

## Results and Consequences of the Russian Privatization

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**Abstract:** In the article, on the basis of considerable amount of unpublished archival documents, the author has specified chronological framework of privatization having started in the USSR and having acquired accelerated pace due to purposeful policy of the government in order to retain power and due to irreversibility of liberal reforms; the author also validates conclusions not only about criminal and nomenclature character of the privatization but also about non achievement of purposes, beginning processes of deindustrialization and demodernization having been declared by the reformers.

**Key words:** Privatization • Deindustrialization • Demodernization • Stagnation

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### INTRODUCTION

In the third quarter 2013, rate of economic growth in Russia turned to be approximately null; since the beginning of the year, the industry has lost up to 142 000 work places. Assessment of the current situation and experts' statements show pessimism in its whole, state the fact that the government does not have any constructive orientation, that the business and the state are reluctant to invest into production. Analysis of standpoints of experts and politicians concerning the reasons of Russian modernization deceleration, RF growth policy lets talk about their variety, about the current drastic aggravation of arguments having been conducted for a long time. Without doubts, one of the most debated problems is essence, methods and consequences of the Russian privatization. Thus, in the opinion of Kudrov V.M., the selected in the 90<sup>th</sup> privatization model originated from the compromise between cash and cash-strapped privatization, fundamental change of production profile by the forms of incorporation could not occur without failures and crimes. "It has been whenever and wherever like this", the author writes. As a result of privatization performance, significant income has not been earned as initially the following task has been defined-"socialism-to-capitalism transition at minimum social conflicts in the society" [1].

In the middle 90s, Gaidar E.T. hoped that at the second stage of privatization, the changes would assume an irreversible character; the state would go from "nomenclature capitalism", from mixed market with strong elements of bureaucratic market, from the false state form of private ownership to the free market, to private ownership, to appearance of active investors [2]. The less romantic assessment of the government policy in the 90s is given by Starodubtseva I.V. and Mau V.A. who specify loans-for-shares auctions as political bargains with big business on the eve of elections with which the communist party, refusing the privatization in general and its results in particular, could win with high level of probability [3]. As the examined archival documents show, this standpoint is more realistic one.

In 2005, Yakovlev A.N., by validating the privatization as a necessary means to cure "eternal ulcers" of Russia-poverty and lawlessness, wrote that it could be performed more exactly, more carefully by supporting it with an active work with community. "Whatever the case, wrote the Perestroika ideologue, the privatization opened the way to private ownership, that, has, in point of fact, induced malicious reaction of "eternally belonging to yesterday" as well as of those who keeps confessing dependency..." [4].

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Under conditions of search of ideal mechanism of implementation of modernization strategies, of economy restructuring, of acute importance for the country of exact choice of priorities at different directions of existing projects (from the "new industrialization" to "new privatization" in order to find an "effective owner"), there is increasing of necessity in understanding being soundly based on theory of historical experience of elaboration and accomplishment of the state social and economic policies in the Russian Federation.

**Body:** Reasoning about the "human factor" being the reason of modernization processes breaking in Russia (slovenliness, theft, dependency) is not new, but remembering the experience of other countries with transition economy, we consider being rightful to call as one of the demodernization determinative factors the essence itself of reformers conception to be contradictory. In "Perestroikafundamental principles" offered in December 1985, to Gorbachev M.S., Yakovlev A.N. wrote "The matter ... is not only in Stalinism dismounting, but in replace of millenary national identity model... The human being is a biosocial creature being moved by interests. If there is an interest, he will take on the world, if there is no one, he quietly passes through his annual salaries wallowing in metal or in concrete. Human removal from the property and the power is a gene of our evils. To overcome this removal is the Perestroika imperative" [5]. In our opinion, "unexpected taste" of liberalism "to an economic bounce" in the 90s, about which Yakovlev A.N. wrote in his book, is cunning. The experiment of reformers' who indulgently abuse the Russian people and consider "replacing the millenary national identity model" within several years to be possible, who destroy and blame the century-old ethic values, national identity, having forgotten the historical world and native experience, has created all the conditions for "a bio-social creature being moved by the interests", namely-for civil servants' iniquity, corruption, drastic social stratification, society anomie. What can be surprising in the fact that liberal ideas are brought into discredit and people having forgotten about the Soviet system evils, cite "a real order" and "a firm hand" more and more often.

Even while the Perestroika-in the beginning of the new stage of Russian modernization-there were attempts to give a new pulse to the state economic development, but the technology breakthrough was not assured because of the power misunderstanding of exhaustiveness of the previous industrial model of development, excessive investment of the chosen variant,

technocratic approach, refusal from the creation of creativity inspiration system, incorrectly chosen priorities, unwilling to take into consideration the scientific analysis results. Failure of these attempts is one of the main reasons of the Soviet Union demise. Aganbegyan A.G. explains slowdown in economic growth by exhaustiveness of industrialization model based on extensive use of labor, capital and natural sources [6]. Western researches, by pointing out the exaggerated role of petroleum and gas in the USSR development, noted reducing of oil production, fall of prices and ineffectiveness of control system as the negative consequences for economy [7].

There is every indication to believe that spontaneous mass privatization of thousands of enterprises in Russia began at the turn of 1980-1990s. According to the data from Goskomstat (State Statistics Committee) of the Russian Soviet Federated Socialist Republic, on April 30, 1991 there were created 1798 associations, 164 consolidated groups, 92 consortiums, 1186 stock companies and 58 intersectoral state associations in the republic [8]. Many of them were delegated the power of property control and delegated the functions of the state shareholders of those enterprises as a part of them, which could be funded. In summer 1992 (before accomplishment of the State Privatization Program), according to the data of the Audit Chamber, about 2 thousand enterprises have been spontaneously privatized [9]. We suppose that the latent privatization having started in late 80s and then the forced one, which pace and methods were determined by the Russian Federation Government, has conditioned exacerbation of economic crisis, criminalization, growth of social pessimism and law nihilism.

We have examined documents from the Archives of the State Duma of the Federal Assembly of Russian Federation and they let us answer a range of questions and to make a more objective and full picture of privatization accomplished in Russia in the 90s. In February 1996, after having got the acutenegative assessment of activity of state authorities responsible for privatization from the Audit Chamber of the Russian Federation and from the Prosecutor-General of the Russian Federation Skuratov Y.I., the State Duma has created the Committee for analysis of the privatization results in 1992-1996 and for officialsresponsibility for its negative results [10].

In the report in the course of Parliament proceedings in April 1997, the Committee for analysis of the privatization results of the State Duma stated that

"from the perspective of state income increasing at the account of denationalization, the privatization conception has gone smash". According to the data of the Main Administration of the Federal Treasury, the federal budget got from the privatization only 0.13-0.16% of the whole income of the federal budget. In average, for each enterprise, the state budget got about seven million Rubles (6.8) in terms of the equivalent amount of hard currency made less than 1.3 thousand US Dollars. As a comparison: in the Czech Republic within the same period during the small privatization, there was privatized 25 thousand enterprises that gave 3.2 billion Dollars to the budget, i.e., in average 128 thousand Dollars for each enterprise [11].

Specially telling blow was administered to industry where the privatization level turned to be higher than in the national economy in the whole. As on 1996, it was privatized about 120 thousand on industry enterprises or 57% of their total amount. As a result, in this branch, share of the state sector in the total production amount made less than 15% and in such branches as iron and steel industry-no more than 1%, chemical and hydrocarbon process industry-13%, fuel industry-9.1%, food industry-12% [12]. From 500 largest enterprises in Russia, about 80% was brought to the hammer at price less than 8 million Dollars for each. Cost of 324 (from 500) made less than 4 million US Dollars average for one enterprise. Uralmash (34 thousand work places) was sold for 3.72 million US Dollars, Chelyabinsk Iron-and-Steel Works (35 work places)-for 3.73 million Dollars. Kovrov Mechanical Plant providing the whole army, Ministry of Internal Affairs and national security environment with small weapon (10.6 thousand work places) was sold for 2.7 million Dollars, Chelyabinsk Tractor Plant (54.3 thousand work place)-2.2 million Dollars [13].

Privatization has not led to investment activation; the problem of effective control of the state property has not been solved. Oppressive policy of taxation, of non-payments crisis, of false bankruptcies, of enterprises dumping having been created by several Russian generations, have resulted in immense economic slack, in productions dissolution, in decreasing of the unemployed amount. For years of restrictions and reforms (1985-1996), capacity of industrial products 5.5 times dropped (18.31%). The most severe drop in output was at the enterprises of the Ministry of Defense industry of Russia-29%. It includes: electronic industry-34%, aerospace branch-32%. Military and defense equipment output in 1996 dropped at 22%. Civilian industry products of the military industrial sector

reduced at 18% [14]. One of significant aspects of privatization of enterprises in the defense sector of industry was aspiration of foreign companies to use the current processes in the defense sector for penetration in its control structures by buying-up its shares at the check auction sales [15]. According to the data of the American Congress pronounced at the Parliament proceedings in the State Duma of the Federal Assembly of Russian Federation, within 1990-1995, 178 billion US Dollars flew away. According to the sources of the "Financial Times", new foreign owners of the Russian enterprises have pumped over about 60 billion US Dollars to the West [16].

The examined documents point that aluminum industry producing substantial gains and its mining and raw materials source have become the object of foreigners' special interest. Sayansk Aluminum Plant (more than 8 thousand employees) was estimated at 20 mln. US Dollars, Bratsk Aluminum Plant (more than 10 thousand employees)-at 18 mln. US Dollars, Bogoslovskiy Aluminum Plant-10.8 mln. US Dollars, Novokuznetskiy and Krasnoyarsk Aluminum Plants-9 mln. for each, Irkutsk Aluminum Plant-3.6 mln. US Dollars, Volgograd Aluminum Plant-only 2.6 mln. US Dollars [17]. The same situation was observed with copper plants [18]. Enterprises of the forest industry complex were privatized at fabulous cut-rate prices. Balakhna Paper Mill can be an example of ridiculously reduced prices. In 1993, the whole mill was privatized at 12 mln. US Dollars, i.e. fifty times cheaper than four machine units that had been bought at an Austrian company in the eve; and it is worthy of note that the same company participated in this privatization [19]. In 1997, privatization of pulp-and-paper industry was up to its accomplishment (95-98%) and sawn wood output within 1996 was cut back at 18% as compared to the before reform period-almost six times as compared to the before reform period. By paper and cardboard industry, Russia was out back to 40 years and by commercial cellulose-to more than 50 years [20].

One of the most hi-tech branches that has suffered the most was the civil aircraft industry. At the production capacity to manufacture up to 400 aircrafts per year, this branch was not able to manufacture even 20 of them [21]. In 1996, civil aircrafts output dropped 8.1 times and helicopters-5.5 times as compared to 1992 [22].

Huge amount of data, but, mainly evidences and documents about the privatization process and results that have been collected, examined and said by the Committee for analysis of the privatization results stupefy even those who are familiar with this subject and

ordinary characterize it as the criminal one. According to the data from the Ministry of Internal Affairs, for 1993-2003, there were found out 52 938 crimes related to the privatization [23]. Thus, in the beginning of the new century, there was found out a considerable number of crimes: from 1999 to 2003-about 17 thousand. At this, the branches chiefs craved the government not to buy the foreign equipment, but provide the native producers with orders. In 1998, annual output of aircrafts and spacecrafts fell to the units.

This is also confirmed by documents of the Russian Federation Audit Chamber, particularly, "Analysis of processes in privatization of the state property in the Russian Federation for 1993-2003". In 2004, the Department experts drew conclusion that the privatization strategic purposes have not been achieved: a wide strata of effective owners has not been created; the living standard of the most people has abruptly lowered; economy structural reconstruction has not led to the intended efficiency improvement of the enterprises performance; the investments having been invited in the privatization course have turned out to be insufficient for production, technological and social development at the enterprises; competitive performance of the enterprises at the world and native market has not been saved in some industry branches. Absence of long-term privatization policy of the state resulted in the fact that the shares of strategically important enterprises were bought up by the foreign companies (for instance, shares of OJSC "Perm Engines" in the amount of 13.24%, shares of OJSC "Tupolev Aircraft Scientific and Technical Complex"-in the amount of 26.7, etc). at the same time, hopes for the investment activity of the foreign investors have not come true. Numerous examples confirm the conclusions of the chartered accountants of the Audit Chamber that after having applied the mechanism of false bankruptcy to the defense industry enterprises, "effective productions were destroyed and the enterprises themselves and their assets were drawn away from the state control" for the profit of a small coterie of party in interest [24].

## CONCLUSION

Liberalization and privatization have not assured economic stability of post-Soviet Russia; "turbulent 90s" became the symbol of criminality rampancy, time of destroying the state production capacity, of formation of ethics of "enlightened self-interest" (as per reforms authors). But the world has already experienced it and

has understood that the state has to duly channel the aspirations of good-for-much entrepreneurial creators of the "new world". Waysareknown. Both human values and laws. Thus, in no Latin American Country as opposed to Russia and its other partners in the Commonwealth of Independent States, there was an appointment of millionaires or multi-millionaires. The maximum privatization effect was achieved in the countries where it had been performed step-by-step within the years with previous long-term preparatory work (Chili, Brazil). It was the state which had to assure law, institutional and other conditions guaranteeing the protection of rights and interests of the citizens, society and the state in the whole during the property denationalization. Meanwhile, according to the data of the Russian Federation Audit Chamber, 278 enterprises and companies have deposited significant fees to the fighting fund of the President candidate B.N. Yeltsin. At this, 5 enterprises among them with insufficient payments to the federal budget have got treasury sales tax exempts or payment moratorium [25]. Corporate raiding, hostile corporate takeover, appeared in the time of false bankruptcy, in the mid-90s and widely spread in 2000s. In point of fact, it has become a new stage of fight for huge resources of Russia, for redistributing the property being already distributed. In that vein, it is difficult to object to a rather up-to-date and fundamental summary of the cited report of the Russian Federation Audit Chamber: "After 2000, Federal agencies of executive authority act according to the former model whereas it is wise to emphasize the investments attraction-i.e. for solving the tasks of the Russian economy modernization" [26]. Time to gather stones...

**Resume:** Thus, neither full nor partial change of form of incorporation means automotive appearance of "effective" private property, as out of the competitivemarket, civil society and developed constitutional state, the positive charge born by the private property, cannot be performed.

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