

Russia under Boris Yeltsin (1991-99)



- Gaidar Reforms – Shock Therapy:
 - Ruble convertibility
 - Market liberalization
 - Privatization
 - Social Safety Net
- Political Troubles:
 - Conflict with Congress of People's Deputies
 - Shelling of White House, Oct. 3, 1993
 - Yeltsin Constitution
 - New elections led to ascent of nationalists (under Zhirinovsky) and communists (under Zyuganov)
- "Too much shock, not enough therapy" – Strobe Talbott

Transition Process

- Privatization:
 - State Property Committee (Chubais), 1992
 - Voucher Privatization – by 1993, 26% of workforce under private management, by 1994 33%, but half of all income through private sources.
 - Land Ownership Decree
 - "Shares for Loans" in 1995
 - Growth of New Private firms accounted for most growth.
- Price Liberalization:
 - Gradual reduction of price regulations
 - By 1997, most prices set by market forces, with exception to key sectors (e.g., oil & gas).
- Competition and the Private Sector:
 - 1995 Anti-monopoly law established Federal Anti-Monopoly Commission, restricted power of gov't to limit competition.
 - Oligopolies continued to dominate many markets.

Taxes and Inflation

- Tax Reform and Deficit Spending:
 - Taxes continued to be based on profit and VAT taxes, plus special taxes on exports, transportation, et cetera.
 - Poor record-keeping made personal taxes hard to collect.
 - High marginal tax rates, but low rates of collection.
 - Government revenue 44% of GDP in 1992, 29% in 1996
 - Government spending 66% in 1992, 37% in 1996
 - New Tax Code met delay after delay.
- Central Bank Policy and Inflation:
 - CBR created in 1990, replaced Gosbank in 1991 – chief monetary authority, regulated private commercial banking.
 - Gerashchenko headed the CBR – Sachs called him "the world's worst central banker"
 - Inflation rate was 2600% in 1992, 730% in 1993
 - Federal Law of the CBR in 1995 made it responsible for Ruble Stability – inflation fell to 20% by 1996, but Ruble's value had fallen 0.02 cents (5600 per dollar).
 - New GKOs provided government bonds for foreign investors.

Performance

- ❑ Official estimate is that Russian GDP declined by more than half in early 1990s, though this may be overstated – heavy industry hit hardest.
- ❑ Best estimate is a 30% decline in GDP between 1990 and 1995.
- ❑ Corruption
- ❑ Organized Crime
- ❑ Kleptocracy, oligarchy, and making money the Russian way
- ❑ Capital flight
- ❑ 1998 Financial Crisis
- ❑ Boris Yeltsin resigned in 1999, replaced by Vladimir Putin – a new crackdown on oligarchs and political dissent.

Questions

- ❑ What were the major political and economic events of the collapse of the classical socialist economies? Consider in particular the events and policies after the end of the Brezhnev Doctrine.
- ❑ How does a strategy of transition differ from the "perfection of control" or other policies of economic reform within the socialist economy?
- ❑ How does the "big bang" approach differ from gradualism?
- ❑ What are the major elements required of a strategy to transition to a market economy? What problems are likely to be experienced along the transition path?
- ❑ Why is a socialist economy in transition likely to suffer a dramatic initial economic decline? What political and social difficulties are likely to be encountered?
- ❑ How is market socialism different from classical socialism? What contradictions are inherent in market socialism?
- ❑ After the collapse of the Soviet Union in 1991, what general approach and specific policies did the Yeltsin government take to Russia's economic transition? What political and economic difficulties did it encounter? How did it reform the Central Bank, and why?
- ❑ What caused the Russian financial crisis of 1998, and what impact did it have on Russia's economy?
