

## FREE MARKET DEVELOPMENT IN RUSSIA UNDER “SHOCK THERAPY” CONDITIONS IN 1991-1993

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**Key words:** Political crisis, Inflation, politics of “shock therapy”, price liberalization, catastrophe theory, trade liberalization, privatization, entrepreneur talent, social protection, street trade, speculative capital, market growth, exchanges, small business, black market, protectionist state policy, social and political transformation.

We aim at observing the process of the trade system turning from a state-controlled form into a market-regulated one. We present the critical analysis of the events which took place during “shock therapy” announced in 1992.

Within 1987-1990 there were rather beneficial opportunities to gradually reconstruct market relations setting them out of the government control and change forms and ways of getting property what was to stimulate the economic growth in the country. Under the circumstances these opportunities were lost.

As a result, the period of 1987-1990 has become the time of unfulfilled possibilities to avoid a global crisis, to take the direction to economic, social and political transformation of the state structure into a democratic system.

Instead the country entered another period of crisis which grew into the political system crash by 1991 accompanied by the economic blow-out in the country.

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The social-economic situation in Russia was negatively influenced by Russian government inaction after the political crisis in August 1991. The non-definable situation, unclear economic perspectives, money reform discussions – all this resulted in growing inflation expectations. The trade market has ruined; various forms of product distribution (food cards, sales at working place and that of living). Were absolutely helpless. Speculation developed rapidly.

The government announced the politics of “shock therapy”. It was planned to rebuilt the trade market, monetary and finance systems, to reconstruct all the system. The financial stabilization was to be achieved by strict monetary politics. The country reached the devastation climax in November-December of 1991 when

the “shock therapy” politics was postponed owing to the Soviet republics until January 1992.

Among the reasons to begin “shock therapy” was receiving large credits from International Currency Fund which brought up the conditions like price liberalization, strict financial policy.

Observing the “shock therapy” through the catastrophe theory it can be said that attractors’ change took place. Such realization moments as trade liberalization, government price control, privatization were chosen to destruct the soviet system and bring it to bifurcation leading to different directions of development. On the other hand, these methods implied new attractors provoking the system movement towards independent organization by itself.

The first step taken was price liberalization concerning most product groups which must not result in price discrepancy. The new mechanism demanded strict financial policy – state assignments shortage, dotations cancel, credits limiting, salary and money emissions hedging, additional price tax.

By the moment a certain group of people appeared who could afford to buy a limited quantity of deficient produce by any price. In accordance with that a new private trade sphere found itself under inflation, deficit and speculation press trying to satisfy that group of customers. Consequently, price grew and there were no limits to it (table 1), [7, p.564].

Beef, pork, poultry, bread prices of 1993 grew 10 times in comparison with those of 1992.

In January 1992 the prices on most goods stopped to be controlled while those on municipal service and transport service continued to

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