

ANDERS ÅSLUND

How Russia Became a Market Economy

THE BROOKINGS INSTITUTION
Washington, D.C.

Contents

1. Introduction	1
Purpose of This Book	<i>1</i>
What Becoming a Market Economy Means	<i>3</i>
What Should Be Done?	<i>5</i>
Why Soviet and Chinese Reforms Had to Differ	<i>13</i>
The Author's Personal Involvement as an Economic Advisor	<i>16</i>
Sources and Statistics	<i>21</i>
Structure of This Book	<i>25</i>
2. Preconditions of Economic Reform	26
Gorbachev's Legacy: Institutional Breakdown	<i>27</i>
The Transformation of Economic Thinking	<i>36</i>
The Depth of the Economic Crisis in 1991	<i>41</i>
Conclusions: The End of the Soviet System	<i>50</i>
3. Formation of a Reform Program	53
Stages of the Economic Reform	<i>53</i>
A New Political Setting Takes Form	<i>57</i>
A Program of Radical Economic Reform	<i>63</i>
Formation of the Economic Reform Team	<i>70</i>
An Acrimonious Critique	<i>73</i>
Political and Institutional Impediments	<i>86</i>
The Political Undoing of Radical Reform	<i>93</i>
Conclusions	<i>100</i>
4. Relations With Other Former Soviet Republics	102
From the USSR to the CIS	<i>103</i>
Dilemmas Posed by the Collapse of the Soviet Union	<i>106</i>
Alternative Currency and Payments Arrangements	<i>109</i>
Alternative Strategies of Other Former Soviet Republics	<i>115</i>

Decay of the Ruble Zone	119
A Ruble Zone of a New Type	131
Conclusions: A Costly Failure	134
 5. Liberalization	 137
Domestic Liberalization	139
Liberalization of Foreign Trade	145
Antimonopoly Policy	152
Problems With the Deregulation of the Energy Sector	156
Agriculture: Intertwined Rent-Seeking Monopolies	161
Economic Crime as a Threat to Liberalization	167
Conclusion: Accomplishing Liberalization, However Slowly	171
 6. Macroeconomic Stabilization	 174
Why Macroeconomic Stabilization Is So Important	174
Is Russia Unique?	177
How to Fight Inflation in Russia	181
Radical Reform: January–May 1992	187
Backsliding: June–December 1992	191
Stalemate: January–September 1993	193
The Second Reform Wave: September–December 1993	198
A Policy of Passivity: January–October 1994	200
How to Deal With Interenterprise Arrears	207
The Role of the West	214
Conclusions: Money Is Money in Russia, Too	220
 7. Privatization	 223
Private Enterprise at the End of the USSR	223
Early Russian Ideas on Privatization	226
The Russian Reformers' Ideas on Privatization	228
The Great Privatization Debate	232
A Radical Privatization Program	241
Skillful Administration	244
Ordinary Small-Scale Privatization	248
Large-Scale Mass Privatization	252
Undramatic Housing Privatization	257
Stalled Land Reform	259
Development of New Private Enterprises	263
Tardy Bankruptcy	264
Conclusions: A Successful Privatization	265

8. Conclusions	272
Economic Results	272
How Was the Window of Opportunity Used?	291
Why Did the Military-Industrial Complex Fail as a Lobby?	298
Lessons From the Russian Transformation	311
Abbreviations	317
Chronology	319
Cast of Characters	321
Endnotes	327
Index	369
Tables	
2-1. Average Annual Growth of the Soviet Economy, 1961–85, Net Material Product	43
2-2. Structure of Production: Distribution of GDP, 1991	44
2-3. Production Per Capita of Selected Products, 1989	45
2-4. Russian Trade With Countries Outside the Former Soviet Union, 1990–92	46
2-5. Consolidated State Budget Deficit of the USSR, 1985–90	47
2-6. Soviet Wage Increases, 1986–90	48
2-7. Soviet Foreign Debt and Debt Service Obligations in Convertible Currencies, 1986–91	49
4-1. Introduction of New Currencies	118
4-2. Annual Inflation in the Former Soviet Republics, 1992 and 1993	119
4-3. Trade Between Russia and Other Former Soviet Republics, 1992 and 1993	122
4-4. Russia's Trade Surplus With Other Former Soviet Republics, 1992 and 1993	123
4-5. Financing of Other States by the Central Bank of Russia (CBR), 1992	123
4-6. Financing From Russia to Other Former Soviet Republics, 1992 and 1993	126
5-1. Size Distribution of Soviet Industrial Enterprises as of January 1, 1988	152
6-1. Monthly Inflation and the Expansion of the Money Supply, 1992–94	184
6-2. Wages, 1985–93	185

6-3.	Interest Rates and Inflation, 1992-94	195
6-4.	Consolidated State Budget, 1992 and 1993 (Outcomes)	197
6-5.	Party Factions in the State Duma, June 1994	201
7-1.	Russian Employment by Ownership, 1991	224
7-2.	Number of Enterprises Privatized, March 1992-August 1994	250
7-3.	Results of Voucher Auctions, December 1992-June 1994	256
7-4.	Privatization of Apartments, 1989-94	259
7-5.	Expansion of Private Farms, 1990-93	262
7-6.	Employment by Ownership, 1990-93	266
8-1.	Macroeconomic Stabilization, 1991-94	275
8-2.	Production, 1991-94	278
8-3.	Consumption and Accumulation, 1990-94: Structure of Utilization of GDP	279
8-4.	Conversion of Enterprises in the Military-Industrial Complex, 1991-94	280
8-5.	Foreign Trade, 1991-94	281
8-6.	Russia Foreign Debt as of January 1, 1994	283
8-7.	Demographic Indicators, 1991-94	288

Figure

8-1.	Decline of the Ruble: Ruble/Dollar Exchange Rates, 1991-94	277
------	--	-----