This paper is an expanded version of one presented by the author in April 2000 at SU HSE first international scientific conference “Russia: Investment Climate and Prospects of Economic Growth”. The author is grateful to Tatyana Dolgopyatova and Boris Kuznetsov for very helpful discussions of the main ideas of this article at the end of 1999 as well as to Yuri Simachyov, Vladimir Drebentsov, Leonid Tsedilin, Eduard Baranov, Vladimir Bessonov, and Dmitry Belyayev for their comments and remarks.

The author is Director of the Institute for Industrial and Market Studies at State University — Higher School of Economics (SU HSE), 20, Myasnitskaya, Moscow 101987, Russia, email: matesha@hse.ru

Yakovlev A. Structural distortions and limits of liberal economic policy in modern Russia.

This article considers the impact of liberal economic reforms on the process of Russian enterprise restructuring. Structural deformations inherited by Russia from the Soviet-era planned economy are analysed together with the institutional factors that resulted from the economic policy of the 1990s and hindered the reorganisation and restructuring of enterprises. Conclusions are made on wider prospects of an economic policy that could ensure economic growth and on the role that the state should play in the Russian economy for the next few years (JEL: L16, P26, Q17).
Whether economic reforms will be successful or not is ultimately determined by the behaviour of private enterprises, their owners and managers rather than by inflation, money supply or exchange-rate performance. If enterprises welcome investments and invest in the development of their businesses, expanding the range of their products, and entering new markets, then the economy grows and citizens’ incomes grow as well. However, if enterprises prefer to hide their turnovers, move their liquid assets to off-shore zones, and accumulate debt, then the country that has such businesses will inevitably live the way Russia lived in the 1990s — including the natural finale that came in August 1998.

Why have the reforms been unable to change significantly enterprises’ motivation and, therefore, to raise economic performance? To answer this question, one has to consider the logic of the economic reforms in the context of the initial conditions for reforming Russia’s economy, which is the goal of section 1 of this article. Based on that, I analyse the actual influence of the government on enterprise performance in section 2 and come to several conclusions on the prospects of the Russian economic policy in section 3.

1. General logic and initial conditions of economic reforms in Russia

Advantages of the administrative economic system created in the USSR and in the other countries of the former communist bloc included the ability to mobilise resources to resolve a specific problem — such as forced industrialisation, creation of nuclear weapons, and implementation of a space exploration programme. This mobilisation of resources was possible due to a rigid subordination of enterprises in all industries to the decisions taken by the central economic authorities. It must be emphasized that the cost of resolving strategic problems identified by the highest administrative bodies was never of major importance.

At the same time, the administrative system proved unable to create incentives for enterprises to ensure development and innovation. Those initiatives that did not comply with the Plan were not encouraged and were sometimes even suppressed by higher administrative bodies. The centre in fact forced the development that did take place. This pressure, however, became less and less effective as the economic system got more complicated. As a result, this more inert and inflexible planned economy was on the whole losing to the market economy as far as the efficiency of the use of the available resources is concerned. This fact was clearly illustrated by a significant gap in labour productivity between the USSR and the United States.
The transfer of responsibility from the enterprise level to the level of higher administrative bodies also caused the problem of soft budget constraints (see Kornai (1980)) in the planned economy. In the conditions of systematic shortage, producers could pressure consumers to accept unfavourable product delivery terms. In the Soviet economy, this “suppliers’ dictate” emerged in acute forms in the late 1980s as the range of products distributed by Gosplan and Gossnab through a centralised system was reduced and direct economic ties between enterprises were developing.

Taking into account what was said above, the initial logic of market reforms on the micro level came down to giving more independence to businesses and to introducing hard budget constraints for them. The first task was to be accomplished through the destruction of administrative monopolies (such as industry ministries and other bureaucratic bodies) to be followed by mass privatisation. The second task was to be accomplished through restriction of government subsidies to enterprises (which would limit their demand for resources) and through the price and foreign trade liberalisation. It was supposed that in such conditions, enterprises would be forced to change their policies in order to survive...that they would reduce costs, renew their range of products, and implement new technology, and thus increase the efficiency of national economy.

A number of structural problems to be resolved during the market reforms already became obvious in the 1980s. The first problem was a serious price distortion in the Soviet economy compared to world markets. The second problem was a high degree of monopolisation in many commodity markets. These two problems were predetermined by the deliberate industrial policy that had been pursued by the state during the previous decades. Mechanisms of the reproduction and accumulation of structural distortions in the USSR economy were analyzed in detail in the early 1980s by Yuri Yaryomenko (see Yaryomenko (1997), Vol. 1, ch. I—III).

**Price distortions, their nature and their causes.** An important ideological principle of the Soviet economy was independence from international markets, which were regarded as a “hostile imperialistic environment”. The closure of the economy made it possible to create a unique price structure, which was very weakly and indirectly dependent on world market prices. In this respect, the state monopoly on
foreign trade and the system of multiple exchange rates prevented world market prices from having a direct impact on the performance of Russian enterprises in the domestic market.

The centralised pricing system was also based on certain internal rules. In the planned economy, all enterprises were obviously interested in increasing prices for their products in order to fulfil the plan in terms of “gross” indicators. This trend was to be suppressed through administrative price monitoring performed by the central economic authorities ... Gosplan, Goskomtsen (the State Pricing Committee), and industry ministries. This monitoring was in fact quite efficient in single-product, primary, and processing industries. However, producers overcame this barrier through assortment shifts in industries with more differentiated products.

This phenomenon was also studied by Kornai (1980), who believed that a true administrative price control was possible only in industries that specialized in “standard mass products”, while in industries producing “differentiated products”, either contract prices or pseudo-administrative prices were used. These prices were determined by the relations between suppliers and consumers and were only nominally agreed upon by planning bodies, which were unable to verify the calculations submitted to them. This fact, together with the isolation from world markets, resulted in significant price distortions, with prices for raw materials being relatively low while prices for end products were relatively high.

The above trends were characteristic of all the socialist countries. At the same time, this price gap increased with the closure of the national economy and the country’s natural resource endowment. It is for these reasons that the Soviet economy had the most distorted price structure. This problem was obvious, but it was believed that it would be automatically resolved through foreign trade liberalisation and Russia’s integration into world markets.

**Non-competitive industrial structure.** Distorted value parameters used for the assessment of the efficiency of investment projects later affected the industrial structure. A much more important role, however, was played by the policy of concentration and specialisation, which had been pursued in all socialist countries.

One of the principles of the planned economy, which was guided by the “one factory” model, was to decrease the number of controllable objects for each level of the administrative hierarchy. The fact that...
different enterprises produced the same products\(^1\) made it difficult for the central planning authorities to provide effective management and to monitor the fulfilment of planned tasks. From this point of view, competition among enterprises in the planned economy was not needed, and a general goal of industrial policy was to remove such competition.

Different means were used in different industries to attain this goal. Creating artificial administrative bodies (ob’edinenie, trest, glavk, etc.) increased controllability in less concentrated sectors with quick capital turnover, such as the light and food industries or retail trade. Administrative assignment of designated territories to certain enterprises was also widely used, which led to a geographic disintegration of the market. In the high-tech and capital-intensive industries a narrow specialisation policy was adopted at the equipment-supply level. For example, the entire national production of certain devices, bearings, or chemical fibre was concentrated at one or two plants\(^2\). Finally, giant enterprises were deliberately created in primary industries and oriented to service certain regions.

As a result, the planned system created a specific industrial structure in which the choice of suppliers and consumers for each enterprise was very limited. One consequence of this monopolisation was the above-mentioned “suppliers’ dictate”. Unlike the case of price distortions, the scale of this problem was not obvious even to experts because Soviet statistics did not provide any data on the concentration of industries and markets. For this reason, obvious monopoly effects observed in the Soviet economy during the first years of Perestroika could be interpreted both as a consequence of the actual monopolisation and as a result of growing shortages in commodity markets.

Studies conducted in 1988—1989 by the Central Economic and Mathematics Institute (CEMI) of the USSR Academy of Sciences

---

\(^1\) A special term “parallelism and replication (parallelism i dublirovanie)” was used in the Soviet economic literature in the 1960s to describe this phenomenon as certainly negative.

\(^2\) Market economies tended to have technological specialization instead of product specialization. In the former scheme certain types of mass or serial productions (foundry, forming, etc.) were turned into sustainable enterprises that received orders from different customers.
demonstrated a high degree of monopolisation in a number of industrial commodity markets (see Yassin and Capelik (1990), Capelik and Yakovlev (1990), Yakovlev (1991), etc). It was also shown that for high-tech products, the standard concentration indicators would differ significantly for planned and developed market economies depending on the aggregation level selected. At the industry level, concentration coefficients might be close or even higher in market economies. If separate product groups were considered, then concentration ratios would normally be higher in the planned economy. Finally, the planned economy demonstrates a complete or almost complete monopolisation at the individual product level, while the market economy will normally have a competitive or, at least, an oligopolistic market structure at this level.

In practise, however, another study performed by World Bank’s experts in 1992—1993 (see Brown, Ickes, and Ryterman (1994)) had a significantly greater impact on the priorities of the competition and anti-monopoly policy adopted in Russia in the 1990s. The title of this report — “The Myth of Monopoly” — was itself based on the fact that the standard concentration coefficients calculated for Soviet industry from PlanEcon data proved on the average below the same coefficients for the United States. This report “closed” for several years the discussion of structural distortions and monopolisation in the Russian economy. It also had a strong impact on the nature of the competition policy recommendations prepared for the Russian government by the World Bank.

According to these recommendations, the monopoly effects observed in the USSR economy in the late 1980s and early 1990s were mainly the result of artificial administrative monopolies and of acute shortages in commodity markets. This again provided logical support for the liquidation of industry ministries and achievement of balance between supply and demand through price liberalisation and rigid restrictions on government subsidies to enterprises. At the same time, these recommendations denied a need for a special industrial policy aimed at changing the traditional non-competitive industrial structure.

We believe these two phenomena significantly predetermined the results achieved during the Russian reforms of the 1990s.
2. Actual economic policy in the 1990s and its impact on enterprise restructuring

As mentioned above, the planned economies differed from market economies in their criteria for the assessment of enterprise performance and their motivational mechanisms. That is why a majority of Russian enterprises were weaker than their foreign competitors just before the introduction of liberal market reforms in the 1990s. Their long-term adaptation to the market was possible only on the condition of a comprehensive organisational and technological restructuring, which required huge investments. For most enterprises, such restructuring did not take place in the 1990s.

So what hindered the restructuring of enterprises and prevented an increase in economic efficiency? The typical answer to this question among Russian liberal economists in the 1990s was that the reform policy was inconsistent due to resistance by the political opposition and various interest groups in the business. For details see IET (1998), Mau (1999) and other works of the Gaidar Institute for Economy in Transition (IET). It must be emphasized that in 1991—1998 the IET was one of the key analytical centres that developed a strategy of reforms and an ideology of economic policy — insofar as this policy was consistent.

This opposition made compromises inevitable and predetermined to a great extent the “half-and-half” nature of the reforms. This assumption is inarguable — large-scale institutional reforms are impossible without a wide enough consensus in society. Without a basic agreement among the major economic agents on the new rules of the game, only those changes will be implemented that are profitable for certain influential interest groups. We believe this was exactly the case with Russia in the 1990s.

At the same time, the explanation given above moves to the background the question of why the resistance to reforms was so strong, given the initial support of market reforms among all the strata of society. We believe this resistance was caused to a great extent by simplistic and hasty decisions whose practical implementation created objective difficulties for enterprise restructuring and for the achievement of desirable changes in the behaviour of economic agents. To elaborate this standpoint, let us consider in detail three important aspects of the economic policy pursued by the Russian government in the 1990s:
1. The forms and tempo of integration of Russian economy into the world market;
2. The forms and tempo of privatisation and the ownership structure that emerged as a result of mass privatisation;
3. The divergence between nominal and actual burdens of taxation in various sectors of the economy.

The consequences of the economic opening. Russian reformers regarded a quick opening of the economy as a key factor in promoting structural changes and restoring competition in the domestic market. This approach worked for the less-concentrated industries operating in consumer markets, in which the lack of competition arose largely from administrative monopolies and artificial segmentation of markets. Yet even in these industries the liberalisation of foreign economic relations and the rapid convergence of the exchange rate and purchasing-power parity had a destructive effect when enterprises had no resources for restructuring. A good example of this is light industry, where the output dropped more than 80% between 1990 and 1995.

The impact on capital-intensive, high-tech industries was even more severe. Unlike the light and food industries, which were characterised by relatively small enterprises and short payback periods, the high-tech industries required huge long-term investments to build a competitive national market structure and enter international markets. These investments were necessary to fundamentally restructure enterprises and upgrade their technologies. Without such investments, these industries based on outdated efficiency criteria proved absolutely non-competitive in the conditions of Russia’s rapid integration into global markets.

In the nonfinancial sector, a considerable benefit from this opening of the economy was derived only by primary industries (first of all, by the fuel and energy complex) and industries involved in the primary processing of raw materials, such as ferrous and non-ferrous metallurgy, chemicals, and the pulp and paper industry. Although their

---

3 It must be emphasized that the reforms’ approach to foreign trade liberalization may not appear consistent. For example, while the domestic commodity market was opened for importers very quickly (especially when the real strengthening of the rouble began), the financial market was closed for major foreign banks and financial institutions for a long time. This approach, however, was quite in line with the objectives of the new trade and financial capital interests, which supported the Russian government to a great extent in 1991—1998.
vestment capabilities significantly improved, the accelerated privatisa-
tion of these industries actually meant a transfer to the private sector of those additional revenues that emerged because of differences between domestic and international prices. In more stable economic and political conditions, these revenues could have been used for a structural re-organisation of the entire national economy. In practise, these revenues were a main source of illegal or half-legal capital flight in the last few years.

**Forms and tempo of the privatisation, ownership structure and models of corporate governance.** As we mentioned above, mass privatisation played an important role in the initial logic of the market reforms in Russia. Price liberalisation, opening of the economy, and destruction of administrative monopolies were regarded as prerequisites for a transition to the market. Privatisation was meant to encourage the overcoming of accumulated deformations and the formation of a competitive market structure, particularly self-regulation mechanisms. However, the forms and tempo of the privatisation chosen by the government paradoxically resulted in the preservation of a non-competitive and inefficient industrial structure in a number of industries. However, we also believe that the problem of political compromises of the early 1990s widely referred to in the literature today (see, for example, Mau (1999)), is somewhat exaggerated, especially regarding the tempo of privatisation in the large-scale industry.

From the economic point of view, one of the major problems of privatisation in Russia was significant and deliberate property dispersion. It was supposed (based on the US example) that control over enterprise managers would be exercised through the stock market.

It is true that in the United States (where a share holding of 5—7% is often a controlling interest) any small shareholder not agreed with the decisions of the company’s top managers and who wants his investments back can vote “with his feet” by selling his shares. If many shareholders do so, this will affect the stock price ... one of the key indicators of a corporation’s financial state. So a high degree of liquidity in the stock market is a kind of a guarantee of ownership rights and an opportunity for small-scale shareholders to influence top managers and those with larger share holdings. At the same time, a well-developed stock market allows efficient companies to attract additional capital cheaply.
The Russian stock market has always been illiquid — to some extent because the managers who were running state enterprises at the moment of their privatisation tried to keep their control over the enterprises and were not interested in attracting investors. It is for this reason that only controlling interests have been valued in Russia. And it is for this reason that a comprehensive organisational and technological restructuring, which itself required considerable investments, was impossible without property consolidation. Already at the initial stage of the privatisation an outflow of funds from the nonfinancial sector resulted because managers used enterprises’ working assets to take control over large share holdings. Nevertheless, the consolidation of dispersed shares took a different shape in different industries.

The dispersed property structure was quite quickly overcome in the primary and processing industries because having control over these enterprises meant immense revenues based on the difference between domestic and international prices. Concentration also took place among enterprises of the non-capital-intensive sector, since this required significantly lower initial investments and a potentially high return was ensured due to a quick capital turnover for operations on the domestic market.

In contrast, the capital-intensive, high-tech industries found themselves in the worst possible conditions. They required substantial investments in their restructuring but could not be regarded as a reliable source of long-term revenues because they were not competitive in world markets. (This is true to a great extent for many so-called “mono-factory” towns.) As a result, in most cases the state lost control over the enterprise but was not replaced by any other owner who would be able to take responsibility for the enterprise and launch any internal reforms.

In practice it meant the creation of a special stable model of corporate control with dispersed ownership (for more information on corporate control models in the Russian industry, see Dolgopyatova

---

4 Such behavior by managers who actually controlled enterprises and wanted to retain this control was quite predictable. In this respect, the leasing privatization started by Gorbachev and allowing “insiders” to retain their control was less costly for the enterprises. It is interesting to consider the standpoint of World Bank experts (see Stiglitz (1999) and papers presented at the World Bank conference on corporate governance in transition economies in September 1999 and partly published in Transition, N 6, 1999). It must be remembered that a few years ago official reports of these organizations mentioned the mass “voucher” privatization in Russia as an example of a successful implementation of a reform policy.
Managers who were actually in charge of enterprise assets and who themselves had only small share holdings became independent both from the other owners and from the stock market. This situation created objective incentives for opportunistic behaviour in the form of withdrawal of liquid assets from large enterprises run by the managers (partial owners of these enterprises) to trading and financial companies controlled by these managers only. This promoted the conservation of the traditional and inefficient market structure and the destruction of large enterprises of this kind.

Mass property redistribution with no suitable legislative base available to the privatisation process also caused a significant increase in the degree of uncertainty of businesses. Moreover, unlike in the market economy, the condition of enterprises with good economic and financial indicators was unstable because they were in the centre of attention of potential “invaders” who took advantage of gaps in legislation and flaws of national legal institutions. An important result was that enterprise owners and managers started to look at short-term objectives and interests, which created another obstacle to eliminating the initial structural distortions and to the industrial restructuring.

**Differences in the tax regime and “the second economy”**. Another factor that hindered the process of industrial restructuring lies in the sphere of tax policy. While nominally all taxes were equal, actually two taxation regimes existed in 1992—1993: one for the old state-run sector, which was being privatised, and the other for the new private sector. This problem was rooted back in the Soviet era when the private sector (starting from co-operatives) was subject to special tax rates, while state-run enterprises paid all their taxes without any deductions. There was little tax evasion because the directors of state-owned enterprises regarded it as necessary to pay taxes and new private businesses could afford the taxes.

The situation changed in 1992 when private enterprises found themselves under a heavy tax burden, while the state lacked an appropriate system of tax administration. Moreover, instead of indirect taxes that could really be collected, an emphasis was made on direct taxes (e.g., the profit tax or social security payments) that were much easier to evade. This system encouraged massive tax evasion in the new private sector and the development of “grey” business based on unaccounted “black cash” turnover. (For more information on motivational aspects in the behaviour of enterprises integrated into this sector see Dol-
gopyatova (1998), for a formal description of the consequences of massive and risk-free tax evasion on the development of competition, see Yakovlev (1999a).)

In many cases this kind of business was deliberately left alone for the sake of resolving social problems — as happened, for example, with shuttle trade. It was also considered that such an approach would encourage private initiative and would promote the development of the private sector on the whole.

This nominal increase of tax rates in fact forced the new private firms into the “shadow” economy and reduced the tax burden on the entire new private sector. As a result, return on investment in this sector significantly increased (in 1993, for example, 100% rouble profits per month with an inflation rate of 15 to 20% were not extraordinary for wholesale trade enterprises). Large industrial enterprises could not achieve similar returns in their main businesses, which created incentives for them to transfer capital to other markets. The logic of this process is described more formally in Yakovlev (1999b).

We would like to emphasise that all that had happened before the GKO market emerged. In 1995, faced with non-existent tax revenues from small businesses and decreasing tax revenues from larger businesses, the government resorted to massive borrowing rather than radically changing industrial and tax policies and blocking channels of tax evasion. The very high yields of GKOs created not only additional obstacles to attracting investments for industrial restructuring but also triggered a total withdrawal of funds from the nonfinancial sector, which resulted in widespread reversion to barter and other forms of non-monetary exchange.

3. Intermediate results and conclusions for the economic policy

Although many preconditions for the development of competition emerged in Russia in the 1990s, no conditions whatever were created for enterprise restructuring either in the form of more available investments (first of all, foreign investments) or in the form of special mechanisms for the redistribution of resources from inefficient enterprises to more efficient ones inside the Russian economy. In any sound economy such mechanisms are based on operational markets for la-
bour, land, and basic production assets, and on the protection of owners’ rights. In Russia, these key institutions of the market economy are still in embryo.

A paradoxical effect resulted whereby the impact of increasing competition proved to be destructive in a number of Russian industries. Ironically, the first researchers who paid attention to this phenomenon were Barry Ickes and Randy Ryterman (see Ickes, Ryterman, and Tenev (1995)), who were the authors of the “The Myth of Monopoly” report mentioned above. In June 1995 they presented at the international conference on the problems of the Russian enterprise behaviour a new paper, based on the results of a large World Bank survey. This paper was the first to contain some conclusions about the threat posed by “excessive” competition, but it received little response from other World Bank experts.

This effect was observed in cases in which enterprises, due to external (primarily structural) factors, could not get rid of their excessive non-working assets, make unnecessary employees redundant, change their scope, or enter new markets. In other words, the problem they faced was significant exit barriers — as contrasted to the traditional entry problem, which is inherent in market environments. This problem was first formulated at the beginning of 1996 by Irina Starodubrovskaya, who then worked for the World Bank office in Moscow and studied opportunities to restructure the social assets of industrial enterprises.

Theoretically, there were two choices for enterprises in this situation. The first one came down to an abrupt shutdown of production, which would be accompanied by abrupt cuts in the number of employees and would ultimately mean the shutdown of all non-competitive and inefficient enterprises. The second choice meant an isolation of this kind of enterprise (which were often technologically interconnected) within a special sector characterised by wide non-monetary exchanges and high levels of mutual overdue indebtedness.

The first option would have been possible if the state had the strength to take responsibility for resolving social asset problems and to provide funding for the unemployed and the social infrastructure. A similar scenario was implemented in the former German Democratic Republic, where industry was virtually smashed by its competitors from the former Federal Republic. The relatively successful privatisation of 13,000 former “folk” enterprises with 5 million employees in
the early 1990s was not only the allocation of hundreds of billions of Deutsch Marks from the West German budget. In fact, the state first performed a preliminary restructuring of the enterprises to be privatised and only after that made their assets available to the private sector. It was also important that all the privatisation and restructuring of the former socialist enterprises were managed by one national agency — the *Treuhand* (see BMF/GTZ (1999)).

The second option was the one chosen in Russia and in most countries of the Commonwealth of Independent States, where both structural deformations took place and the state proved unable to pursue any consistent structural policy. This incapacity of the state triggered opportunistic behaviour among all businesses. As a result, there were only two major sectors in the Russian economy by the end of the 1990s. Small and medium-sized new private enterprises sold their goods for cash and evaded taxes through various “black cash” schemes. Old large enterprises used mostly barter and did not pay taxes by accumulating tax arrears and shifting liquid assets to off-shore firms controlled by affiliated managers and majority shareholders of privatised enterprises.

Contrary to common arguments either about bad “red directors” or about criminal “new Russians”, in both cases the behaviour of enterprises was rational. In the conditions described it was unprofitable for most entrepreneurs to pay taxes, taking into account the balance of potential benefits and losses in the short term. In this respect, the default of August 17, 1998 was predetermined — regardless of the crisis in Asia. Russia could not get by on loans forever.

Paradoxically, the crisis itself had a favourable impact on the economy. First of all, the devaluation supported domestic producers by raising the rouble price of imports. Statistical data for 1999 and 2000 show the most significant economic growth of the entire reform period\(^5\). Secondly, the GKO market — the pump that was sucking money from

\(^5\) Of course, oil prices have played an important role here (although dramatic growth had begun before they went up). Oil prices, however, have nothing to do with the share of imports in the consumer market which, according to Goskomstat data, exceeded 50% in 1997—1998 and was reduced by half after the crisis. Therefore, the effective demand for the commodities produced by domestic enterprises grew significantly, despite an overall cut in real household incomes after August 17, 1998. It is noteworthy that in 2000, when the rouble-to-dollar exchange rate became stable and the rouble became stronger as compared to the euro, the share of imports in the consumer market again began to grow and now it has exceeded the 30% level.
the real sector of the economy — ceased to exist. Once it was removed, the economy saw an influx of money and the share of barter reduced by half. According to data from surveys of enterprise directors conducted by the “Russian Economic Barometer”, the share of barter in industrial sales decreased from 52—54% in the summer of 1998 to 19—21% in the autumn 2000. It must be noted that in these surveys the term “barter” stands for all non-monetary exchanges including offsets and veksel.

However, the positive effects of the default and devaluation were just a natural result, they had not been planned by the government. Moreover, there are still powerful negative incentives in the economy that have a destructive impact on enterprise performance (see HSE (1999) and Yakovlev (1999b)). The default, devaluation, and high oil prices only alleviated the pressing problems connected with too slow rates of industrial restructuring and with the lack of investment. Unless these problems are resolved in the near future, Russia may find itself back at the stalemate it faced before August 1998.

Concrete measures aimed at changing the investment climate and encouraging enterprise restructuring have been analysed in detail in a number of reports prepared by the State University — Higher School of Economics (SU HSE) for the Russian government. The bottom line of these measures is the creation of a sustainable environment for changing businesses’ motivation and for enterprise restructuring (for more information see HSE (1999, 2000), Kuzminov (1999), and Kuzminov and Yakovlev (2000)). Some of these measures are being implemented now, and some of them have been included in the government’s long-term programme. However, some trends observed for the last two years force us to make three basic conclusions on the prospects of Russian economic policy in the near future:

1. **The need for an active, long-term industrial policy.** Even in a stable economy, the free market traditionally pursues short- and medium-term goals and objectives. In long-term economic development the targets decided by the state play an important role. In the Russia of the 1990s, the market mechanism was incapable of ensuring the formation of a competitive market structure for a number of industries — first of all, in capital-intensive high-tech industries with long production cycles. If Russia needs these industries at all (some Russian industries are so obsolete that it hardly makes sense to restore them. The same fate, however, may be shared by other high-tech industries if the state does not define clear priorities in its structural policy), this task will have to be accomplished by a state that has for decades consistently
created a non-competitive industrial structure. This policy may be based on private investments. These investments, however, should be long-term ones, which was nearly impossible in Russia during the last decade. Therefore, long-term investments into the real sector of the economy today will require solid state guarantees and, perhaps, significant tax privileges. Such private investments should in fact be co-ordinated by the state within the framework of indicative planning programmes. Investors should take decisions on the targeted areas and scale of investments in close co-operation with the government.

2. The fuel and energy complex — primary industries as a main source of investment. In the new conditions, the distorted price structure that was formed in the Soviet period created essential price advantages for primary industries and significantly weakened the competitive position of industries producing end products, regardless of their level of technological development. The improvement of the competitiveness of the “end” industries initially can be funded only through the redistribution of some of the revenues obtained in the primary industries. The state should be an active participant and supporter of this process. It is also important to try to use for these purposes the national capital that “fled” the country and was accumulated in off-shore zones. A method of resolving this problem could be special government agreements with major debtors on long-term restructuring and step-by-step write-offs of the debt in exchange for these companies’ investments in certain Russian industries. The government could use the threat of bankruptcy and nationalisation of these enterprises for their debts to encourage them to sign such agreements.

3. Russia and the world market. The concentration of production that has been achieved today in many industries makes competition possible only within the world market. For this reason, if Russian industry protects itself from its Western competitors, it will only preserve its technological underdevelopment in the long term. Nevertheless, the existing gap between the exchange rate and purchasing power parity is actually one of the last reserves that the government can use to fund the structural reorganisation of the economy. For example, the redistribution of investment from primary to end-product industries as well as the preservation of a number of “end” industries in the short term will be possible only under the condition of a slow growth of the real rouble exchange rate. At the same time, we should stress that lowering the national currency exchange rate can only temporarily maintain the competitiveness of domestic producers.
In practise all the above will mean that the state will play a more important role in the economy. In this connection, we should differentiate between the state’s nominal and real influence on the level of economic activity. According to the data of the Economic Expert Group at the Russian Federation Ministry of Finance, the total obligations of the state (set forth in the current legislation) to various enterprises and households were 65—70% of GDP in 1999. The nominal obligation of economic agents to the state (primarily in the form of taxes and social security payments) was approximately the same. However, the real revenues to the consolidated budget that determine to what extent the state can fulfil its obligations have been only 30—35% of GDP for the last few years.

We believe that today this indicator should reach 40—45% of GDP to ensure the renovation of the Russian economy. This does not rule out a decrease in nominal budget obligations. On the contrary, this decrease should be very significant. A real growth of the state’s influence on the economy should involve more state investment into infrastructure (by which we mean not only roads, communications, water supply, et cetera, but also education and research and development).

At the same time, the twofold divide between budget obligations and capabilities that has remained intact for many years, creating outstanding opportunities for some officials and politicians to redistribute revenues illustrates the inefficiency of the Russian state. It is obvious that giving such a state more authority to control the economy would mean nothing but more and more corrupt officials and politicians. For this reason, all the above makes sense only on the condition that a reform of government is performed. This problem is outside the scope of this paper. It is noteworthy, however, that SU HSE’ experts have been actively participating in the development of the concept and concrete measures of administrative reform since the spring 2000. The renovation of the economy and a growth of its competitiveness are possible only if government will serve the interests of society rather than the interests of certain oligarchic financial groups that sponsored the elections.

In this connection, the conclusions made in the latest book by Grzegorz Kolodko (2000), a well-known Polish economist and Poland’s first vice prime minister and minister of finance in 1994—1997, are deemed to be highly accurate. Kolodko’s detailed comparative analysis of the former socialist countries in the 1980s and 1990s indicates that the availability of working governmental institutions in some countries and a catastrophic incapacity of the state in others largely determined the severity of “transition” crises and the countries’ further economic development.
References


_____ (2000), Osnovnye napravleniya structurnoj politiki i regulirovaniya otraslevykh rynkov (Moscow, SU-HSE, 2000).


Contepts

1. General logic and initial conditions of economic reforms in Russia ................................. 3
2. Actual economic policy in the 1990s and its impact on enterprise restructuring .................. 8
3. Intermediate results and conclusions for the economic policy ........................................... 13
References ......................................................................................................................... 19

В статье рассматривается влияние либеральных экономических реформ на процессы реструктуризации российских предприятий. Структурные деформации, унаследованные Россией от советской плановой экономики, анализируются вместе с институциональными факторами, которые были порождены экономической политикой 1990-х гг. Показано, как те и другие объективно препятствовали реорганизации и реструктуризации предприятий. На основе проведенного анализа сделаны выводы о перспективах экономической политики и о той роли, которую должно будет играть государство в российской экономике в ближайшие годы.

УДК 338.22(470+571)
ББК 65.9(2)-1

Препринт WP1/2002/03
Серия WP1
Институциональные проблемы российской экономики

Яковлев Андрей Александрович

Структурные диспропорции и ограничения либеральной экономической политики в современной России
(на английском языке)

Публикуется в авторской редакции
Зав. редакцией Е.А. Ряжанцева
Ответственный за выпуск Е.Н. Ростиславская
Оформление серии А.М. Павлов
Корректор Е.Е. Андреева
Компьютерная верстка О.А. Корытько

ЛР № 020832 от 15 октября 1993 г.
Подписано в печать 30.09.2002 г. Формат 60x84 1/16. Бумага офсетная.
Печать трафаретная. Гарнитура Таймс. Тираж 150 экз. Уч.-изд. л. 1,48.
Усл. печ. л. 1,16. Заказ № 272. Изд. № 249

ГУ ВШЭ. 117312, Москва, ул. Вавилова, 7
Типография ГУ ВШЭ. 125319, Москва, Кочновский проезд, 3