

Bolz, Klaus

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Russia and the CIS in Danger?

With the founding of the Commonwealth of Independent States (CIS) on 21 December 1991 in Alma-Ata, the former socialist Soviet Republics sealed the fate of the old Soviet Union once and for all. At a meeting shortly afterwards in Minsk, however, the attempt made in the spirit of Alma-Ata to agree on coordinating major policy areas failed. Far from being determined by common policy lines, relationships today between the independent republics, especially the large ones, seem to be characterized more and more by embittered rivalry.

The discord over the control of the nuclear arsenals and the integration of segments of the former Soviet army into the national armed forces is not the only sign of this. Recent developments in the economic sphere also threaten to cause a rift in the new-born Commonwealth, in particular the far from improved prospects for effective economic reforms and the restoration/creation of close economic ties between the republics as a result of Russia's current initiatives. Both reforms and trade relations are also conditions laid down by the West for the aid it has pledged to the former Soviet Union!

In response to the profound economic crisis in Russia and as a basis for the transition of the former socialist, centrally planned economy to an efficient free market economy, Yeltsin had since autumn last year been proclaiming diverse economic policy measures, whose radical form must have been modelled on the shock therapy approach adopted in Poland. Having issued a decree liberalizing foreign trade in November 1991, at the beginning of this year Yeltsin ordered the abolition of fixed pricing, against the advice of many Russian experts as well as the recommendations of the Ukraine and other republics. Under the present chaotic, i. e. no longer controllable and manageable, conditions, the probability is rather large that decontrolling prices in Russia will not achieve the goals intended; moreover, it might also indirectly disrupt the ongoing reform processes in some of the other republics and ultimately jeopardize, at least for the near future, the closer trade relations amongst them needed to raise the standard of living.

Admittedly, the old system is now for the most part destroyed and large sections of the population who are on or near the poverty line had expected the leadership to implement basic comprehensive reform measures; however, the decontrolling of prices in Russia may, in view of the inadequate institutional preparations for it, prove to have been premature. Under the current circumstances, this move is a kind of bold experiment: there are more than a few obstacles to overcome. How can free-market regulatory mechanisms operate effectively when many markets, particularly on the supply side, are still under state monopoly today, government-owned business is only just starting to be privatized and there is no government competition policy?

But even if the process of denationalization and privatization and the starting-up of new businesses were already well underway, the effects expected from the liberalization of prices would remain unsure as long as there was no adequate free market infrastructure: for all the extensive economic legislation over the last two years, Russia is a long way from having an operational banking system, an efficient labour administration, a functioning capital market, an effective tax system and other prerequisites for the functioning of a market economy.

Based on experience to date in Russia, Yeltsin and his aides ought to have realized themselves that the decontrolling of prices or the governmental doubling or trebling of prices for certain goods would not be able to fill the shelves in the shops like magic. The unregulated liberalization of prices in Russia has namely been on the order of the day for some time now but nevertheless the higher prices on the open market and the black markets have not induced any expansion of supply, but simply have rechannelled the scarce goods from state distribution onto these markets. Why then should businesses respond to the present price rises by raising production, when the overall conditions have not altered? Rather, it is quite conceivable that firms will even throttle output and nonetheless earn more via higher prices. Under the present circumstances, decontrolled prices in conjunction with free wages threaten to engender hyperinflation and will also play into the hands of the Mafia, which in many places does not hesitate to stifle any competition whatever on the supply side by force, thus preventing downward price movements.

Many Russians have come to see that for their country, too, there is no alternative to free enterprise and that further hardships will have to be endured; but they are disappointed by the President's decision to deregulate prices without at the same time taking the necessary steps to set up a free market infrastructure and radically transform property relations. Hardly anyone believes any more that this policy will succeed. It is a daring experiment whose outcome is unpredictable. People feel like guinea-pigs and victims. If Yeltsin's experiment does not succeed in steering the economy out of the present economic chaos – which would be little short of a miracle – prolonged uprisings, mutinies and plundering can be expected to occur at any time. Several of the autonomous areas in the Russian Federation could take such unrest as a signal to take not only economic but also political matters into their own hands.

Under the pressure of events, the Ukraine and six other republics of the Commonwealth of Independent States have also abolished price fixing and the Central Asian republics will follow suit in a few days. They hope in this way to shield themselves against rouble buying by the Russian population. Though to differing degrees, these price rises will bring about similar problems in the individual republics to those in Russia. Where these countries are in the process of converting their economies to a system of free enterprise – this applies in particular to the Ukraine and Kazakhstan – the early price deregulation will probably have a disruptive impact on the course of the transformation process: none of the republics has advanced far enough towards free market structures as to be able to claim that the work of institutional and legal reorganization was complete. On the other hand, certain processes could have been speeded up or indeed triggered, i. e. the creation of a national currency. To neutralize the undesirable rouble demand from other republics, the Ukraine and some other republics are distributing negotiable coupons amongst the population as a kind of substitute legal tender.

There is a real danger that the radical decontrol of prices in Russia has set in motion a process that will cause the disintegration of the Commonwealth of Independent States, even before it has come a single step nearer to achieving the aims proclaimed at the meeting in Alma-Ata.

Klaus Bolz