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Monetary Aspects of Russian Transition

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Monetary Aspects of Russian Transition.

Results of economic policy started by Gaidar's government on January, 2, 1992 are assessed extremely controversially. As a rule these assessments are sharply polarized: blind approval of the reform package irrespectively to its results is opposed by very severe critique. In line with the inherited scholar tradition hot ideological discussions tend to leave aside analysis of the real economic process. This paper is aimed to cover to a certain extent the existing gap and give more of less comprehensive picture of ongoing transformation in financial sector. The work is organized in 9 sections: situation prior to 1992, price liberalization, inertial inflation, insolvency crisis, Soviet monetary legacy, credit market, financial bubble, exchange rate regulation, conclusion.

Three points need special mentioning. First, quality of current statistics in Russia is unprecedentedly low even if compared to the ex-USSR. That is worsened by traditional closeness of main blocks of data. In order to overcome these drawbacks data from independent sources in addition to official

estimates is extensively used. Nevertheless one should keep in mind that the data given reflects more tendencies, than exact figures.

Second, lack of reliable statistics makes analysis of budget impossible. The Russian Parliament approved annual budget for 1992 only in July. Moreover, there exist several highly contradicting to each other estimates of budgetary receipts and expenditures and the majority of independent experts strongly doubt released figures. Besides, local budgets of autonomous republics, regions and territories within the Russian Federation are out of control of the central government, what makes calculation of the consolidated budget unrealistic. Third, the central Russian government and the Central bank until recently did not possess control over credit policy in the ex-Soviet republics, where central banks followed independent credit policy without coordination with the Russian central bank. In addition local authorities at different levels as well as numerous enterprises within the Russian Federation issue special checks, cards and other quasi-money instruments, with limited local circulation. Since all operate in the united economic space and currency system, aggregate financial statistics released by central authorities is not complete.

The paper rests on the ideas and models discussed in an abstract way in works on post-socialist transition, written in the structural tradition (Taylor, 1991; Zhukov and Vorobyov, 1992).

Situation prior to 1992.

To the beginning of 1992 the economy of the ex-USSR and Russia in particular was in a state of acute macro-economic disequilibrium. Among major factors that contributed to explosion of budget deficit and raising of inflationary pressures were:

- "acceleration policy" of 1985-1986, which led to the huge investment injections mainly in progressively aging machinery sector with declining rates of growth;

- "antialcoholic campaign" started in 1985, resulted in severe drop in the budget receipts, amounting tens billions rubles;

- introduction in 1988-1990 of systems of the so called "self-financing" and "full economic calculation (independence)" for separate production units, some industrial branches and territories. The process was accompanied by lifting barriers between previously separated flows of "cash" and so called "non-cash" rubles, e.g. special accounts of enterprises practically blocked in the State Bank and loosening of control over financial policy of enterprises.

- lifting of restriction on wages and salaries increases in 1987-1989;

- escalation of political struggle between the all Union center and the republics, the current Russian leadership playing destructive role especially in economic sphere. Such decisions taken in the Russian Federation as: writing off the debt of kolhozes and state farm enterprises costing about 80 bln. rubles, multibillion social expenditures and subsidies to cover the

Table 1

Monetary assets and liabilities to banks in the ex-USSR

(bln.roubles, beginning of the year)

	1986	1987	1988	1989	1990	1991	1992*
Total money assets	639,4	593,2	613,6	702,6	781,2	944,6	1744,0
1. Money in circulation	70,5	74,2	80,6	91,6	109,4	136,1	263,8
2. Money assets of population	232,1	255,8	281,7	314,0	358,9	406,9	686,4
- short term deposits	134,7	146,5	159,2	176,2	201,6	230,3	330,3
- long-term deposits, including state securities	84,7	106,2	119,0	132,2	148,5	163,9	336,3
- other deposits	2,7	3,1	3,5	5,6	8,8	12,7	19,8
3. Money assets of enterprises and organizations, including counterpayments(net)	336,8	262,6	269,6	297,0	312,9	401,6	793,8
Liabilities to banks including	639,4	593,2	631,6	702,6	781,6	944,6	1774,0
1. Credit to all-Union and Republican budgets, including price subsidies	118,0	140,6	200,7	298,0	390,1	580,2	974,0
2. Credit to enterprises and population	521,4	452,6	430,9	404,6	391,1	364,4	770,0
- short term	426,5	356,6	333,5	302,3	287,1	272,5	690,0
- long term	94,9	96,0	97,4	102,3	104,0	91,9	90,0

* Calculated figures. Data prepared by the State Bank of the USSR.

Source: Nezavisimaia Gazeta, March, 19, 1992.

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widening gap between wholesale and retail prices, decision to modernize and expand road network in Russia, call to the Russian exporters not to transfer their hard currency earnings to the Bank for Foreign Economic Exchanges of the USSR and to leave it in foreign banks, credit emission of the Central Bank of the Russian Federation hurriedly seeking to create a two-tier banking system "State Bank - commercial banks", stopping of payments to the all-Union budget, etc. led to the collapse of the already undermined financial system.

As a result only in 1991 increments of main financial aggregates in the former USSR outpaced increments for 1985 - 1990(table 1).

Russia was the main center of money emission. It is confirmed by the data presented in tables 2 and 3. The data also illustrates that Russia also played a role of a trigger, provoking monetary expansion in other republics. Combination of

Table 2.

Russia's share in money emission (%)

	<u>Money mass</u>	<u>Money emission</u>			<u>Money mass</u>
J	on Jan.,1,1961	1989	1990	1991	! onJan.,1,1992
Cash money					
Russia	! 52,3	! 49,0	! 56,8	! 66,8	! 66,5
Other Repub-					
lics	! 47,7	! 51,0	! 43,2	! 33,2	! 33,5
USSR	! 100,0	! 100,0	! 100,0	! 100,0	! 100,0

Credits

Russia	!	...	!	...	!	55,3!	61,1*!	...
Other Repub-								
lics	!	...	!	...	!	44,7!	38,9*!	...

*- on the 1st of December, 1991

Table 3.

Increment of cash money mass (%)									
!	1961 - 1988	!	1989	!	1990	!	1991	!	1961 - 1991
Russia	!	33,2	!	6,4	!	11,6!	48,8!	!	100,0
Other Repub-			!		!			!	
lics	!	45,2	!	7,2	!	8,6	!	39,0!	100,0
USSR	!	36,9	!	6,7	!	10,5	!	45,9!	100,0

Calculated on the basis of data presented by the State Bank of the USSR and the Central Bank of the Russian Federation. Sources: Rossiiskie Vesti, n.31, December 1991; Goskomstat of the CIS(1992); Kommersant, n.13, 23-30 March, 1992; Ekonomika i Zhizn, n.10, March, 1992.

the aforementioned factors and long-term developments led to the outburst of inflation (see table 4). Worse is that unfolding inflation was accompanied by

Table 4

Estimates of annual rates of inflation (1)					
	1986	1987	1988	1989	1990
General inflation	4,4	4,5	10,5	14,4	16,6

1. Investment sphere	4,4	3,6	8,3	9,7	12,8
- price increases	4,2	2,4	3,2	3,0	3,5
- repressed inflation	0,2	1,2	4,9	6,5	9,0
2. consumption	4,7	5,3	12,2	17,5	18,9
- price increases	1,5	1,7	3,3	2,1	6,8
- repressed inflation	3,2	3,5	8,6	15,1	11,3

Source: Ekonomika i Zhizn, n.31, July, 1991.

deepening crisis of production, caused by the collapse of the COMECON trade, decrease of export earnings, disintegration of economic links between the Soviet republics and enterprises, necessity to repay growing foreign debt and other economic and non-economic factors.

In attempt to prevent aggravation of inflationary tendencies at the beginning of 1991, Pavlov's government changed 50 and 100 ruble bank notes for the new ones. The change of bills represented a partially confiscatory monetary reform and temporarily helped to stop an inflationary wave. Nevertheless, after a short period of time inflation took a snowballing character (see table 5). Trying to put the financial sector under control on April 1, 1991 Pavlov's government administered 1,5 to 2 times "across-the-board" price increases(2). That was another traditional Soviet

Table 5

Consumer price increases in 1991 (%)

	Monthly price growth	Main political decisions influencing price dynamics
January	4,5	Change of 50 and 100 rubles bank notes
February	14,2	The Council of Ministries decision on retail price reform
March	15,0	
April	170,0	Retail prices reform
May	2,5	
June	2,2	
July	2,2	
August	2,6	Rumors on introduction of Russian currency, mounting lack of
September	3,7	coordination of monetary policy among the ex-Soviet republics.
October	12,8	Rumors on price liberalization. Expansionary monetary policy
November	24,1	in Russia and all republics.
December	32,4	

Sources: *Kommersant* n.1, 30 December, 1991- 6 January, 1992;
current economic press.

confiscatory reform, aimed to decrease spending power of
population. At the same time prices for about 50% of consumer and
40% of capital and intermediate goods were liberalized(3). By the

political suicide Pavlov's government at least reversed the widening gap between increasing money income and rapidly declining output.

However, these steps did not help to stabilize the situation for long. According to the government estimates in the last quarter of 1991 monthly inflation in consumption exceeded 15% or 650% on the annual basis (4).

Taking into the consideration all these factors new economic team at the end 1991 decided to restore the macroeconomic equilibrium by using standard program of financial stabilization placing major accent on the price liberalization and control over money mass. As it is widely known standard monetary models of financial stabilization assume lifting of the "monetary overhang" and transformation of the repressed inflation into the open one, as well as regulation of inflation by means of strict monetary and fiscal policy.

Price liberalization

Price liberalization - key element of economic program of Gaidar's government was aimed to fulfill the following goals: "to eliminate shortage of goods and administrative system of shortage distribution, leading to corruption and arbitrary rule; to create stimulus for producers to increase production of goods; to cut budget subsidies strictly and to balance the state budget" (5)

Actually the government in January 1992 continued to introduce the mixed price system further, lifting price controls for about 90% of final goods and services and 80% of intermediate

Table 6

Price Indexes in January-December 1992 (December 1991=100)

	January	February	March	April	May	June	July	August	September	October	November	December
Retail prices												
All consumption goods												
variant 1	560	773	1082	1233	1529	1846	2068	2544	...	...	...	...
variant 2	345	477	619	753	843	1004	1110	1205	1345	1652	...	...
variant 3	305	421	547	668	748	890	988	1086	1217	1521	...	...
Food products (70 items)												
variant 2	394	425	508	570	112	...	...	...	...	...	...	...
variant 3	327	344	405	452	511	623	660	721	844	1056	1408	1784
Wholesale prices												
variant 2	529	634	742	913	124	1145	2164	11871	2301	...	...	...

Notes: Estimates of price increases in January-December 1992 differ considerably. The lowest estimates are given by the government bodies (variant 3). Estimates of the State Committee on statistics (variant 2) as a rule show higher inflation. Nevertheless, in view of independent experts (variant 1) both tend to underestimate the real magnitude of the price shock.

Source: *Kommersant, Ekonomika i Zhizn, MN Business*, different issues.

ones. For a limited number of goods, constituting the base of the consumption basket(14 goods, including bread, diary products, sugar, salt, etc.), as well as for energy (oil, gas, coal, etc.) and transport services after initial increases regulated prices were introduced. Simultaneously the multifaceted price system, with differential prices for limited number of goods was used. Factual picture is even more complicated. In the first quarter of 1992 many local authorities extended lists of goods with regulated prices. In the second quarter, when the federal government continued price liberalization, local authorities took over price subsidies from local budgets(6).

The government expected initial price increases in the range of 350% for January-February and gradual deceleration of inflation down to 5-10% from April. Reality proved to be very far from the expected. Data given in table 6 allows to conclude, that despite 10-20 times price increases, the inflationary tendencies have not slowed down yet to the expected level, at least at the end of October, 1992. At best, monthly rate of current inflation equals the same rate for the last quarter of the previous year, just before price liberalization. More over, after temporarily slowing down in February-April, price dynamics in May-June and especially July-November shows further acceleration of inflation.

The inevitability of new price explosions in the consumer sector is indicated by some qualitative characteristics of the financial assets of population (see table 7).

Monetary Situation in Consumer Sector

	Share of expenditures in total money income (%)	Hot money in the hands of population in total money income (%)	Real wage#	Real income I	Real income II	Real income III*
January	84,8	14,1	37,9	27,9	25,3	17,4
February	87,1	12,9	38,2	29,5	33,7	18,4
March	82,8	17,2	40,0	29,5	40,1	17,1
April	71,7	24,6	36,8	29,4	47,0	18,3
May	84,1	14,9	39,6	26,2	40,2	14,7
June	75,3	24,7	45,9	29,6	46,2	16,4
July	54,7	45,2	44,6	37,3	54,7	15,1
August	56,7	43,3	44,3	35,3	51,8	17,2
September	77,5	22,2	49,9	36,5	49,2	15,0
October	76,9	23,1	48,7	...	...	...
November	60,8	39,2	44,5	...	...	...

*- December 1991=100

#- nominal wage deflated by using all consumption goods index

I- nominal income deflated by using all consumption goods index

II- nominal income deflated by using 19 major consumption goods index

III- nominal income deflated by using Kommersant price index

Sources: Ekonomika i Zhizn, Izvestia, Finansovaya Gazeta, Kommersant various issues, table 6

Data in table 7 shows that both nominal income and expenditures as well as real income and officially registered wage adjust to price increases in the manner of sinusoidal cycle. That means that contrary to the proclaimed goals the government factually relies on "stop-and-go-policy".

Worse is, that role of banking system in stabilization of cash flows is diminishing. Return of cash money from population to banks shrank considerably. First, because consumption expenditures of population in comparative prices in December 1991 - April 1992 dropped according to different estimates by 40-63% (7). That resulted in growing imbalance between money payments to population and cash money returns into banks through retail trade. Second, in Russia as well as in all other republics of the ex-USSR, parallel unofficial flow of cash money is expanding since 1985. There are two major explanations for these developments. First, technical unpreparedness of banks to facilitate financial transactions between millions economic agents. Second, newly created private sector as well as state enterprises, serving consumer market try to avoid taxation. Situation in Kazakhstan, where according to official figures only 5% of total sum of cash rubles paid to population are returned to the formal banking system, could be indicative for Russia too(8).

In this situation the government had no other way, but to resort to artificial delays in wage and social payments, thus, decreasing real cash income of population. On July, 1, 1992 this debt exceeded 221 bln. rubles, what equalled to about 80% of new cash money emission during the first half of 1992. Ordinary delays from 2-3 weeks to 2-3 months mean that workers are forced to pay with their old wages for future price increases. There exist serious reasons to conclude, that "repressed inflation" in consumer sector, typical for the economic system with central planning and caused by fixed prices and numerous rationing schemes took another form. The government has changed the object of regulation giving up with rationing schemes and resorting to "technical wage restrictions". Such a practice harmfully affected micro-level of the economy, adding to existing financial and productive instability of enterprises and in turn provoking further drop in production.

Nevertheless, it seems that at the end of May potential of deflationary policy described above has been exhausted. Recovering from the winter price shock, which caused a huge drop in real money income, as well as real wages and salaries, growing labor movement demanding to repay debt on wage bill and to index wages in accordance with current inflation rate, trigger classical "prices-wages" spiral. Future increases in wage and social spending will be partially swallowed by gradual lifting of remaining price ceilings as well as by price increases on energy resources. At the same time, in the situation of the

growing social tensions "price - wage" spiral is gaining momentum and gradually is transforming into the inherent feature of everyday economic life.

Even if the government would succeeded in controlling inflationary pressures on the demand-side it would have lesser power to combat inflation, arising in production sphere.

Inertial inflation

Inflationary potential accumulated in production will affect the general level of future inflation even more considerably as compared with the demand side of the economy. In the first half of 1992, when prices for main energy resources were not dramatically changed yet, the wholesale prices growth has already outpaced the retail ones(see table 6). Even energy prices kept under control, liberalization created powerful pressure on retail prices which could be hardly combatted with.

As known, one of the major distinguishing features, inherited by Russia from the Soviet economy is excessive monopolization especially evident in comparison with the industrial market economies(see table 8).

Table 8.

Concentration in Soviet, West German and American Industry

	USSR		West Germany		USA	
	% of enter- prises	% of emp- loyed	% of enter- prises	% of emp- ployed	% of enter- prises	% of emp- ployed
Number of workers employed						

<100*	27,2	1,7	68,3	17,4	71,2
101-200*	19,5	3,5	15,0	11,6	17,3
201-500*	23,8	9,7	10,7	18,2	} 9,3
501-1000*	13,1	11,7	3,4	13,1	
>1000*	16,4	73,4	2,6	39,7	1,7

*- for the West Germany and US <99, 100-199, 200-499, 500-999, >1000 respectively.

Source: Iakovlev, 1991, p.4

The more disaggregated industrial classification is used, the more pronounced monopolization in production appears. For instance, survey, undertaken in 1987-1988, showed that out of 5885 mostly typical items in machinery building sector 87% were produced by a sole enterprise and another 7,8% by two-three enterprises(Iakovlev,1991).

In the central planning system prices were set administratively(P_a) and could be either below and/or above equilibrium level(see figure 1 after Charemza(1991)). After the dismantling of the central system administrative breaks are lifted and price is set by enterprise itself. In the given institutional context, facing downwards slopping marginal revenues, individual firm follows ~~the~~^{ing} principle- marginal costs equal marginal revenues- will easily rise prices to P_m and cut output from Q_a to Q_m . As price-setting by both state and newly emerging quasi-private firms follow the model of Kalecki(1971), i.e. in fixing its price every enterprise ill

14a

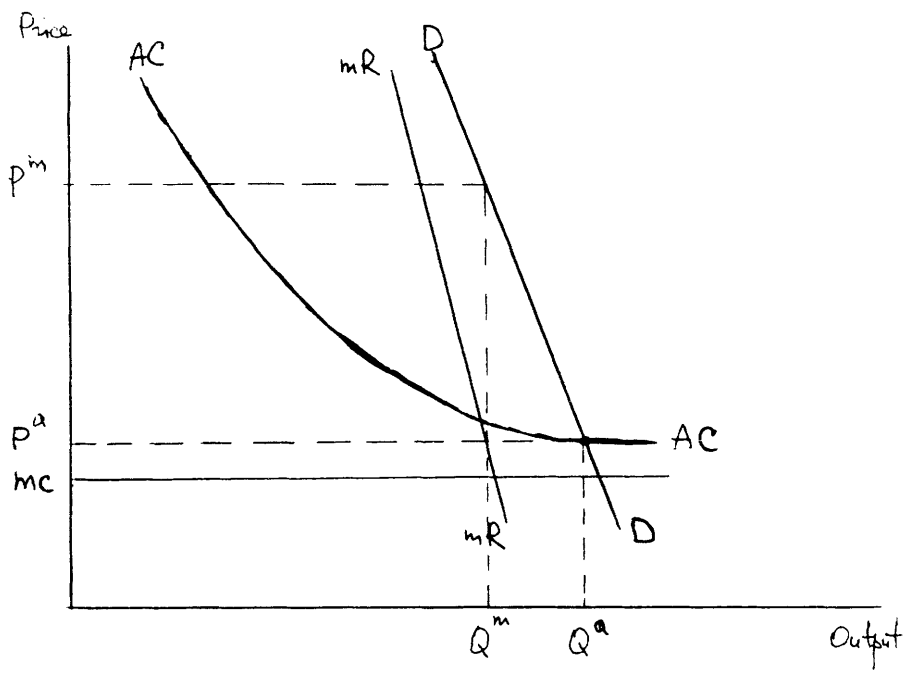


Figure 1.

take into consideration its average prime costs and the prices of other firms, producing similar goods, general inertial inflation sets in.

Preliminary results of price dynamics in January-October, 1992 prove, that economy is already working in the regime of inertial inflation. Before announced price reform producers trying to preserve their share in income, increased prices several times and also recalculated production costs on the basis of anticipated price increases in the related sectors. Due to the highly monopolistic nature of Russian economy the overwhelming majority of enterprises is forced to buy products from the suppliers at any proposed price. This initiates new cycle of inertial inflation when price increases in one sector through production costs drive prices up in the interrelated sectors. In turn, through the backward linkages primary price shock is returned into the first sector, provoking new inflationary cycle. As rich world experience shows, especially in the large Latin American countries being on relatively close level of industrial development, such self-reproducing process leads to the total indexation of the economy.

Taking into account energy price increases in order of 4,5-6,5 times in April and 2-3 times in September-October, one could easily anticipate new inflationary wave. Calculations on the basis of input-output table for 1989 show that average price level could rise 2,5-3 times more.

Table 9.

Potential influence of energy price increases on prices in

other sectors

	Coefficient of direct expenditu- res	Coefficient of total expenditu- res	Price increased by energy increase 3 times	Price increases by energy price /times/ 4 times	Price increases by energy price /times/ 6 times
Electricity	0,389	0,533	2,1	2,7	3,8
Energy	0,249	1,301	-	-	-
Ferrous and Non-Ferrous Industry	0,072	0,228	1,5	1,7	2,1
Chemical and Petrochemical industry	0,047	0,167	1,3	1,5	1,8
Machinery and equipment	0,010	0,083	1,2	1,2	1,4
Timber and Construction materials	0,039	0,134	1,3	1,4	1,7
Light industry	0,002	0,047	1,1	1,1	1,2
Food and beve- rages	0,007	0,078	1,2	1,2	1,4
Construction Agriculture and forestry	0,015	0,079	1,2	1,2	1,4
	0,014	0,050	1,1	1,2	1,3

One should also keep in mind that energy price increases will disturb inherited inter-regional and inter sectoral price proportions, stimulating regional and branch lobbies to keep their share in total income. That in turn aggravates the price shock. Speaking more generally, accelerated transfer to average world prices on energy, given the "super heavy" structure of the national economy, its energy and material consuming nature, low labor productivity, institutional inelasticity of production could gravely undermine economic activity, including export industries.

As remaining price regulation affect some industrial branches more seriously then others as well as monopoly power differs according to economic sectors considerably, enterprises benefited from price deregulation very unevenly(see table 10).

Table 10

Wholesale price and profitability rates increases(%)		
	Price indexes	Profitability rate
	September 1992 to	1st half of 1992
	September 1991	
Ferrous metals	3998	72,4
Non-ferrous metals	3404	109,7
Petrochemicals	3330	56,8
Energy	3194	68,9
Chemicals	2727	45,6
Machinery	2032	23,0
Construction		

materials	1999	28,7
Food processing	1523	15,1
Light industry	987	12,1

Source: Birzhevie Vedomosti, n.22, November 1992

In general prices in highly monopolized industries went up higher as compared to light and food processing. Due to shrinking central investments and state orders, prices and profitability rates in machinery and equipment- sector with the highest monopolization- were also moderate. That contradicted to general shift in consumer expenditures in favor of food and mass consumption goods. Combined with foreign trade liberalization, low ruble-to-dollar exchange rate and institutional inelasticity of agriculture and consumer industries as well as non-traditional exports, the transformation towards average world prices makes the majority of national production base comparatively incompetent with foreign producers.

So far, price liberalization led to price decentralization. The state just finally gave up regulatory functions. In given institutional and technological context the mechanism of price determination remained the same. Prices are determined by the supply side of the economy, thus proving inherent, structural nature of unfolding inflation.

The inertial inflation is also propelled by taxation policy. First, value added tax is especially harmful. In the economy with "over-developed", due to the general inefficiency and structural imbalances, intermediate and capital goods sector, taxation of every stage in the interindustrial chain creates additional inflationary impulse. Second, as in many developing countries the profit tax technically is collected in advance (e.g. before selling the produced items to final consumer) basing on the previous year level indexed accordingly to price increases. In this way the government gives clear signals to producers, that, it "approves" any price increases. Third, heavy taxation of wages also untwist inflation spiral. Adjusting in the "socialist", not market way, directors try to preserve the working families at any price by increasing wages, what in turn increase production costs as well as taxes paid and forces to rise prices higher.

Insolvency crisis

The expectation was, faced with demand constrains on the final consumer market producers would be forced to decrease prices what in turn would initiate chain of price decreases in the whole network of inter and intra-industrial links. Contrary to these expectation the real sector proved its tremendous vitality by creating a sort of financial disequilibrium easily predictable in the context of Soviet-type economy. Enterprises facing sharp shortages of credit to finance routine operations- credit increased only two times as compared to 16 times increase of wholesale prices- started to accumulate tremendous arrears

(counter non-payments and non-payments to the commercial banks), but did not stop shipments of production to each other. Dynamics of non-payments took a snowballing character - 39 bln. rubles on January, 1, 1992, 141 blns on February, 1, 1992, 390 blns on March, 1, 1992, 676 blns on April, 1, 1992, 1,300 blns on May, 1, 1992, more than 2,000 blns on June, 1, 1992 and more than 3,000 blns on July, 1, 1992 (9). If arrears of enterprises to commercial banks is added, the total sum exceeds 3,500 blns rubles and counter for about two-thirds of semi-annual volume of industrial production.

The government and the Central Bank achieved success in credit restriction only in January-February. In March-July, 1992 decisions on money (or quasi-money) emission were taken not on the state level, but on countless levels of enterprises. It turned out that by lifting traditional restriction on physical and financial flows of enterprises the government just transferred the decision-making process to producers, which contradicts to market laws but is in full accordance with logics of survival in excessively monopolized non-market environment. Producers try to preserve existed production ties, paying no attention to financial aspects of development. In such situation the government and the Central Bank had no other choice but to authorize uncontrolled flow of fictive counterpayments by opening new credit lines as well as by opening budgetary outlets (see table 11).

Some indicators of credit emission (blns of rubles and indexes, January, 1992=100).

	1 January	1 March	1 April	1 May	1 July
Central Bank					
credit to commercial banks					
blns.rubles*	149	187	307	380	544
index	100	126	206	255	360

Central Bank					
credit to budget					
blns.rubles*	608	612	612	686	770
index	100	100	100	113	125

*-cumulative figures

Source: Zhuravliov, 1992, p.97.

Aggravating crises of general insolvency makes official estimates of credit emission another theoretical exercise. More over, numerous facts illustrate, that non-payments have been already included into the calculation of production cost thus transforming into another independent factor of the inertial inflation. To eliminate its influence revision of prices for the whole industrial clusters, interrelated by backward and forward linkages, is necessary.

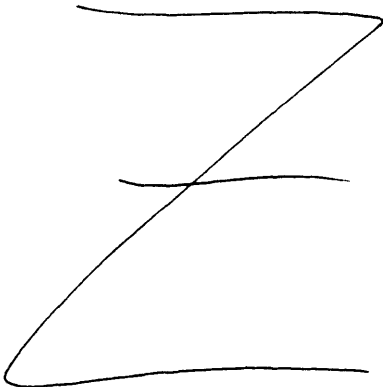
Taking into account complicated character and high density of inter- and intra-industrial linkages as well as highly monopolized nature of Russian economy the way out of insolvency crisis will not be easy. As previous yearly practice proves proposed steps like mutual clearing off of counter non-payments could decrease their total sum by only 10% at best.

A lot of expectations was and still is connected with the introduction of commercial bonds of enterprises. It seems, that this way out of crisis has no future either. Even if commercial banks admit thousands and thousands of magically appeared overnight bonds of unknown producers - very low probability - such step will only postpone solution of financial problems.

Widely discussed and urgently needed law on bankruptcy can not solve the problem either. In the extremely monopolized ineffective environment and collapsing production links between enterprises the task of finding a substitute for a traditional supplier in the majority of cases could not be solved at all. That is why strict implementation of bankruptcy law could provoke massive degradation of the productive base unbearable for social and political reasons. According to some estimates about 50 to 80% of enterprises in core industries are unprofitable in principle(10). It seems that, if standard western practice of firms financial accounts is applied, the situation is even more grave(Ianishvskaya,1990). Also important is that healthy production units operate within the insolvency chain.

The insolvency crises clearly proves, that standard financial manipulations have not even shaken the roots of the shortage economy. The repressed inflation in production sphere for some period of time took the form of counter non-payments and shortly transformed into the new price increases in consumption.

As soon as producers succeeded in enforcing the government to implement general clearing off and monetize remaining arrears by opening new credit lines, inflation from a hidden form transformed into the open one. Methamorfosis of monetary overhang into the counter non-payments overhang, passing through a full cycle, returned to the initial stage at a higher absolute level, thus feeding inflation into new and new cycles. To explain how this dynamic was set up we should briefly summarize previous developments of inflationary pressures and coping mechanisms existed in the centrally planned system as well as recent profound changes in the institutional structure of the economy. Both factors, eventually inherited by Russian economy play a decisive role in ongoing monetary transition.



Soviet Monetary Legacy.

Probably, one of the most distinguishing features of the Soviet economy prior to the eighties was separation of the so-called "cash" and "non-cash" monetary flows, hereafter referred to as flow I and flow II respectively. Flow I- cash money on the hands of population and short-term personal deposits in saving bank, facilitated personal consumption and was centrally planned in a way, that increase in cash income corresponded to the growth of consumer products production. Amount of "cash" rubles was regulated through the wage bill as well as through pensions and social security spending. Enterprises had also some volume of "cash", but it constituted not more, than 2-3% of total currency in the circulation.

If ruble in the flow I was (with certain reservations) normal money, in the flow II, serving real side of economy and distributive and wholesale and social welfare (schools, hospitals, etc.) systems, ruble especially since the late 1920s was mostly an accounting tool or general denominator for physical resources flows. Taking into the consideration, that volume of rubles in flow II was planned in accordance with the five-years plans requirements, otherwise speaking, credits to enterprises given in "non-cash rubles" were tied to particular amount of resources centrally allocated for enterprise usage and/or bought from other enterprises and could not be used for other purposes - there exist all grounds to conclude, that real side was monetized only technically and "non-cash ruble" has never been real money. Since neither interest rate and fixed credit lines, nor enterprises actual financial position could

affect distribution of credit, McKinnon (1992) qualified such credit system as "passive". Going further it is possible to qualify it as a "pseudo-credit" one. This fact was clearly understood by the planning bodies and barriers between the two flows have been erected.

Since flow I and flow II were separated from each other it is relevant to analyze inflationary developments in production and consumption separately either. Let's start with consumption. Both retail prices and money income of population were fixed and changed from above. At the initial stage the system was equilibrated and inflation did not exist. In lieu of development money income growth was planned to match with consumer goods production increases. Nevertheless, for many reasons from pure ideological - one of main party slogans was promotion of constant increase in material well-being of people, finding reflections in nominal money income growth-to economic ones- underdeveloped inflexible consumer goods producing sector, also being of the secondary importance in comparison to heavy industry, could never adjust to growing demands and shifts in consumer preferences, inflationary pressures started to unfold. In the 1930s-1950s to reduce the spending power of population and equilibrate the system mixture of brutal and non-delicate "corrective measures" like hard free labor camps in the Gulag, mandatory subscription to state bonds equal in many cases to several months wage and salary payment, non-monetary payments in collective farms (survived until the middle 1950s) were forced upon the society. Along with softening of the totalitarian regime in the 1950s-1960s these were substituted with administrative manipulations with

relative prices, recurrent price increases on luxury goods, as well as changes of the so called labor norms and tariffs(11). Nevertheless all these correcting measures could not prevent aggravation of inflationary pressures completely. Periodically, when inflation reached its peak and could not be suppressed in its hidden form any more, confiscatory monetary reforms(as in 1947 and in 1961) were carried on.

In the 1970s several factors helped to avoid regularity in money and personal savings confiscation. First, huge hard currency earnings from oil and gas exports allowed to balance the consumer market with injections of imported goods. According to some estimates the share of imports in retail trade turnover in Russia raised from 8,7 % in 1965 to 8,9% in 1970, 10,7% in 1975 and 12,2 in 1980 (Delyagin, 1991). Second, in the end of the 1960s and during the first half of the 1970s such new mass consumption goods as TV sets, refrigerators, electric home appliances etc., and then passenger cars appeared on the market sucked off the bulk of income increases. Finally, extensive bureaucratic manipulation succeeded in slowing down growth of real income of population (Ibid).

At the same time anti-inflationary restrictive measures of that kind strengthened a vicious circle. Already low motivations and work ethics have deteriorated further, in turn causing production decline. In attempt to stabilize the consumer market in the beginning of the 1980s the government for the first time since 1947 was forced to return to rationing schemes on the majority of territory, except, possibly, only Moscow and Leningrad, raised prices for petrol, crystal, furs, other luxury goods(1983), carried on massive intervention of imported goods,

whose share in retail trade turnover reached 14,1% in 1981(Ibid). Taking into account progressively falling oil and gas export revenues, the fragile relative stability could not last for long. The only possible way out of the unfolding crises, when new inflationary cycle reached its mature stage, could be another monetary confiscation and/or "across-the board" price increases. Both were avoided for the political reasons.

Instead the political leadership preferred to rely more and more on increasing consumption and production subsidies, financed through the budget deficit and increases in the state internal and external debt. For instance the share of total state subsidies in retail price of one kilogram of rye bread in 1985 equalled 388,9%, beef- 263,6%, lamb- 280%, pork- 121,6%, butter- 198,5%(12). Not surprisingly in 1985-1989 the share of budget deficit in Soviet GNP rose from 2% to 9% ~~[[We] reveal the secrets, p.6]~~. Simultaneously the state internal debt share in GNP jumped from 18,2% in 1985 to 56,6% in 1990(Narodnoye Khozyastvo v 1990, p.19)

The flow II traditionally has been regulated even more thoroughly. Rare changes in relative wholesale prices, caused first of all by shifts in investment priorities balanced through budget allocations, manipulations with profitability rate and other mostly administrative tools. At the end of every year profits of individual enterprises were centralized in the budget. More important, leakages of "non-cash" into "cash" rubles were minimized. That was possible because economic agents and organizations altogether acted within monobank system with a single clearing system.

This started to change after the partial unfinished A.Kosugin reforms of 1965. In order to provide incentives for enterprises they were allowed to retain a certain share of profits in a form of "material stimulation fund". In addition system of the so called "thirteenth wage"(e.g. wage or salary paid at the end of every year) as well as regular upward wage and salary reshuffles was set up(Lyshin and Pashkovskii, 1992). Since all these innovations were of general or branch nature and were not directly linked to output indicators of particular enterprises, mechanism of income increases irrespective to production results was set at work. At the same time channels to transfer "non-cash" into "cash" rubles were created. Nevertheless, in principal, the whole system of flow II regulation, becoming more and more fragile, on the surface remained relatively stable.

These long-term developments coincided with the disastrous economic policy, initiated by the new political leadership in 1985. In 1985 under the political campaign of acceleration investment cycle was initiated. In 1986-1988 traditional system of monetary and administrative regulation was destroyed by a series of party and government decisions aimed at "unleashing people's(e.g. mainly enterprises) initiative" and reconstruction of the financial system in the accordance with the logics of transition to market economy. The most adverse effects were produced by changes in regulation and property rights systems, enforced by the series of laws and resolutions: "On the Improvement of Wage Policy Organization"(1986), "On Restructuring of Banking System" (1987), "On Restructuring of Financial Mechanism"(1987), "On restructuring of Price System"(1987), "On

Individual Economic Activity"(1987), "On State Enterprise (Association)"(1988), "On Cooperatives"(1989), "On Leasing (Arenda) (1989), "On Creation and Development of Small Enterprises"(1990), "On Share-Holding Societies and Societies with Limited Responsibility"(1990) and some others(13). Strong negative effects were also produced by series of large-scale experiments since 1983, which aimed at shifting of decision-making process from ministries and central planning bodies to enterprises.

Three main negative consequences of this reconstruction, relevant for the theme of this paper were:

First, control over wage and salary spending was lost. Enterprises of different socio-economic forms, especially cooperatives, small enterprises etc., started to channel the bulk of profits retained into wages, irrespectively of their production performance. Moreover, appearance of new forms of enterprises helped state firms to swallow their wage fund and also to hide profits from taxation. Second, the existed barrier between the flow II and flow I was broken. Previously blocked "non-cash" rubles through many loopholes flowed into the circulation, thus increasing the inflationary pressure in consumption tremendously. Third, since larger and larger share of profits started to be retained by enterprises, the government lost its most important source of revenues and was forced to increase its reliance on deficit financing.

After recognition of the mistakes done, since the second half of 1990 the successive governments undertook the late attempts to reimpose control over wage and salary spending by linking it to increases in volume of production. Regulation of

financial relationships between state and non-state enterprises was reestablished too(14). At the end liberalized monopolies easily resisted to these attempts and finally overplayed the collapsing central authorities, profoundly weakened by reorganization and liquidation campaigns during perestroika years as well as by sharpening political struggle between the central and republican, first of all Russian authorities. In the given situation the all-Union government had no other choice, except highly unpopular and politically dangerous "across-the-board" price increases. Nevertheless, since the inflationary mechanism was full at work, this only helped to stabilize prices for only a very short period of time.

Evolution of gross money mass in 1986-1992 reflects very insignificant changes in its historical structure, except what concerns flow I, in which banking savings of population transformed into money in circulation(see table 12).

Table 12

	* Gross money mass structure(%)						
	1986	1988	1990	1992	1992	1992	1992
	1st	1st	1st	1st	1st	1st	1st
	Jan.	Jan.	Jan.	Jan.	Apr.	July	Nov.
Money in circulation	11,0	13,1	14,0	15,9	19,0	24,1	26,8
Money assets of population							
short-term deposits	21,1	26,0	25,9	17,8	16,0	16,2	9,8
long-term deposits	13,2	19,4	19,0	10,1	9,0	7,0	3,4

Money assets of enterprises and organizations, including counter-payments(net)*	45,3	41,5	41,6	22,1	34,0	37,9	52,9
Bonds and securities	...	...	...	1,4	1,1	0,7	0,4
Other	...	...	...	32,7	20,9	14,5	6,8

* - USSR before 1992, Russia - since 1992

Calculated from: Table 1, Kommersant, n.45, 7-13 December 1992.

Relative share of money assets of enterprises dropped only in the end of 1991- beginning of 1992. But resorting to arrears productive monopolies factually reestablished their historical structure in gross money mass.

Developments of the first half of 1992 just resolutely revealed the fact, that state enterprises themselves continue to predetermine financial policy of central government(15). That is why one of the major problems is not only absolute volume of "monetary overhang", fed by increase of personal incomes, but first of all periodically reproductive institutionally in-built nature of this "overhang".

Generally speaking, lacking real money, sound banking system and normal market producers, the government could not maintain any sort of sound monetary policy in principle.

Credit Market

The situation on the credit market demonstrates here inevitability of further inflation. In May-July, 1992 annual nominal credit rate approached 100%(see table 13). Probably,

this is more informative indicator of current and future inflation as compared to price indexes. In the situation of the shrinking consumer demand enterprises, serving the final consumption can not increase profits and repay credits taken by increasing production. Also, as it was shown above, being monopolist producers they do not feel it necessary. It is much easier to transfer operational costs, including credits, onto the final price. In this way progressively rising credit rate feeds inertial inflation. The current credit rate automatically trigger monthly inflation by 20-30%. Large trade organization, financing about 90% of their operations by using credit resources, also participate in untwisting of the inertial inflation.

At the same time the material presented in Table 13 help to understand the specific nature of the banking system emerged as a result of reconstruction of previous monobank one. First, until 1992 the deposit rate, despite highly inflationary environment, changed very little. It started to accelerate since January, 1992, but until now its level is considerably lower as compared to both credit rates. The explanation is quite simple. The main source of credit for commercial banks were and still are credits of the Central Bank of the Soviet Union and later on Russia. It is sufficient to say, that in 1991 the Central Bank channelled through commercial banks about 85% of the total credit resources pumped into the economy (16). Taking into account the low level of the Central Bank credit rate in 1991 commercial banks were not interested in attracting personal savings.

Table 13

Annual interest rates on banking credit(%).

	Credit rate to banks permanent clients	Interbanking credit rate	Deposit rate	The Central Bank credit rate
December 1990	15,0	14,3	9,5	
February 1991	15,3	12,0	9,1	
May 1991	16,9	13,2	9,4	6-8
July 1991	17,4	13,7	10,4	
November 1991	19,9	20,2	11,4	
December 1991	20,4	24,2	13,4	
January 1992	28,0	35,4	13,4	20
February 1992	36,6	47,9	19,4	
March 1992	49,8	66,1	32,9	
April 1992	56,5	93,6	40,6	50
				/since April, 7/
May 1992	72,2	95,4	49,2	80 /since May, 23/ 1992
June 1992	84,8	...	56,4	
July 1992	99,4	110,0	68,7	
October 1992	...	111,2	...	

Sources: Kommersant, Ekonomika i Zhizh; Business, Bank.,
Birzhi; Finansovaya Gazeta; MN Business, various issues.

Second, if prior to November 1991 the credit rate to permanent clients was higher as compared to interbanking credit rate, since the end of 1991 and in 1992 the latter considerably outpaced the former. In April-May, 1992 the difference between the two reached about 25 percentage points, but narrowed later on. This gap is explained by the fact, that until the end of 1991 the Central Bank credit rate remained lower as compared to the banking rate to permanent clients, thus giving to commercial banks the opportunity to make profits. From the other side, the most powerful commercial banks, crediting enterprises, represent the reorganized regional and sectorial departments of the former state banks. As a rule large industrial enterprises, receiving the bulk of credit resources, are among their main shareholders. and influence their credit policy considerably. Finally, in any disputable case the Central Bank- the main source of relatively cheap credit- can intervene and force commercial bank to give credit to industrial giants on preferential terms.

Several factors explain credit rate dynamics on the interbank market. First, until 1992 the Central Bank fixed the upper limit of credit rate at 25%. Second, channeling of resources through the interbank market, especially selling of credit, was a completely unknown practice. It took about two years since the end of 1989 for banks to establish necessary infrastructure and accommodate to this practice. Third, until 1992 really free credit(e.g. not originating from the Central Bank) was minimal and did not influence the credit market. Fourth, the interbank market serves mostly quick trade

operations. After liberalization in January, 1992 the interbank market reacted to the changed environment more rapidly as compared to banks, serving the real sector. As a result the gap between the two credit rates widened, but as monopoly produces started to increase prices and accumulate arrears specialized banks caught up very rapidly.

As it was noted above commercial banks continue to credit insolvent enterprises. Since the Central Bank in turn continues to credit factually bankrupt banks, there are all reasons to talk about general insolvency of the whole banking system. Creation of two-tier system "central bank - commercial banks" in fact has yet changed relatively not very much in the traditional "pseudo-banking" "pseudo-crediting" system.

Continuing rise of credit rate, especially on the interbank market, propelled by the Central bank credit rate increases, produce very negative consequences. More and more credit resources are deviated from production and channelled into intermediate activities.

Financial bubble.

The emerging market sector plays a particular role in destabilization of financial flows. Despite its very low share in production- no more, than 4-5%(17)- it at the same time succeeded in attracting of the large part of financial resources. Taking into the consideration practical absence of capitalist tradition, very low level of the average personal income and psychological unpreparedness of population to save through the banking system let alone to invest into stocks of

mushrooming shareholding companies leakages of financial resources from the state sector are the main source of primary accumulation.

The typical scheme of attracting resources is quite simple. As a rule, a state enterprise creates parallel cooperative and/or a small enterprise with an independent banking account. After this, using evident loopholes in the legislation, centralized resources were pumped into the parallel structure. Very often officials from the state sector also head "commercial" enterprises. In addition mushrooming commercial banks- at the end of December, 1991 their total number in the ex-USSR exceeded 1600 with 1270 banks and 2321 banking affiliates in Russia alone(Khandryev,1992)- and absence of almost any effective control over their operations and enterprise financial accounts allow to the latter not to return as well to hide money balances and profits.

In the situation of acute political struggle, general weakening of Russian central authorities and strengthening local regional and sectorial lobbies, such primitive capital accumulation progresses on a large scale. This process accelerated after legitimization of shareholding societies(18).

Due to overwhelming chaos caused by collapse of command-administrative system, incredible credit emission, first waves of price liberalization, introduction of contract prices and other economic and political factors boom of exchanges and banks developed. Shortly market rates of exchange and commercial banks stocks skyrocketed by 50-100 times. Since major buyers of stocks were state enterprises and commercial banks, relying on the Central bank credits, huge credit emission was channelled

into the swallowing financial bubble. On the next stage exchanges and banks transformed into diversified holdings, uniting different intermediate structures.

As a rule these structures are organized as cross holdings companies. Usually they sell their securities to each other and/or to banks controlled by themselves. In principal, these developments are very similar to the Chilean experience in the beginning of the 1970s(Taylor,1988). In both cases rapid liberalization of financial sector combined with foreign capital inflows(Chile) or with cheap easily accessible credit(Soviet Union) created favorable environment for financial speculators.

Overall nominal capital of largest conglomerates exceeds several billion rubles and total sum of nominal capitals of all shareholding societies created exceeds several hundreds billions rubles. But only few of them has invested yet into production activities.

This conclusion is supported by analysis of time structure of credits (see table 14). Long terms credits for more than 12 months constituted less than 5% of total credit in January-February dropped to less than 1% since April. Such developments undermine the option of conducting real productive activities.

Average maturity of banking credit

Table 14

	Short-term	Medium-term		Long-term
	1-3 months	3-6 months	6-12 months	>12 months
April 1991	25,5	47,5	15,5	1,5
July 1991	26,0	35,0	32,0	7,0

October 1991	27,4	54,7	11,2	6,7
December 1991	43,0	35,0	14,0	8,0
February 1992	34,1	51,0	11,1	3,8
March 1992	53,6	33,6	12,8	-
April 1992	35,3	35,4	28,4	0,9
May 1992	44,7	29,4	25,5	0,4
June 1992	50,2	46,6	3,1	0,2
July 1992	44,1	47,7	7,3	0,9

Source: Kommersant, various issues.

The pragmatic way out of the complicated situation also with minimal macroeconomic consequences should be immediate inclusion of large trade and intermediate groups into potentially mostly perspective export industries, e.g. mining, especially oil, ^{and gas} and hi-tech industries. It is not clear yet how the government plans to deal with the destructive financial bubble and how the private capital would be encouraged to invest into real production, say in mixed state-private enterprises. Judging by current privatization discussion, it seems that the decision would be made in line with traditional Russian paradigms: from the one side- most equitable and lowest economically effective redistribution of existing fixed capital(voucher scheme), from the other- preservation of failed old-style state control over the most profitable sectors and enterprises in the hands of discredited bureaucracy(state holdings scheme).

Evidently, positive credit rates should be introduced for commercial banks. At the same time special strictly controlled development banks must be created for preferential crediting of mostly efficient and/or socially important production lines.

Exchange rate regulation.

In the first half of 1992 four different exchange rates were in operation:

- special rate for exporters (55 rubles per dollar)
- special rates for importers
- special rate for centralized imports of the most important consumption and intermediate goods (5,5 rubles per dollar)
- free market rate, set on Moscow International Currency Exchange(MICE).

Stabilization of ruble to dollar exchange rate on the MICE in February-May 1992 (see table 15) seen as a major indicator of the financial stabilization strengthened intentions to introduce the inner convertibility of ruble, what was done from July, 1, 1992. By inner convertibility it is meant, that current rate on the MICE is used as unified exchange rate for all current transactions of residents.

Table 15.

	MICE ruble-to-dollar exchange rate (weighted monthly averages)	
	"non-cash" rubles per \$	Amount of \$ sold(mlns)
December, 1991	148,8	10,71
January, 1992	199,7	18,38

February, 1992	175,7	33,25
March, 1992	148,4	98,9
April, 1992	152,7	46,93
May, 1992	122,3	100,42
June, 1992	123,6	308,92
July, 1992	143,3	252,97
August, 1992	169,7	261,30
September, 1992	...	453,11
October, 1992	353,0	407,93
November, 1992	426,9	353,25
December, 1992	...	452,68

Sources: Kommersant, Ekonomika i Zhizh; Business, Banki, Birzhi; Finansovaya Gazeta; Finansovie Izvestia; MN Business, various issues.

Dynamics of ruble-dollar exchange rate could be explained by the following factors. First, the Central Bank using over complicated bureaucratic procedures for participants in currency auctions can easily shrink demand for dollars. Second, forcing exporters to sell hard currency accounts by not providing them with cash money to pay wages, the Central Bank also regulates volume of hard currency sold. Third, by declaring bankruptcy of Bank for Foreign Economic Exchanges, the Central Bank factually confiscated several hundreds of millions of dollars and sold them on the currency auctions. Fourth, there are all grounds to assume, that commercial banks formed a shadow syndicate and propelled dollar stabilization anticipating sharp drop in ruble-dollar exchange rate in the second half of the year. Fifth, expectation to get 6 bln. ruble stabilization fund from

the IMF strengthened by the optimistic official declarations also played a role. Nevertheless the cumulative effect of all these factors allowed only to return to the situation of November, 1991, just before announced price liberalization. Relative stability of the exchange rate on the cash market reflected the fact, that government efforts to stabilize ruble on the currency exchange as an anchor, costing about 550 mlns dollars in the first half of 1992, were not taken seriously by dollar holders.

In June 1992, upward ruble-dollar dynamics changed with the downward trend. There are three main explanations for this. First, potential of artificial manipulations of the Central Bank were exhausted. Second, anticipating introduction of national currencies enterprises of the ex-Soviet republics, especially in the Baltic states and Ukraine, started massive flight from ruble accounts. The flight was stimulated by uncoordinated chaotic credit emission too. Third, unclear future of accumulated counter non-payments pushed enterprises to sell rubles at any rate. Fourth, since March and later on in order to save the industrial base the government and the Central Bank were forced to increase credits to enterprises considerably (see table 11).

Taking into the consideration continuing deterioration of national payments and trade balances introduction of the inner convertibility of ruble could, providing additional revenues to government, from the other side, combined with liberalization and chaotic budgetary cuts- all these done in the situation of accelerating drop in production, shrinking export earnings, progressive disintegration of economic ties, barterization of

inter- and intra- sectorial transactions, naturalization of personal consumption- threatens to finish the large part of agonizing industrial base.

Conclusion.

Analysis of Gaidar's government policy leads to the following major conclusions. First, contrary to the proclaimed goals it stimulated inflation. Second, in the existing institutional environment it provoked disequilibriums of specific nature, e.g. general insolvency crisis of enterprises and banks, financial bubble, accumulated debt on wage bill, counterpayments crisis between the republics within the Commonwealth of Independent States. All these added to the financial fragility of the economy. Third, chosen course stimulated development of local quasi-money instruments and gave another powerful impetus to the outburst of the barter transactions. Relaxation of the exchange rate regulation, combined with the accelerating dollarisation of the economy, undermined ruble further. Fourth, the existed disintegration between real and financial sectors of the economy as well as between price dynamics and effective consumer demand has increased. Fifth, at given institutional setting and production structure the policy chosen triggered stagflationary effect in consumer oriented. ^{Such} It must be stressed, that these tendencies developed before 1992. Attempt of coup d'etate in August 1991 resulted in collapse of executive power.

In budgetary note to the parliament in July, the government openly recognized the fact, that " due to the structural features of Russian economy and tense social problems the classical monetary formula of market regulation could not be

used for the purpose of stabilization"(Budgetary Note to the Parliament,1992). At the same time factual data does not allow to describe Gaidar's policy as orthodox monetary one. In essence it seems to be very much alike as policies of previous government. Lacking almost all tools of macroeconomic policy the government was forced to do what was only possible to be done- to decrease spending power of population(see table 16).

Indexes of money income and production(1985=100) Table 16

	1986	1987	1988	1989	1990	1991	1992(9 months)
Money income							
variant 1	102	104	106	125	140	133	53
variant 2	100	102	100	120	115	49	37
<i>GNA</i> Production	98	93	88	84	80	61	47-48

* official figures
xx independent estimates

Sources: Ekonomika i Zhizn, n.40, October, 1992; Kommersant various issues, Narodnoye Khozyastvo SSSR, 1990, 1991; Program of Deepening of the Economic Reform, p.178.

Until now economic policy represents more chaotic uncoordinated reactions necessitated by logics of survival of weak political authority. Since March being caught between two alternatives - hyperinflation or accelerated drop in production with following deindustrialisation, the government inclined to the first option. At the same time in the given situation hyperinflation policy can not last long, because it has a strong antiproduction bias too.

The common sense approach and logics of survival demand an nonstandard economic package to be implemented. The selfreproducing insolvency crisis presents the unique chance to

reimpose at least partial control over state enterprises and commercial banks. Technically they all were to the system of blocked banking accounts in the Central Bank, what gives an opportunity to restore control over credit, investment, price and wage policy of state and quasi-private units. Without these measures no further progress is possible. Fortunately some structural features of the supply side dampen negative aspects of hyperinflation too.

Some innovations in the economic policy since last summer could be treated as indication, that the government and the Central Bank started to move in this direction. First, in attempt to combat the monopolistic price setting, the government returned to the profitability rate regulation, differentiated according to industrial branches(19). Second, previously widely advertised idea of unified exchange rate was changed with more realistic policy of multiply rates for imports mostly important for private mass consumption and certain industrial branches(20). Third, more and more often the government uses administrative manipulations to restore financial control over producers. For example, new credits lines for enterprises are opened only in case the informal agreement with the chief management of those enterprises on wage bill freeze was reached. Fourth, the Central bank tries to impose at least partial control over commercial banks transactions. Fifth, since July special ~~discount~~ accounts of ex-Soviet republics in Russian Central Bank to balance mutual trade were opened. Sixth, since November leakages of "non-cash" rubles from republics into MICE auctions were blocked.

Could this soft type market control be an intelligent preparation for some sort of orthodox or heterodox shock is unclear. Taking into account the fact, that enterprises and banks adjusted to free environment, they will hardly give up easily. At the same time inertial inflation, spurred again and again by new steps in transition to world relative price levels on primary energy resources make financial stabilization in the foreseeable future unattainable. Moreover, energy sector has been recently joined by food producers, who in the wake of coming winter first, want to reverse the deteriorating terms of intersectoral trade, second, are becoming more and more aware of their monopoly position. As backward and forward linkages of agriculture are even more dense as compared to the energy sector, new rounds of cost push inflation are inevitable.

Fundamentally, in the current situation neither pure orthodox, neither heterodox shocks could be implemented. First, because institutionally and structurally the economy can not react to both shock signals by increasing production. Second, the central planning system was built around non-economic logics as a united body. As mechanism of resource mobilization and motivation are dismantled, the moment of comparatively painless and bloodless return to the old system has been passed. Third, vacuum of central power and political will as well as rent-seeking behavior of new state bureaucracy undermine sound and persistent economic policy of any type. The latter undermines theoretically necessary reimposing of central control over the state sector and confiscatory money reform .

When the civilized solution of aggravating economic and social problems is diminishing, the everyday decision making process must be shifted to numerous levels of comparatively more efficient and equipped regional and local authorities and producers themselves. It seems, that without reaching of a proper balance between the centre, responsible for sound financial policy and regional governance postsocialist transition in Russia could be blocked or by counterproductive attempt to restore old system of control, or by socio-economic disturbances caused by aggravating crisis.

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11. Traditionally in the Soviet Union, as well as stil in Russia

calculation of wages and salaries is based on multiplying of hours actually worked. Ruble equivalent of model hour is measured on the basis of amount of pattern operations, specific for a particular profession. Increase in the number of operations due to be completed within the pattern hour-widely spread practice- camouflages reduction of money income as compared to actual work done.

12. Calculated from: Semenov(1985), p.56. Subsidies here include budget allocations both to consumers and producers.

13. For the detailed description of these experiments, based on Soviet periodic press and legislative innovations, see: Taga(1989), Filtzer(1991), Cook(1992)

14. See: Ekonomika i Zhizn, 1990, n.48, p.13; 1991, n.2, pp. 14-15.

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