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**Yu. G. Lipets**

## **Russian Regions in the Transformed Economic Space**

Most of scholars who studies and writes about regional economic problems constantly live in the developed countries. For them the price-system of a “high-level” type is natural and stable. Of course, they know rather from practice than from theory that in the former socialist countries the prices for most of goods and services are much lower. I have not met the publications on the formation and functioning of the “*low-price*” systems in the Second and Third Worlds. Nevertheless, the price system including its relative level, structure, demand prices and supply prices is the fundamental state variable which defines other economic space’s features.

The foundations of the previous Soviet price system are rooted in the NEP (New Economic Policy) period of the Soviet history (1921-1929). After the so-called War Communism period (1917-1921) when the country’s international trade had come to nought the Soviet Russia returned to the world markets with its traditional export commodities - grain, timber, oil (for the West) and textile (for the East). But there were some serious obstacles to supporting the normal price system formation:

- 1) the official three-level price system: for State-owned enterprises, for cooperatives and for private sector;
- 2) the state monopoly on international trade and financial operations;
- 3) the non-market price formation in heavy industry where more than *60 percent of the output* was distributed centrally (in light industry only 12 percent).

Gradually all the economic factors have been submitted to non-economic ones, as the state pursued the course of “the socialism construction in a single country”. This course had led to the gradual liquidation of the main features of the NEP, beginning with the rouble convertibility (1926).

The main consequences of this course, that is the prohibition of the private sector for all kinds of economic activity, the closing of the stock exchange and other financial market institutes, non-convertibility of rouble etc., fully destroyed the old price system and formed the new one depending on the strong rationing (as during the War Communism period), deepening gap between the living standards and wage level, the acute shortage of the consumer goods, services and housing (1929-1934, peace-time!).

An important part of the socialism construction was the banking reform (1930-1933) that fastened all enterprises strictly to the local branches of the state banks to prevent the access to investment resources outside the central planning regulation. This reform signified the centralized planned economy formation at its first stage.

At the same time the low level price system has formed. Besides the low level of prices on labor, goods and services, it accompanied by a system of a zero-value of land (rural and urban), water and other natural resources just accordingly with the Ricardo-Marx labor value theory.

Low prices’ system had existed since 1931 till 1991, and had a decisive influence on all economic, social, political and regional aspects.

*This system had formed the socio-economic space of the Soviet Union. Low prices on energy has defined the low transportation costs and low tariffs that promoted strong spatial integration of the Soviet economic space.*

Some figures: the railway ticket for the most intensive passenger route Moscow - Leningrad (600 km) had a constant price during 40 years (1948-1988) - 10-12 roubles (the mean wages in cash form rose during this period from 60 to 240 roubles). The price of the air flight ticket Moscow - Kuzbass in 1989 was equivalent to the bus ticket Heathrow - Oxford. In combination with the analogous costs of the hotel rooms, rest-houses, sanatoriums, tourist objects these low transportation costs had generated huge passenger flows - commuting, seasonal etc.

But the basic transportation work was done with cargo - enormous masses of coal, different ores, fertilizers and other goods. Some more complicated indices: the passengers-goods ratio in the USSR equaled approximately 7.5:1 (in comparison: for the North America 1.2, Western Europe 0.34, Japan 1.1). The transportation capacity (1 tkm on \$1 of GNP) in 1991 in the USSR exceed 5 (while in North America it was 1.2, in Western Europe 0.27, in Japan 0.34).

These very cheap costs promoted the economic development of the interior industrial regions - Volga, Urals, Siberia; the Northern areas - Murmansk, Vorkuta, Norilsk; the peripheral regions - the Far East et al.

On the other side this system causes the unprecedented uneconomic land use. In the Volga valley thousands of square kilometers of fertile land were flooded by the chain of the man-made lakes (reservoirs). On the micro-level every state enterprise used the plot of land that exceeded any rational size. Water, Heat, electricity, waste services had rather symbolic than economic price. This factor is extremely important for understanding the difficulty of the transition of the "socialist industry" to the market environment even in the East Germany, even for the factories with modern technologies and competitive output.

And this prices' system had been destroyed during one day - it occurred on the 2d of January, 1992. It was not transformed gradually or changed on the multi-level prices' system, as in the Soviet Russia in 1921-1930 or in modern China.

Probably, Yegor Gaidar had no other decision besides the price liberalization. The defeats in the Cold and Afghan wars, the acute shortage of all consumer goods and, first of all, food products, the USSR collapse did not reserved any other way out.

After this radical decision the real growth of prices reached 5000-10000 times, but the most serious consequence was the different speed of inflation in relation to different goods, services and labor.

The detailed comparison of these speed and today levels of prices shows the *deep unequilibrium of the transition prices' system*. This system deformed the Russian economic space because of the outstrip growth of the energy resources and (as a consequence) of the transportation costs and tariffs. Interior prices on energy resources began quickly rise to the world markets level. The main consequences of that process for the Russian economic space were:

*1) the closing of the local and regional markets.*

In the Soviet Russia there was a strong hierarchy in the consumer goods distribution. This hierarchy began to form in 1918 and existed during the Soviet period of Russian history. The first hierarchical level is Moscow, as the capital of the USSR. The second one is presented by Kiev, Minsk, other republics' capitals and Leningrad. The third level - the "closed towns" founded for nuclear weapons, rockets and other military production purposes. The fourth level is presented by the main administrative centers, the fifth - by basic recreational centers in the Caucasus (Sochi, Mineralniye Vody), Crimea and on the Baltic coast. As a result, specific

commuter belts were formed around every center with better supply conditions. One of the examples - a famous "Sausage belt" around Moscow (with a width of 400 kms).

The price liberalization destroyed these belts by simple methods: the consumer goods shortage disappeared but was replaced by money shortage. Now, Russian citizens do not need travel for usual things and can buy them in the nearest central place. The prices on the local goods, services and labor formed very different structures of the Russian economic space. As a rule, on the most local markets (with the exception of the distant Northern areas) the prices on Russian goods are lower than in Moscow, but on imported goods are, on the contrary, higher. At the same time, these structures did not abolish Moscow from being, as in the former times, the main distributive center of Russia, but on the other, market base.

*2) High transportation costs inevitably led to the disintegration of the national economic space and reorientation of the regional trade flows.*

The abrupt decrease of the defense budget had forced its main suppliers to seek customers abroad for its production (steel, aluminum, copper, nickel, cobalt, uranium etc.). This situation generated a number of paradoxes. For instance, Estonia, a new independent state lacking metallic resources, nevertheless, became a significant exporter of copper (originated from Russia). The loss of the interior markets (as a result of an acute financial shortage) changed the flows of some other, "non-strategic" goods - pulp and paper, fertilizers, some chemical products.

The distant regions reorientated their trade flows to the neighboring foreign countries. For instance, fish production in Kamchatka and other Far Eastern regions has led to the Japanese and Korean markets, sometimes directly in the open sea to avoid the taxation.

Without the regional differentiation, the total volume of transportation in Russia dropped from 6.4 bln. t in 1991 to 4.0 in 1995, including railway - from 2.0 to 1.0, truck - from 2.7 to 1.9, pipes - from 1.0 to 0.8. inland water (by rivers and lakes) - from 0.51 to 0.15 bln. t. Accordingly, the transportation work declined in the case of railways from 2.1 to 1.1 bln. tkm, trucks - from 0.065 to 0.037, pipes - from 2.4 to 1.9, inland water transport - from 0.2 to 0.09 bln tkm.

The most dramatic decline is experienced by inland water transport because of its seasonal character and high energy consumption. Now, Russia rivers and rivers look empty in contrast with the period prior 1990s. Relatively small decline of the pipe transport could be explained by high share of export of natural gas and oil.

For the passengers' flows the transition prices' system struck most of all the air transportation. The number of air flight passengers declined during 1991-1995 period from 82 to 28 mln. The main passenger transport in the interurban and interregional flows is the railway (the drop in number of passengers from 255 to 197 mln.). The new Russia returned again to the 'Railway Era'! Very low density of the modern motorways is interconnected with the modest role of the bus and personal car transportation in interregional flows (decline from 790 to 358 mln. passengers). The deepest decline is also in water transportation (from 17 to 4 mln. passengers).

Directions and composition of the passengers' flows also changed in a very spectacular way.

Instead of the regular weekly trips to the nearest central place for shopping and seasonal voyages to the regional and recreation and resort areas, present passengers are to a great degree so called "chelnoks" ("shuttles") - small traders engaged in trips for goods in Turkey, China, Poland, UAE, and other "cheap" countries. After successful shopping abroad they sell the purchased goods in all Russian regions.

The airports with the custom service became the main distribution places. Turkey, Cyprus, Greece, Egypt, Italy, Spain became the recreational areas for the Russians instead of the traditional interior resort areas. But for the most of Russians the recreational area has been narrowed to the suburban belts and they spend free time on small plots (0.06 ha) with primitive dwellings. Data about the relative stability of suburban passenger flows support this judgment.

### *3) The deep decline of the Northern regions.*

This became inevitable since the increased energy and transportation costs led to the inefficiency of the most activities except of rich natural gas and oil producers and nickel metallurgy in Norilsk. But the main difficulties are linked with social problems. After GULAG, the Northern areas became attractive due to much higher wages in the activities. Besides, Northern settlements boasted of rather good social infrastructure and housing that were at the financial accounts of the industrial enterprises.

The personal savings on the accounts of the state bank ("Sberbank") have been entirely "eaten" by hyperinflation during the first months of the Gaidar's prices' liberalization. As a result of their previous savings' loss, the Northerners who would like to resettle to the areas with better environment do not have money for this. The money deficit prevents Northerners even from seasonal recreation trips what is needed especially for children. These qualitative arguments may be supported by a plenty of statistical indices beginning with the demographic ones which show the permanent population loss in the North. The long-term prospects are very difficult, and the Northern regions have to be transformed in accordance with the market economy conditions.

4) In contrast to the Northern and many other depressive regions, Moscow and few other macroregional centers became very attractive for the new, market activities. Moscow concentrates new kinds of activities of the market type using its potential of the dominating center of the "centrally-planned economy" from the former times. Instead of 3-4 State banks, the State Distributive Board (Gossnab), the Trade Ministry and some other planning and executive departments, now in Moscow there are the independent Central Bank with functions typical for the market economy, a lot of private banks which form the top of the 100 biggest Russian banks, the stock exchange, etc. More than 80 percent of Russian bank assets are concentrated in the capital. Moscow can boast of the real market infrastructure which appeared here during last 7 years. Curiously, that Moscow still is a trade-distributive center, but instead of the state departments, the new markets for the "chelnok trade" appeared on the territory of the stadiums, including the biggest ones (Luzhniki, Dinamo, Lokomotive, etc.).

5) Moscow and the Northern regions are the extreme poles on the economic continuum of the present Russia. Between them other Russian regions are located and their positions are caused by the industrial structure of the regional economy.

In more favorable position there are those regions that have export-oriented industries - natural gas, oil and oil products, ferrous and non-ferrous metals, certain sub-branches of chemistry, pulp and paper, gold and diamonds. Only a few industries of the great machine-building complex (80 percent of it had a military-orientated character) have preserved their position. The automobile complex (Togliatti, Nizhni Novgorod) works due to a big inner market, the aerospace complex - due to the foreign market and cooperation with the partners abroad - in the USA, Western Europe, China, India and some others.

These relative successful industries as well as Moscow formed a few satisfactory spots in the Russian economic space. The map with the location of 200 biggest Russian corporations (on the base of the volume of sales index) indicates that most of the Russian territory has no potential growth poles or centers. The biggest of such "belts of emptiness" stretches

southward of Moscow and covers the Chernozym Center and the North Caucasus regions. It is also called “The Red Belt” since its population permanently votes for communists.

*In conclusion*, some figures concerning the regional allocation of the foreign investments.

All Russian regions may be divided into four groups.

1. *Active regions* with foreign investments \$ 30-600 per inhabitant - Moscow, St. Peterburg, their *oblasts*, Nizhni Novgorod and others. These regions (11 in number) have favorable geographical position, rich natural resources, traditional foreign links, good transportation and communication infrastructure, higher adaptability to innovations.

2. *Perspective regions* (\$10-30) - Pskov, Yaroslavl', Tver', Orel, Samara regions, Tatarstan, Bashkortostan and some others (12 in total number). These regions possess a big potential for investments due to existing production complexes, rich natural resources and satisfactory geographical position (some of them are located along the national border and seaside).

3. *Backward regions* (\$1.3- 10) - Karelia, Arkhangelsk, Vologda, Vladimir, Tula and others - 19 regions. These regions are overloaded with heavy industry which are based on old technologies, and need structural transformation.

4. *Badly backward regions* (\$ 0-1.3) - Bryansk, Ivanovo, Kaluga, the Northern Caucasus republics and others - 46 regions. The main cause of their backwardness is the “socialist agriculture” and light industry which fail in resisting to foreign competition in the open market economy.