

# Russia: transition from centralized economy to capitalist economy



**ASSIGN  
BUSTER**

Before the collapse of Soviet Union, it was practicing a command economy wherein state planners assigned the production of particular manufactures to particular places. All factories, farms and energy providers were state controlled. After the collapse, the new leadership decided to privatize all the state controlled businesses, but due to corruption among state representatives the process of privatization soon became rife with corruption, giving well placed opportunists unjustified advantage, thus denying the new government badly needed revenues. Hence, very little progress was made towards diversification of the economy.

There was a lack of organizational infrastructure for capitalist economy like independent banks, stock markets and business legal system. New management was unqualified for implementing stable corporate governance under the conditions of new economy. For example, when on January 2, 1992; Russian President ordered the liberalization of foreign trade, prices and currencies; millions of Russians took to streets for trading their goods, resulting in an unorganized marketplace. Since the production of goods was for particular items was concentrated at particular places, it gave traders an undue advantage and created inflation. Black markets and crime became rampant, dominated by strong, powerful and wealthy people and as a consequence people with influence and connections with state representatives and wealthy were the only ones to gain an advantage of the liberalization.

The state officials and the new leadership, still new to the idea of decentralized economy or capitalist economy, were not competent enough to measure the needs of free economy and failed to foresee the needs of a

common man. they lacked knowledge about capitalist economy and private ownership. Along with wrong strategy for privatization and market liberalization, excessive focus was kept on macro-stabilization. Privatization was emphasized over competition and restructuring of existing enterprises was emphasized over creation of new jobs and enterprises. People were still not used to the idea of producing something for wages. These resulted in widespread irregularities in capital distribution; hence spreading poverty and creating inflation.