

The Impact of Inflation in 90-ies on the Development of Economy in Russia

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Abstract

The sixtieth anniversary of the socialist system in Russia did not pass without traces for the economy of the Russian Federation, which was nascent in the 1990s. Strict regulation of economic processes by the state in the USSR had a number of positive consequences, but closer to the mid-60s of the 20th century it could not adapt to the realities and requirements of the world economy. The beginning of the 50's and 60's can be considered the time of the birth of inflation in Russia, which was associated with a sharp drop in social production. Since the prices were fixed, inflation had a hidden character and its rates were held back. The socio-economic consequences of inflation have led to the stagnation of the economy in Russia up to the 2000s, and the term "social" is ahead for a reason, since the main negative effect of inflation is the redistribution of income and wealth in the country. The ongoing processes contributed to the gradual process of transition from a command economy to a market economy. Thus, the outwardly stable and prosperous Soviet state concealed behind its facade suppressed inflation and unemployment, which eventually pushed the indefinite development of the market economy in the Russian Federation.

Keywords: Inflation, Crisis, Social and Economic Consequences, Import Substitution, Anti-inflationary Policy.

Introduction

At the present stage of the development of the Russian economy one of its main tasks is transition to an innovative model of development [1]. Inflation has a direct impact on innovative development, since its indicators and socio-economic consequences have a negative effect on the economic security of a country.

Inflation is accompanied by a depreciation of money and is manifested in relation to goods, gold and foreign currency. Thus, inflation occurs in the sphere of money circulation, but its primary cause is disproportions in the reproduction process. Therefore, the state of monetary circulation in a country can be considered a barometer of its economic and political life.

The negative social and economic consequences of inflation compel the state being concerned to pursue a certain economic policy, with considerable attention paid to the regulation of the money supply. Anti-inflationary policy has a rich assortment of various monetary and fiscal measures, tax measures and stabilization programs for regulating and distributing incomes.

Methods

The research methodology is presented by methods of comparative macroeconomic analysis, synthesis, connection of historical and logical matters, normative and positive analysis.

Results

Political and social processes of the 1990s did not pass without traces for the market economy of Russia and in January 1992 there was an open explosion of inflation caused by the introduction of free pricing. Radical liberalization of consumer prices was carried out on January 2, 1992 in accordance with the Decree of the President of the RSFSR dated 03. 12. 1991 N 297 "On measures to liberalize prices" and the Decree of the Government of the RSFSR dated December 19, 1991 No. 55 "On measures to liberalize prices", which led to liberation of 90% of retail and 80% of wholesale prices for goods [2, 3]. Since that moment, enterprises have begun to sharply raise prices for their goods by an average of 5 times. At the same time, there was a liberalization of wages, and free retail trade is allowed. Therefore, the growth of nominal wages during this period begins to lag behind the growth of prices, which ultimately leads to a decrease in the well-being of citizens in the 90s, and in the future will cause the emergence of "penniless millionaires". A member of the public was forced to spend all his or her income only for essential goods, the prices for which quickly began to approach the world ones. Prices freed from state control literally skyrocketed. Already in the first years of reforms, they increased by 2509% compared with 1991, then the same rates continued to gain momentum: in 1993 they grew 9. 4 times, in 1994 - 3.2, and in 1995 they were 2. 3 times higher than the year before [4].

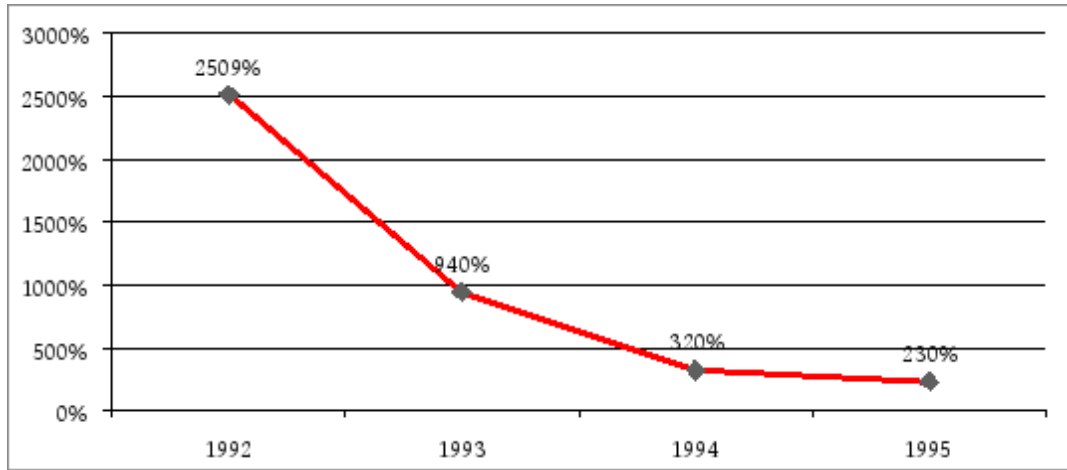


Figure 1. The Rate of Inflation from 1992 to 1995.

The Central Bank's decision to grant loans to enterprises and former Soviet republics had a big impact on the inflation jump; that was achieved by issuing money to cover the budget deficit [5]. This led to a depreciation of the deposits invested during the Soviet period, which is reflected in the population's distrust of the banking system and the national currency at the present time. So by 2000 about 40% of deposits of citizens accounted for the share of savings in foreign currency [6]. According to polls of citizens in 2017, 49% of retirement age people refrain from making deposits in banks due to the danger of depreciation of their savings. A survey of the male population showed that only 56% of respondents are ready to cooperate with financial institutions, and only 61% among the female representatives are trusted in the banking system. These indicators are evidence that

the mistrust of banks in our country is still at a high level. Therefore, during the currency crisis in Russia in 2014-2015, "the panic was, in many respects, a psychological underpinning: many investors immediately recalled the crises of the 1990s," says Boris Abelev, senior vice president of the investment company TN-Capital [7].

Since 1996, the inflation rate has gradually decreased to the mark of 100%. By 1997, it reached the level of 11%, so the population had a hope of stabilizing the Russian economy. However, the situation deteriorated sharply in 1998, when the government defaulted on its financial obligations due to the financial crisis. The subsequent massive outflow of capital from Russia led to the devaluation of the ruble, as a result of which prices for goods and services in the markets increased significantly.

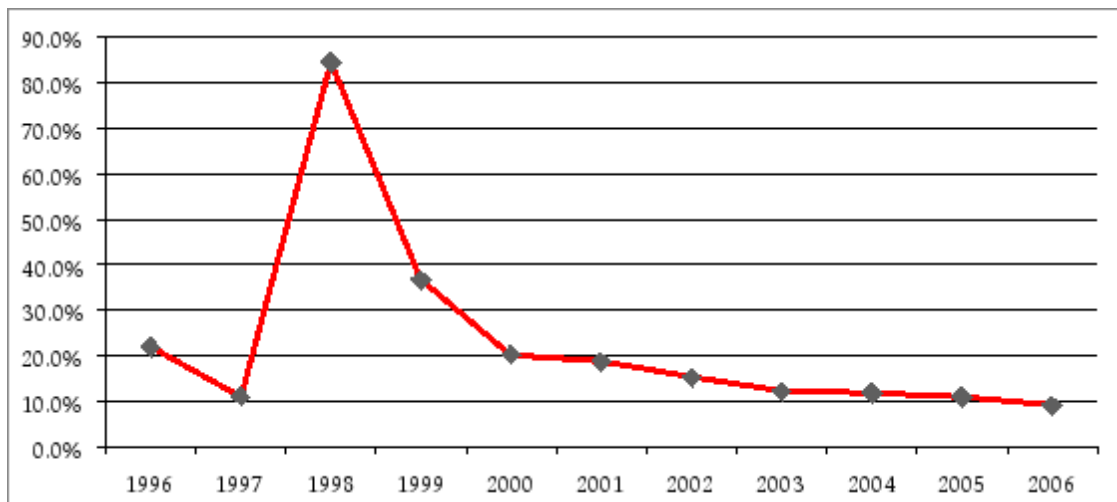


Figure 2. The Rate of Inflation from 1996 to 2006

However, a sharp jump in prices gave impetus to import substitution in Russia. By 1998, the volume of imports decreased by 20%, and by 1999 it went down by another 28%. In this way, the import substitution caused by the devaluation became a positive factor for

the development of the economy; especially it had a big influence on the development of the manufacturing industry in 1998-2000. In subsequent years, the government only supported the evolution of Russian industry, and from this it can be concluded that it was

the inflation of the 1990s that put forward the problem of the need for an import substitution policy.

In the 2000s, the share of imported food reached 40% in the country, and in Moscow - 70%; i.e. it almost tripled the threshold of economic security, which was particularly evident in the growth of food prices in 2007. The government was aware that it was impossible to allow further development of such a situation, as a result of which the import substitution

policy was being implemented in Russia. After the introduction of sanctions against Russia in 2014, this policy only expanded the range of its tasks and activities. Measures on import substitution have given a definite result. If we consider the dynamics of changes in the share of imports of individual goods in their commodity resources in 2015-2016, then we can conclude that this figure is reduced in all production categories (Table 1) [8].

Table 1. The Share of Imports of Individual Goods in the Corresponding Commodity Groups in 2015-2016.

	2015			2016
	January - March	January - June	January-September	January - June
Meat and poultry, including by-products	9.6	11.6	13.4	10.6
Animal oil	22.3	24.5	25.5	23.8
Cheeses	21.6	22.5	22.6	24.2
Flour	0.4	0.5	0.6	2.1
Groats	0.2	0.2	0.3	0.1
Vegetable oils	14.6	14.5	17.5	16.0
Milk powder and cream	57.0	58.0	54.0	60.2

Inflation caused by imbalances in the main sectors of the national economy of the Russian Federation and exacerbated by state economic policy based on the concepts of ultra-liberal monetarism led to a whole range of socio-economic problems in the country. Transformation of the socio-economic structure of society against the background of the crisis at the early 90's was heavily endured by most of the country's population, current real incomes and consumer savings decreased substantially. These factors have led to a significant increase in poverty and the proportion of low-income families. Despite the fact that the economic crisis occurred at the dawn of the formation

of the modern Russian economy, it cannot be said that there has been a positive trend in the change in the social structure of society at the moment. As shown in Figure 3, the materials of the sample survey of household budgets allow us to conclude that the share of the poor people in Russia living in cities is quite high and has been keeping at a level of 60% for almost 10 years (2006-2014) with minor deviations. The share of the poor people living in rural settlements mostly varies about 40%, with a tendency to increase this indicator, which is due not only to inflationary influence, but also to the process of urbanization.

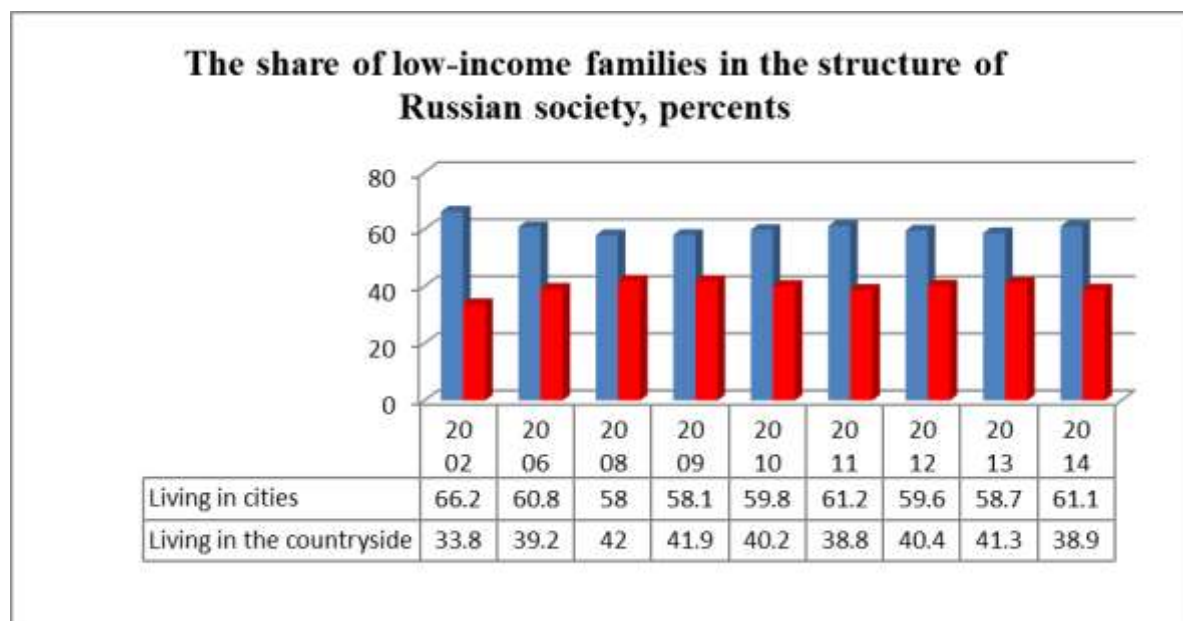


Figure 3 Share of Low-Income Families in the Structure of Russian Society.

Inflation had an immediate impact on the monetary policy of the Central Bank of Russia. In connection with inflationary processes, the Central Bank raised interest rates to reduce the amount of money supply and prevent further growth of inflation. Especially this influence is noticeable during periods of depression in the economy. In 2008-2009, during the global financial crisis, the growth of inflation caused an increase in interest rates, and during the next economic crisis in 2014, the interest rate reached its maximum in the history of the Russian economy and amounted to 17%. In recent years, there has been a reform of the banking system in the Russian Federation, and a key interest rate became the economic and financial instrument in the area of the monetary and credit policy of the state. This is the minimum interest rate at which the Central Bank of Russia (CBR) lends to commercial banks for a period of 1 week, and at the same time this is the maximum rate at which the CBR is willing to accept cash from banks for deposits. Since March 2015, there has been a steady decline in the key interest rate, in the

period from 02.02.2015 to 15.03.2015 it was 15.0% per annum, at the current moment the key interest rate is 9.75% per annum [9]. It is worth noting that the lowering of the key interest rate indicates a reduction in the rate of inflation in the country.

Inflation also has a negative effect on the process of introducing new technologies into production; this is explained by the fact that from the point of view of an entrepreneur, the production costs associated with wages increase more slowly than the costs of acquiring the means of production. An outstripping rise in prices leads to the fact that the use of old labor-consuming technologies proves to be more profitable than the introduction of modernized technology. Modernization and innovative development of the economy are two interrelated sides of the process of sustainable economic development [10]. The data of the Federal State Statistics Service in Figure 4 show that half of the equipment (49%) is in operation for more than 5-15 years, and 12% of enterprises use machines older than 30 years [11].

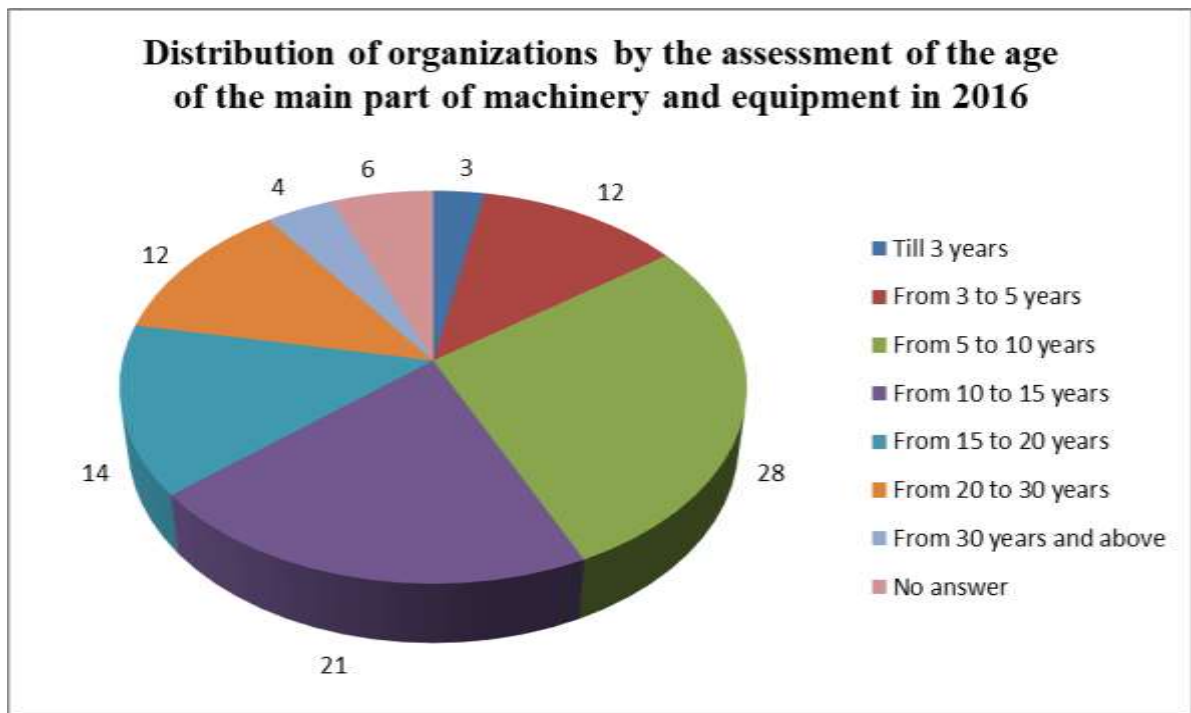


Figure 4. Distribution of organizations by the assessment of the age of the main part of machinery and equipment in 2016

These figures make it possible to make sure that production in the country really lags behind in terms of introducing the achievements of world scientific and technological progress. Therefore, we believe that the Russian economy as a whole and its regions in particular need to search for new management, organizational solutions, which are based on a systematic approach to innovative modernization and new management mechanisms, naturally built into all

types of innovative processes of economic life in the center and in places [12].

Conclusions

Inflation in the 1990s had a significant impact on the emerging of market economy in Russia. First, as a result of inflation, there was a deformation of the market mechanism. Unjustified price growth has led to a distortion of information about the real structure of production and consumption in the country. That is, the

market mechanism has stopped to provide producers with the right signals for investment, and the disorientation of investments has inevitably led to sectoral and regional imbalances. Secondly, inflation slowed down the process of introducing new high-tech technologies into production, thereby slowing down the scientific and technological progress, while simultaneously increasing the gap from the leading countries. Thirdly, it became much harder to predict changes in prices and costs, and efficiency from financial investments as a result of inflation, and as the consequence, for many years the manufacturers began to make large investments in production with caution and risk, what led to a general slowdown and stagnation of economic development in Russia.

Summary

In view of the fact that inflation processes affect practically all branches of the national economy and the social situation in the country as a whole, they do not remain without the attention of the government. The state conducts an active anti-inflationary policy. The mechanisms of influence on pricing play a leading role in the complex of anti-inflation measures implemented by the Government of the Russian Federation. First, they include limiting the growth of regulated prices for products of natural monopolies and tariffs for utility services in the face of increased control over the costs of monopolies. Secondly, the anti-inflation package includes a reduction in the growth rate of prices for fuels and lubricants by encouraging competition, developing exchange trade, reducing the tax burden and technological renewal of the oil industry. Thirdly, an important element of anti-inflationary policy is the slowdown in the growth of prices for food products against the stimulating the supply of these goods and improving the regulation of their imports.

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