction with no new ones created, as well as the Russian debt to East European states. As it is known, the latter appeared as a result of a step-wise fall in prices for Russian energy and raw material products at the end of the 1980s. Now the debt to former Czechoslovakia is over \$5 billion; to Hungary about \$2 billion; and to Bulgaria almost 670 million transferable roubles.⁸⁵

At the same time, even with no state-administrative guidance, branches of industry, big enterprises, which have been cooperating in the past as well as newly created business structures, firms, joint stock companies, joint ventures, trading houses and various associations, started to look for partners over the space of the former CMEA.

An important role in developing economic links with Eastern Europe is attributed to the new form of payments established between countries. There is an agreement between the Russian Central Bank and the national banks of East-European states to allow opening accounts in the authorized banks in national currencies according to the exchange rates quoted in these states. The State authorities are free from responsibilities for settling the debts that appear and the saldos of payments with respect to the designated operations. Most important for stimulating export is that when such kind of payments are used, Russian exporters to East-European countries are excused from selling the part of their currency receipts. However, it is emphasized that in spite of some positive trends and obvious objective prerequisites, the rate of trade circulation between Russia and Eastern Europe is many times less than its former values and does not match the existing potential.

The enormous foreign debt of the former USSR is a major burden for the economy of Russia. According to the Ministry of Foreign Economic Relations, the total debt in hard currency in 1992 (including interests to be paid by that time, but excluding the land-lease debt to former socialist countries) reached 75.8 billion USD including the

⁸⁵ *Ekonomika i zhizn*, No. 24, 1993, p. 6.

mid and long-term debt to official creditors made \$33.6 billion; to unofficial creditors \$27.4 billion, the debt, not backed up by the Vnesheconombank \$2 billion; short-term debt \$12.8. With no agreement on restructuring of Russian foreign debt, it was supposed to pay out in 1992 to foreign creditors about \$40 billion, which stands for the major part of the projected export revenues.⁸⁶

By expert estimates the possible limit on Russian external debt service in 1993 is no more than \$2.5-3.5 billion. According to the most plausible (governmental) scenario of external debt service, the internal resources in the nearest 5-10 years will not compensate for the spendings on external debt service. In this case foreign credits will be used in hope of a decrease of the debt by the year 2000. In this case the dynamics of debt should be as follows: 1994 - \$71.4 billion; 1995 - 72.9; 1996 - 73.1; 1997 - 73.3; 1998 - 73.4; 1999 - 73.7; 2000 - 73.6. The amount of credits, according to the designers of the program, will be: 1994 - 8.9 billion; 1995 - 10.9; 1996 - 12.9; 1997 - 14.5; 1998 - 15.6; 1999 - 16.6; 2000 - 14.6.⁸⁷

However, many experts think that the total of overdue payments will rapidly grow. So if we add the debt service, coming according to the amortization schedule of Vnesheconombank and assumed by the previous USSR obligations, to the already existing debt of \$42 billion, the total of Russian obligations by the end of 1995 will be \$60 billion. Besides restructuring the payments on external debt, some look at other possible sources of currency for debt service. One of the possible ways can be the exchange of debt obligations for property or for long-term lease of a concession type on the Russian territory, assuming their effective use and business cooperation between the partners engaged. Another source may be the debt to former USSR on behalf of former socialist countries and Cuba. This by 1 January 1993 had the size of \$87 billion. Parliament experts think that these debts can be sold in the secondary market and gain sums that would even bypass the credits promised by Western countries. Though there is still no legislation that could justify this kind of operations. (V. Ispravnikov, former Chairman of the Supreme Economic Council).

Another possible source of currency incomes for the republican reserve can be found in limiting the currency benefits granted to enterprises, regions and republics. According to MFER due to these benefits the Treasury loses \$2.5 billion annually.

Finally it is recommended to take measures against capital drainage from Russia which according to MFER accounts for \$2-4 billion annually.

In order to attract foreign capital to Russia it is recommended to change the existing practice, when the benefits assumed by the Russian Law on Foreign Investment may be crossed out by acts of representative and executive powers. It is indicated that the inflow of foreign investments to Russian economy is awfully slow. The reasons for that are first of all in the political and economic instability, and also in the lack of well designed operative measures. The main goal is to provide a concrete and flexible system

⁸⁶ *Vneshnyaya trgovlya*, No. 2, 1993, pp. 2-9.

⁸⁷ *Finansovye izvestiya*, 26 June - 2 July, 3-9 September 1993.

of stimuli for investments into the crucial branches of economy. These stimuli should go beyond tax benefits and this whole mechanism should be constantly tuned up by the government in each of the particular fields, taking into account the general strategy of the economic reform. In the current transitional period these measures need not be fixed in the level of legislative acts, but rather there should be a flexible policy reacting to the ever-changing conditions. Naturally all this should not go beyond the limits set by the adopted Laws.⁸⁸

As for the Western aid in the process of economic reform, and the recriminations of the parliament about the government being under the influence of foreign aid and blindly following the programme set up by the IMF, the RF Finance Minister B. Fedorov, said that there is no western aid that can play a key role in Russian development. He thinks that 95% of what can be done along the lines of economic reform, depends only on the internal efforts of the country. However, it might be very useful sometimes to listen to the advice of western states that possess a valuable experience in the field of market economy. Nobody in Russia is going to live only by the recipes of the IMF. Sometimes the actions of the government have been even more radical than those recommended by the IMF. The Russian government has no intention to ask for free help, it will be taking only necessary financial credits and rejecting commodity credits.⁸⁹

At the same time, there is some criticism of the IMF on behalf of western advisors to the Russian government. According to J. Sachs, for instance, the IMF has proved its inability to reason tactically and continues to consider aid as a treat for success in reform rather than a prerequisite for their accomplishment.⁹⁰

An important step toward integration into the world economy was made when Russia registered to join the General Agreement on Tariffs and Trade (GATT). The GATT articles are based on market principles of economic operation in participating countries and they were totally inappropriate for the system of directive planning and centralized distribution, therefore predefining the negative attitude of former USSR toward this organization.

After the market reforms have started in Russia the situation has drastically changed. Already now, according to the former MFER minister S. Glaziev, the trade in Russia follows the principles of GATT. Russia was a GATT observer for the last 3 years. Membership in this organization will allow Russian government to follow the worldwide adopted principles in its trade policy and protect the interests of Russian enterprises in the World Market according to the procedures designed by GATT. Up until now Russia encounters tough measures that protect western markets from its exported goods. Suffice to say that the losses of Russia during one year because of the recently implemented restrictions on imports of its aluminum into the European Community states will exceed all the aid granted by the EC for technical and other kind

⁸⁸ *Delovoy mir* 6 July 1993, p. 5.

⁸⁹ *Nezavisimaya gazeta* 7 July 1993.

⁹⁰ *Finansovye izvestiya*, No. 28, 1993.

of assistance to Russia.⁹¹ Participation in GATT will allow Russia to negotiate on an equal basis with its trade partners.

⁹¹ *Izvestiya* 13 August 1993, p. 4.

VI A SHUFFLE OF THE POSITIONS

Incoherent as it was, the liberalization has been nevertheless performed in Russia giving the birth to the first shoots of the market. After the October (1993) putsch the Supreme Soviet disappeared from the political scene, so the government had a free-hand in going on with the economic reform. Resting upon these two factors the government was to put greater emphasis on investment and production, bearing in mind all the hardships existed as well as the contradictions within the government itself. However it ignored these circumstances and continued stubbornly to pursue a monetary-based strategy aimed at stabilising the economy.

During the pre-election campaign the pro-governmental block, Russia's Choice, paid more attention to the anti-reformist forces than to the public mood, while the common people stood for a shift away from fighting inflation in favour of more emphasis on the social dimension of the reform. Thus, the Russia's Choice itself gave a chance to the Communist party, pro-communist Agrarian party and the ultra-nationalist Liberal-Democratic party to win the votes using populist slogans.

The next consequence of the Russia's Choice's mistake consisted in splitting the democratic forces. The Russian Unity and Accord party led by Shakhray, Shokhin, Zatulin, Stankevich and others, the electoral block headed by Javlinsky, Boldyrev and Lukin, the Democratic party of Russia (Travkin, Bogomolov) refused to form an alliance with the hardliners from the Russia's Choice. Russian Movement for Democratic Reforms (Sobchak-Popov) failed at the elections and now it does not back the government at all. By the way, the 'centrist' Civic Union did not win enough votes too.

It is not easy to predict new shuffles of the positions, which to much extent depend on further developments in the country. But the one thing is quite clear for us: whatever government be formed it should follow the economic policy in accordance with a real situation in Russia. Otherwise the problems of establishing the balance of power and preserving the reformist course might remain undecided.

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