

THE BIG-BANG STRATEGY AND NON-RATIONAL BEHAVIOR IN THE RUSSIAN TRANSITIONAL ECONOMY IN THE 1990s

1. Introduction

The Neoclassical Economics – which is the dominating form of Mainstream Economics – believes in the "goodness" of the market economy – as opposed to the planned one – because it generates both microeconomic efficiency (in terms of optimal allocation of scarce society's resources) and macroeconomic performance (in terms of full employment, the general price level stability and both high and steady economic growth). Therefore, mainstream economists advocated the Big-Bang (BB) or the Shock Therapy rather than the Gradualism (GR) strategy of transition from the planned economy to the market one. According to their point of view, the quicker such transition will take place, the better. The planned economy means microeconomic inefficiency (waste of resources etc.) and bad macroeconomic outcomes (low productivity etc.). It is necessary quickly to break the old system and simultaneously implement all desirable policies: price liberalization, privatization, financial stabilization (it is an essence of the BB). And then economic freedom for everybody will rapidly give optimal outcomes.

The reasoning about both the "goodness" of the market economy and the necessity of the BB (explicitly or, sometimes, implicitly) is based on the assumption that economic agents (first of all, households and firms) always and everywhere maximize their objective functions. They are optimizers. In other words, the Neoclassical Economics is based on the fundamental idea of the Substantive Rationality (Lavoie 1992, P. 51). According to Lah and Susjan (1999, P. 589): "Within the framework of substantive rationality, the conditions and constraints for the rational behavior of economic agents (utility or profit maximization) are external, that is, determined and given in their environment. According to Herbert Simon, such behavior is determined entirely by the characteristics of the environment in which it exists. However, these characteristics have to be known. The concept of substantive rationality therefore assumes that economic agents make their decisions (based on complex mathematical calculations) in an environment of perfect information.

However, the reality does not allow economic agents to be optimizers always and everywhere. There are serious problems of both uncertainty of the future and information overload (Hodgson 1997; Lah and Susjan 1999). As Lavoie (1994, P. 543-544) has pointed out: "In the real world, in contrast to neoclassical mod-

els, agents lack perfect knowledge and the ability to process a large amount of information. They generally lack confidence in their information and their assessment of it. The substantive rationality of neoclassical models can be neither a guide nor a description of decision making" (see also Lavoie, 2006, ch. 1).

These problems play important role in the developed market economies (see the Section 2) and can destabilize the transition ones (the Section 3) by means of adverse effect on the behavior of both households (the Sections 4 and 5) and firms (the Section 6). Therefore the presence of such problems itself can be the base for the fundamental objections to the BB mode of transition to the market economy (see the conclusive Section 7).

2. The Informational Obstacles to Rational Behavior in the Developed Market Economy

The presence of obstacles to rational behavior in the developed market economy has been broadly recognized in the Heterodox Economics, especially in the Post Keynesianism (Lavoie 1994; 2006; Davidson 1996) and Evolutionary Institutionalism (Hodgson 1994; 1997). The point is that optimizing behavior can take place only if there is a correspondence between the cognitive possibilities of agents and the information set. If information stock is very big or complex or if agents have no relevant data at all (Hodgson 1997), they cannot behave rationally in the Neoclassical fashion and are forced to develop various ways dealing with these difficulties. Such behavior is consistent with so-called Procedural Rationality (Lavoie 1994, P. 544): "Such approach to rationality, in cases of uncertainty or of insufficient capabilities to process existing information, consists of means to avoid complex calculations and considerations, and of procedures enabling decisions to be taken despite incomplete information. Agents follow procedures that are sensible given their bounded knowledge and computational capabilities".

It leads to institutional evolution. In other words, households and firms develop diverse informal institutions in order to solve the problems of both information overload and uncertainty of the future. These informal institutions include habits and rules of thumb, moral rules, entrepreneurial culture, long-terms links between industry and banking etc. (Lah and Susjan 1999; Tsang 1996; Lavoie 2006) Such devices create what I would like to call the "stabilizing frameworks". The "stabiliz-

ing frameworks" are those elements of the economic system, which provide favorable environment for making sensible economic decisions (i.e. eliminate any extremes of the information problems). The important point is that economic evolution requires "smooth additions" to the "stabilizing frameworks". For example, the transition from the craft production system to the mass production one requires the "framework" in the form of "mass marketing" (Nell 1998, P. 232-233), and the emergence of endogenous inside money requires the "framework" in the form of the Central-Bank-As-A-Lender-Of-Last-Resort (Minsky 1986).

Without such "frameworks", economic system would collapse in complete chaos. Destruction of some of these "frameworks" can be very harmful for economic system. That is why, for example, Keynes rejected the decrease in the money wage level as a means of struggle against unemployment because according to his view contracts fixing money wage are one of the important stabilizers (Keynes 1936, ch. 19, 20; Davidson 1972; 1999, P. 583).

3. The Informational Obstacles to Rational Behavior in the Transitional Economy: The General Perspective

The transitional economy as the system moving from the "planned socialism" to the "market capitalism" is by definition is characterized by shift in its institutional bases. Such shift itself leads to enormous obstacles to rational behavior. However, the situation becomes worse when the BB takes place because such strategy means not shift but break in the institutional base of the economic system. The "institutional hiatus" (Kozul-Wright and Rayment 1997) takes place: old institutional frameworks have already destroyed, but new ones have yet not created. We have no Schumpeterian "creative destruction" under the BB; we have only "destroying destruction".

The obvious example is the transitional economy of Russia in the 1990s. In 1991, this country had still some analogue of the planned economy. The 1992 year was first year of the BB reforming. The outcomes were the following: privatization without rules of law, price liberalization without workable competition, the government refusal from enterprise administration and control without emergence of efficient entrepreneurship and management, advertisement of "luxury life" without introduction of moral rules of civil society, etc. The result was economic and legal chaos in the form of both enormous information overload in the sphere of consumption decisions and extreme uncertainty in the sphere of investment and portfolio decisions (the same informational problems appeared in other transition economies, for example, in Slovenia - see Lah and Susjan (1999)). The point is that these information problems did not permit agents to be consistent in their behavior not only

with the Substantive Rationality, but also sometimes even with the Procedural Rationality (i.e. there were cases without individual *deliberate* choice at all). It led to adverse both microeconomic and macroeconomic consequences. In order to describe such consequences we will divide all Russian economic agents into three broad categories: "poor households" (the "typical Post-Soviet Russians"), "rich households" (the "New Russians") and "firms". It seems to us that this taxonomy is very useful because it is true indicator of the behavioral structure in the Russian economy in the 1990s (although often two last groups could be treated as the same, because some firms are controlled by the "New Russians"). We will trace the influence of the BB on behavior of each of these groups of people and show why they all could not behave rationally.

4. The Informational Obstacles to Rational Behavior of the "Poor Households"

"Poor households" are typical Russian people, which became very poor after the BB reforming. In the 1990s many such agents had income which was less than "minimal consumption bundle". It means that they were on the lowest level of famous «Maslow pyramid»: they hardly satisfied their physiological needs. We believe that the main types of decisions of this category of agents - consumption/saving and portfolio ones – had made in the conditions, which are very adverse to rational behavior. The consumption decisions were making in the situation of both massive inflow of imported goods with unknown quality and characteristics (Lah and Susjan 1999, P.593-600) and (as I already mentioned above) extremely low income without access to external finance, that is, very hard budget constraint. Furthermore, that typical Russian people had no "consumption culture" and (this is very important) custom and experience of making economic choices, because the planned economy of shortage (Kornai 1980) was the economy of almost total rationing which, to some extent, excludes free choice.

All these aspects are reasons for both information overload in the sphere of consumption decisions and non-rational behavior of Russian people in this sphere. Both surveys and economic intuition show that many consumption goods purchases had completed on the base of aggressive advertisement pressure or just emotions. The "lightning" calculations "of pleasures and pains" (Veblen 1898, P. 389) were often completely absent. Sometimes these agents could not take into account any benefits and costs of their decisions because they were not to able to collect and to understand relevant information or because this information was too complex for them (the problems of Extensiveness and Complexity as the two kinds of information overload - see Hodgson 1997, P.668-671). It is obvious that such decisions were very far from optimal ones.

In the sphere of portfolio decisions, poor households faced with another general information problem - uncertainty. Various financial companies offered extremely high returns for own shares, stocks, bonds, papers and so on. The households had no both knowledge and experience of "working on" with financial instruments. As a result, enormous quantity of Ponzi-finance-using financial companies had emerged and made a lot of money, not as an effect of adverse macroeconomic dynamics (Minsky 1986; Nishi 2012), but as an effect of non-rational behavior of many typical Russian households.

Non-rational behavior of typical Russian households can be well explained by Keynes's conception of "conventional judgement" (Keynes 1937). In conditions of uncertainty, some agents follow other agents, and the "orientation on average opinion" took place. The optimistic mood of this "average opinion" was very long supported by aggressive mass media advertisement of many lucky financial companies. The results were enrichments of some cheating minority of agents, the huge loss of money of majority of other ones, and fundamental absence of trust and confidence of people to financial markets.

We suppose also that another important behavioral reason for it was mix of very low income and the Russian traditional desire "to get all at once". For many people purchase of "junk papers" of companies like MMM was the only trial of quick run away from misery. Some people who had bought such "securities" in the beginning of expansion of "pyramids" have really escaped from misery.

These consequences could be nil if the freedom of financial markets would appear slowly. Even the experience of advanced countries shows that stock markets often destabilize the economy (Singh 1995, P.104).

It should not to forget that the Soviet economy was system without financial markets. Therefore, the most participants of the transitional financial markets in Post-Soviet Russia had no skills for rational decision-making (Rozmainsky 2010).

The emergence of financial markets without normal private sector and rules of law was one of the mistakes of the BB strategy and led to mass cases of non-rational decision-making and, as a consequence, to non-optimal decisions. Now, twenty years later, both the backwardness of financial markets and lack of confidence of the most Russian households to these markets are serious obstacles to steady economic growth in Russia.

5. The Informational Obstacles to Rational Behavior of the "Rich Households"

The budget constraints of the "New Russians" were not so hard. However, all other reasons for non-rational

behavior took place. Moreover, there was one "additional" one: the "group pressure". In other words, the consumption decisions of the "New Russians" were directed by very strict requirements to their "life-styles" as the "Rich People". The phenomenon of "Conspicuous Consumption" described by Veblen (Mouhammed 1999, P. 596; Trezzini 2011, P. 503; Kapeller and Schutz 2015, P. 53-55) took place in all its completeness. Both surveys and economic intuition show that many purchases of the "New Russians" were the result of the desire to be in accordance with the "life style". However, it is not substantive rational behavior because such one means independent, atomistic choice of purchased item. Perhaps, the formation of the "class" of the "New Russians" with closed structure and strict requirements to consumption was itself an effect of the BB. The point is that in the conditions of both inflow of mass of new imported goods ("invasion of Western goods" - see Lah and Susjan 1999, P. 594) and absence of normal life styles (in general and consumption patterns in particular) created by slow evolutionary way, such patterns have rapidly embodied in distorted forms.

By the way, such behavior was harmful for macroeconomic performance because goods forming "life-styles" of the "Rich People" are at large foreign. It means that described consumption culture of the New Russians encouraged economic growth abroad but not inside the country. These consumption patterns are one of the long-term reasons for general economic backwardness of the Post-Soviet Russia (this backwardness is so evident since 2014). Possibly, if behavior of rich households would be more rational that their consumption pattern would be more preferable for the domestic macroeconomic performance and steady economic growth not based on rising oil prices.

6. The Informational Obstacles to Rational Behavior of Firms

The Russian firms faced with the informational obstacles to rational behavior in the sphere, which is "conventionally" interested for Heterodox Economics, especially Post Keynesianism. This sphere is the fixed capital investment decisions.

We cannot say about it something radically new. The idea of the negative influence of uncertainty of the future on fixed investment is the common theme in many heterodox books and articles, especially of Post Keynesian authors (Keynes 1936, ch.12; Davidson 1972; Minsky 1986; Rotheim 1999; Lavoie 2006). We already mentioned above that the BB have generated extreme uncertainty of the future. In this environment, the Russian firms had no any bases for sensible investment decision-making. It was not very surprising (at least, for Heterodox Economists) that collapse of fixed investment had appeared.

However, there is reverse side of the story about influence of uncertainty on behavior of firms in the Russian economy. The environment characterized by impossibility of exact calculations created incentives for various "shadow" and "black" activities ranging from trials to hide tax payments to real criminal acts. In other words, many Russian firms were engaged in the 1990s in diverse forms of the "shadow economy". The Russian Capitalism of the 1990s was emerged as the Criminal Capitalism. According to some data, in 1992 and 1993 the amount of illegal appropriation of wealth in Russia by private agents was equal to 75-80% of GDP; in 1996 (when law framework became already a little more clear) it was equal to 12-15% of GDP (Shmelyov 1997). It is not surprising that now both businesses of many influential Russian actors have criminal origin, and some actions of the Russian governmental officers violate (international or domestic) law.

The very important thing is that criminal and other shadow and black activities require adequate finance for itself. The transactions with heroin or simple bribe are usually not financed by bank money. Agents want to have means of financing which allow to hide activity from the "third parties". Such means are cash, barter and "non-payments" (arrears). These means - unlike bank money - are anonymous. That is why the Russian monetary system of the 1990s had been characterized by displacement of bank money by cash, barter and non-payments (Rozmainsky 2014). Although in 1999 – 2001 the problem of barter and arrears was solved (by both rapid economic recovery and some decisions by Primakov's government), big share of cash in total money supply remains structural weakness of the Russian monetary system. Furthermore, during the 1990s the Russian economy was significantly demonetized. In turn, demonetization is the "public bad" because, to some extent, it led to disintegration of the unified economy, its transformation into big quantity of weakly linked «islands». This problem is actual for the Russian economy so far.

The roots of all these problems are in the beginning of 1990s when the BB reforming led to the situation that shadow activities became both economically appeal and morally not bad. It seems that slow evolutionary transition would hardly generate such consequence.

7. Conclusion

The GDP of the Russian economy during the 1990s have fallen more than twice, and the level of real fixed capital investment in 1999 was less than 25 percent of this level in 1990. These are indicators of very bad macroeconomic performance of the economy in these years and, of course, the big mistakes in reforming it. Today we can see incarnations of consequences of these errors in, for example, very outdated and obsolete equipment of many Russian enterprises (the average age of indus-

rial fixed capital was more than 20 years in 2004, and later data are not published at all). Why was shock so great?

Mainstream economists stressed importance of political struggle against reforms and so on. It seems to us that the fundamental mistake is the chosen mode of reforming: the BB. This paper have showed that the BB means rapid breakdown of old institutional system without creating new one. It leads to great informational obstacles to rational behavior. Economic agents cannot behave not only according to the Substantive Rationality, but also sometimes even according to the Procedural Rationality. It means that economic actions often were not based on the rational decision-making process and were driven by emotions, advertising, group pressure etc. We have demonstrated that in the sphere of consumption decisions agents either followed emotional shifts and pressure by advertising ("poor households") or tried to be in accordance with requirements of their narrow social group ("rich households"). In the sphere of portfolio decisions, many holders of financial assets were fooled by financial companies. These cases of cheating were due to non-rational and often just stupid behavior. In the investment sphere, because of uncertainty many firms replaced fixed investment by engagement in the "shadow" and "black" activities. All these decisions and activities were both effect of informational obstacles to rational behavior and cause of both microeconomic inefficiency and bad macroeconomic performance of the Russian economy in the 1990s.

It is necessary to understand that the illusions of the Substantive Rationality are misleading: agents cannot optimize always and everywhere. But they can make sensible decisions (Davidson 1991), both recognizing the limits to their cognitive and calculating possibilities and using various informal institutions (links between industry and banking, brand-loyalty, guarantees, rules of thumb) in order to deal with the different informational problems. The point is that these institutions - or as I called them "stabilizing frameworks" - are the result of slow evolutionary development. They cannot be created during, for example, a one week. It means that successful transition from the planned economy to the market one takes also a lot of time and requires many stages. In other words, the GR would be more efficient and effective means of transition than the BB.

To 1999 – 2001, some "stabilizing frameworks" had been created. We could speak about some long-term relationships between some enterprises and some banks, about the cases of defense of consumer rights, about the presence of (although very imperfect) system of property rights and so on. It was one of the causes of the fact that since 1999 the Russian economy became to expand and seemed successful until 2008.

Unfortunately, rooted traditions of non-rational behavior allowed prevented to create in Post-Soviet Russia efficient institutional environment, which is favorable to

economic growth. Lack of it can be visible especially after both fall in prices of oil and radical political decisions in 2014. We suppose that – unlike many “liberal-oriented” thinkers – one of the causes of non-rational behavior was the BB. The paper argues that such reforming was extremely expensive!

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Розмаїнський І. В. Стратегія великого поштовху і нераціональна поведінка в російській перехідній економіці в 1990-ті роки

У статті висувається гіпотеза про те, що стратегія великого поштовху (шокової терапії), яка застосовувалася в 1990-ті роки для реформування російської економіки підвищила ступінь нераціональності поведінки пересічних російських громадян. Справа в тому, що для повністю раціонального прийняття рішень необхідно, щоб людина не стикалася ні з нестачею інформації, ні з інформаційним перевантаженням. Радикальний «перехід до ринку», нав'язаний стратегією великого поштовху, посилив обидві ці перешкоди для раціональної поведінки. З одного боку, радикальні реформи підвищили ступінь невизначеності майбутнього. З іншого боку, ці реформи привели до того, що пересічні громадяни зіткнулися з великою кількістю складної для сприйняття інформації, в першу чергу, на товарних і фінансових ринках. Поточні соціально-політичні та економічні проблеми сучасної Росії пов'язані, зокрема із низьким ступенем раціональності поведінки багатьох її громадян. Коріння цього – в тому числі й в стратегії великого поштовху початку 1990-х років.

Ключові слова: стратегія великого поштовху, шокова терапія, нераціональна поведінка, невизначеність, інформаційне перевантаження, неортодоксальна економіка.

Розмаинский И. В. Стратегия большого толчка и нерациональное поведение в российской переходной экономике в 1990-е годы

В статье выдвигается гипотеза о том, что стратегия большого толчка (шоковой терапии), применявшаяся в 1990-е годы для реформирования российской экономики, повысила степень иррациональности поведения рядовых российских граждан. Дело в том, что для полностью рационального принятия решений необходимо, чтобы человек не сталкивался ни с нехваткой информации, ни с информационной перегрузкой. Радикальный «переход к рынку», навязанный стратегией большого толчка, усилил оба эти препятствия для рационального поведения. С одной стороны, радикальные реформы повысили степень неопределенности будущего. С другой стороны, эти реформы привели к тому, что рядовые граждане столкнулись с большим количеством сложной для восприятия информации, в первую очередь, на товарных и финансовых рынках. Текущие социально-политические и экономические проблемы современной России связаны, в частности, и с низкой степенью рациональности поведения многих ее граждан. Корни этого – в том числе и в стратегии большого толчка начала 1990-х годов.

Ключевые слова: стратегия большого толчка, шоковая терапия, иррациональное поведение, неопределенность, информационная перегрузка, неортодоксальная экономика.

Rozmainsky I. V. The Big-bang Strategy and Non-rational Behavior in the Russian Transitional Economy in the 1990s

The paper offers the following hypothesis: the Big Band (Shock Therapy) strategy of the 1990s in Russia has led to more non-rational behavior of the ordinary Russian people. The point is that in order to make completely rational decisions a person needs avoid both lack of information and information overload. Radical “transition to the market system” by means of the Big Bang strategy had reinforced both these obstacles to rational behavior. On the one hand, radical reforms had increased uncertainty. On the other hand, due to these reforms ordinary Russian people faced with big amount of information which was complex for perception, first of all, on goods and financial markets. The contemporary social, political and economic problems of Russia are concerned, in particular, with low degree of rationality of many its citizens. Roots of it are, among others, in the Big Bang strategy of the 1990s.

Keywords: the Big Bang strategy, shock therapy, non-rational behavior, uncertainty, information overload, heterodox economics.

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