Privatization in Russia: Preliminary Results and Socioeconomic Implications

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Privatization in Russia has prompted profound changes in the socioeconomic life of the country, including fundamental shifts in society, capital, and political power. The outcomes of privatization efforts will in many respects determine socioeconomic and political conditions in Russia not only during the contemporary transitional period but also far into the future.

Russian privatization—which is unprecedented in its economic and human scale—has entailed complex social and economic consequences. Among them are the emergence of a new social structure, based mainly on the distribution of former state-owned property; the formation of a new income structure with much greater differentiation than under the former regime, with incomes derived from private capital that never previously existed; the development of a new relationship between employees and management; and changes in work motivation and managerial practices. Anticipated economic consequences of privatization also include productivity gains, structural changes in the economy, and investment growth, which together promise to accelerate the rate of economic expansion. The principal social goals of the first privatization program included distributing former state-owned property on a basis of social justice and creating a massive middle class based on private ownership, which was widely perceived as necessary for social and political stability.

Ideology, Goals, and Stages of Privatization

The active stage of the privatization process was preceded by harsh polemics among economists, politicians, trade union leaders, and ordinary citizens concerning the ideology of privatization, its goals, forms, and methods. Three major approaches—each fundamentally different in concept—dominated the public debate. The first, most "liberal" approach was based on the proposition that state property should be sold to anyone who wants to buy it at the market price. That method of privatization is commonly used in Western countries and Japan when

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a government decides to denationalize a state-owned industry or company. A similar approach was also used to some extent in former socialist countries such as Hungary, Estonia, and Germany.

Leftist political forces and trade unionists, many from the newly established councils of work collectives, pursued a second approach, which maintained that it is necessary either to transfer an enterprise's assets directly to the work collectives or to sell firms to the collectives on an installment plan, using discounted government loans. Proponents differed on which model of ownership to pursue; precedents ranged from the Yugoslavian pattern, in which ownership is depersonalized and enterprises remain essentially quasi-state property, to direct ownership by workers, similar to employee stock ownership option plans in North America. In either case, the work collectives gain control over productive capital, and the collectives attain self-management.

A third approach advocated the free distribution of state-owned enterprises to the whole of the Russian population. That idea was based on the proposition that the Russian people had participated in the creation of national wealth, including all productive assets, during previous decades and therefore were entitled to share in the nation's material assets. To achieve citizen ownership, advocates proposed the creation of privatization accounts or privatization checks or vouchers. After extensive discussions, the third approach became the basis for Russia's first privatization program in 1992.

Obviously, no single approach to privatization is perfect from either a social or an economic point of view. The first one was unrealistic in the Russia of 1992. Neither companies, nor individuals, nor even criminal organizations had enough free capital to purchase state-owned firms at market prices. Nor did such investors exist abroad. Moreover, that approach failed to address issues of social justice. Theoretically, the liberal approach was supposed to promote maximum economic efficiency through responsible ownership of enterprises. For Russia, however, the approach would have been economically counterproductive because of the length of time required to make it work.

The second approach also had many shortcomings. Its major economic advantage—a supposed increase in worker motivation (which was not, in fact, obvious in all cases)—was undermined by the absence of investment capital. Socially, the approach obviously discriminated against all those not employed in industrial enterprises (where the greatest assets of the country were accumulated), including scientists, teachers, physicians, members of the armed forces, government employees, retirees, and students.

The principal economic shortcoming of the third, or voucher, approach was that it did not create any economic incentives for the accumulation of capital and new investments. Moreover, it was not ideal socially. Even if each citizen formally received an equal share in privatized property in the form of a voucher, no effective mechanism existed for the use of the vouchers. That situation led to numerous abuses and mass disappointment among citizens who expected to receive real ownership, dividends, and a visible improvement in living standards from their vouchers. Nonetheless, the approach at least made an effort to take social factors into consideration in the wholesale distribution of capital, which seems to be one of the major reasons why the approach was ultimately accepted.

The final version of the realized privatization program[1] was much more complex than the scheme described above. It was based on a shared interest among different social forces that sought to gain maximum personal advantages from privatization, as reflected in the numerous privileges that were accorded to major participants in the initial stage of the privatization process. Specifically, workers and managers received the right to obtain—either free or at discounted prices—a significant portion of an enterprise's stock, on terms that were advantageous to top management. Regional and local governmental authorities that were empowered to establish the rules under which municipal property became privatized also enjoyed substantial advantages. Thus, the greatest portion of income derived from privatization remained within local and municipal budgets.

Social and political considerations—including efforts to generate support for privatization among different social strata and groups within the political establishment—determined the advantages and special conditions of privatization during its initial stage. Despite serious differences of opinion between the executive and legislative branches, a majority of deputies in the Supreme Soviet endorsed the government privatization program on 11 June 1992. The bill stipulated six principal objectives:

- The formation of a stratum of private owners who would contribute to the creation of a socially oriented economy
- Increased enterprise effectiveness
- The promotion of social protection and a new social infrastructure based on personal income derived from privatization
- Enhanced financial stability
- Creation of a market environment through demonopolizing the national economy
- The attraction of foreign investment

At the same time, the privatization program entailed a number of objectives that were not readily apparent. One of the undeclared political goals of privatization was to restrict the decision-making rights of ministries and other governmental bodies by transferring much of their previous authority directly to the enterprises. That had already begun to take place as early as 1988, when workers' collectives began to lease a number of state-owned enterprises with the right of buyout. By summer 1992, more than two thousand enterprises had been privatized in this fashion, primarily to the benefit of upper management.[2] Hence, one of the purposes of the government's first privatization program was to impose a set of rules on the ongoing process of spontaneous privatization.

Two additional privatization measures were enacted through presidential decrees on 12 December 1993 and 22 July 1994. The first sought to complete the voucher privatization stage, which was characterized primarily by the free distribution of formerly state-owned property.[3] The purpose of the second measure was to regulate privatization at its money stage at the conclusion of the voucher stage.[4] Both decrees had among their declared goals the formation of a broad stratum of private owners, the increased effectiveness of the Russian economy, the social protection of the population, and the protection of the rights of stockholders. The most significant characteristic of the post-voucher privatization program, or money stage, was its emphasis on increased economic effectiveness primarily by attracting investment from abroad and by creating a stratum of "strategic" private owners.

Forms and Methods

Each stage of Russian privatization revealed distinctive features. The 1992 program foresaw different methods for privatization according to the size of individual companies. Small companies, with fewer than two hundred employees, were to be sold at voucher auctions or leased by their employees with the right of complete buyout; companies with more than a thousand employees would be transformed into public stockholding companies; and medium-sized companies could choose between employee buyout and public stockholding status. About 30 percent of all companies were not subject to privatization according to normal procedures. Among them were energy companies and components of the military-industrial complex.

Privatization law permitted the following means to create new forms of ownership: sale of shares; sale at auctions; sale through commercial bidding; sale through investment bidding; sale of assets of a bankrupt company; or buyout of leased assets. Work collectives had a right to choose among three versions of privatization during the sale of company shares:

Version 1. All members of the work collective received, at no charge, a portion of 25 percent of the company stock in nonvoting preferred shares—not to exceed the worth of twenty minimum monthly salaries for each worker. An additional 10 percent of common shares would be available for workers to buy at the nominal price, but not for more than six minimum salaries for each worker, with a 30 percent discount, on a three-year installment plan. The top management of the enterprise, from three to five persons, received an option to buy 5 percent of the stock in common shares at the nominal price (but not for more than two hundred minimum monthly salaries each).

This method, which was used by approximately 20 percent of all companies, assumed that not less than 29 percent of the stock would be sold at voucher auctions. Another 10 percent of the stock in version 1 would go to special privatization funds for future distribution among the employees. The remaining 21 percent could be reserved by the regional property funds and thereby would belong to the state.

Version 2. All members of the work collective had the right to buy 51 percent of the common shares at the nominal price multiplied by a coefficient of 1.7. Not less than 50 percent of the payment had to be made in vouchers. An additional 5 percent of the stock could be reserved in the company privatization fund. After

29 percent of the stock was sold at the voucher auctions, the remaining 15 percent was supposed to be reserved by the regional property funds. That version of privatization proved to be the most popular method and was chosen by about 80 percent of all companies.

Version 3. The third version of privatization assumed that a group of employees took responsibility for privatization and the future reconstruction and development of the company for not less than one year. In this case the group received the right to buy 20 percent of the stock in common shares at the nominal price. The work collective could purchase another 20 percent at the nominal price, but they could not spend more than twenty minimum salaries for one worker, with a 30 percent discount on a three-year installment plan. Less than 1 percent of the companies affected used this version of privatization.

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In practice, the limits on employee stock purchases—twenty minimum salaries and six minimum salaries—restricted the portion of freely distributed or discounted shares. As a result, the actual quantity of freely distributed shares under version 1 was not 25 percent, as envisaged, but only 13 percent.

Two national enactments in 1992 preceded the implementation of the various methods of privatization. First, about 150 million privatization vouchers were distributed: one voucher to a person, with each voucher having a nominal value of 10,000 rubles in 1 January 1992 prices. Second, in July 1992, larger companies were transformed into stockholding companies through a presidential decree. Important landmarks during the first stage of privatization included the adoption in 1992 of a law on bankruptcy and the abolition of restrictions on the sale and lease of agricultural land. The most significant characteristics of these programs included the following:

1. Vouchers were used as a principal means of payment in the process of privatization for both the employees of privatized enterprises and nonemployees who wished to obtain shares. After July 1993, the minimum portion of shares intended for exchange for vouchers was increased from 35 percent to 80 percent.

2. Substantial advantages were given to the workers' collectives, including the distribution of company stock, the right to sell stock to outside investors not only for vouchers but also for cash, and the right to reserve company stock for further distribution among employees in the buyout process.

3. The privatization program (especially that of 1993) allocated to the regions considerable authority to determine the time, pace, and order of privatization in many industries under municipal ownership.

4. The most widespread form of buyout of stock became the so-called closed subscription, in which shares were distributed proportionally to workers who submitted applications for them.

5. Voucher auctions became the most important form of distribution of stock outside enterprises. According to presidential decree, not less than 29 percent of all stock had to be sold at these auctions.

As mentioned earlier, the voucher privatization has obvious shortcomings: it neither contributes to the influx of new investments nor stimulates the accumulation of capital. During the initial stage of privatization, it quickly became apparent that many enterprises resisted voucher privatization by outsiders and preferred instead to sell their shares for cash. That approach clearly revealed that managers wanted to retain control over company shares, which explains why most enterprises chose the second version of privatization, with its provisions allowing management the opportunity to buy out the controlling shares of stock. To resist this trend, the government required enterprises to sell not less than 29 percent of all shares at auction.

Meanwhile, the social goals of the first stage of privatization were implemented quite consistently. Those included providing every citizen a chance to participate in privatization while simultaneously taking into account the interests of the work collectives, top management, and other groups within the political and economic establishment. At the same time, the government initiated the free privatization of housing, a measure that proved a major milestone in Russian social reform during the initial stage of the privatization process.

Under the new program of privatization, adopted on 22 July 1994 by Presidential Decree 1535, practically the same forms of privatization were envisaged—sale of shares to an open stockholding society, to company employees, at auctions, or through commercial or investment bidding; sale of assets of bankrupt companies; buyout of leased assets, and so on. Unlike the previous version, the second program had no expiration date.

The main difference between the two programs was that the second one reduced significantly the advantages previously accorded the work collectives, as follows:

Version 1. Formally, the basic advantages for the employees remained the same. Twenty-five percent of the company stock in nonvoting preferred shares was still distributed free of charge. Ten percent, but not more than the worth of six minimum salaries for each worker with a 30 percent discount, could be sold to the employees at the nominal price. But the installment plan was restricted to three months, not three years, as before. Second, and most important, the nominal price began to approach the market price as a result of re-evaluation of assets. In addition, the initial payment was not to be less than 50 percent. Additional advantages were given to top management. They could now buy 5 percent of the stock (as they could before), but the stock could be worth more than two thousand minimum salaries for each person (compared with two hundred minimum salaries previously). There was no other reservation of shares in any funds; whatever remained was to be sold at auction. Thirty-seven percent of companies used this version of privatization in 1995.

Version 2. Employees had the opportunity to buy 51 percent of the stock with no other advantages at new prices. The remaining 49 percent would be sold at auction. This version was chosen by 48 percent of all enterprises.

Version 3. This version allowed for purchase of 30 percent of the stock at the nominal price (compared with 20 percent previously). An additional 20 percent of the stock could be bought by all employees but not more than the worth of twenty minimum salaries for each employee, with a 30 percent discount on a three-month installment plan. The initial payment could not be less than 20 percent of the cost of the shares. Again, as in the other two versions, there was no reservation of stock. Everything left after in-company distribution was to be sold at auction or through investment bidding. In 1995 this version was used by 4 percent of all companies.[5]

Although the new program was announced in summer 1994, it really started in summer 1995. The following distinctive features characterized the new program:

- Privatization would be conducted only for actual money and at real prices
- The prevailing mode of privatization would be by auction and by investment bidding. Fifty-one percent of the income derived from privatization would be allocated to the companies and could be used only for new investments, while the rest was divided between federal and regional budgets
- Workers' collectives received fewer advantages in comparison with the previous program
- The land on which enterprises are situated could be privatized
- Privatization would affect new industries, including those in the military-industrial complex
- The government could retain 51 percent of the stock for a period of three years, commencing with the start of privatization, in such sectors as communications, utilities, pipelines, alcohol production, atomic machinery, the space program, and the military

Only enumeration of goals, versions, and characteristics of the new stage of privatization shows its significant distinctions from the stage of voucher privatization, especially in social aspects. Despite formal declarations in 1995 law affirming the protection of stockholders' rights, the primary emphasis was on the economic goals. The reduction in advantages to the work collectives and an end to the free distribution of ownership confirm that social goals have assumed a subordinate status in the new program. Like the first program, the new one paid absolutely no attention to worker motivation, the implementation of economic democracy, or participatory management. From my perspective these omissions constitute serious flaws in the privatization process. Substantive criticism has also been directed at irregularities in investment bidding, the improper management of state-owned shares, bankruptcy procedures, and numerous personal and institutional abuses of privatization. At the opposite end of the ideological spectrum, some traditionalists have even demanded full or partial renationalization of enterprises.

Social and Economic Results

The quantitative results of privatization seem to be highly impressive. By the end of 1999 more than 140,000 former state-owned enterprises (out of a total of 267,000 nonagricultural enterprises) had become privately owned or stock corporations. This group included more than 25,000 large enterprises, each employing thousands of workers. Especially impressive is what is termed "small privatization" in the service industry, where the private sector exceeded 80 percent. The privatized enterprises use more than 60 percent of the productive capital in manufacturing, produce 75 percent of the Russian GDP, and employ about 80 percent of the national labor force.[6] About 40 million Russian citizens have become stockholders in privatized enterprises—more than in any other country of the world. Nearly one million people are owners of small private companies, millions of which were established primarily in the retail trade, consulting services, the repair industry, construction, and food-producing industries. In addition, millions of apartments and houses were privatized by mid-decade. Taking into account that the mass privatization started in Russia only in the middle of 1992, the figures demonstrate the unprecedented scale and pace of the privatization process.

Although the figures are unquestionably impressive, they provide few insights into the economic and social consequences of privatization, nor do they tell us whether the expectations of the citizens and the government have been fulfilled.

Let us look in detail at the economic and social consequences of Russian privatization. As was already mentioned, the declared goals—increased economic effectiveness, financial stabilization, a competitive environment, attraction of foreign investments—were mostly not reached. Those goals could not be realized because the mechanism of voucher privatization did not include a real increase in capital or real investments. No serious changes occurred in worker motivation or in the organizational and managerial structures of most enterprises. The transformation of enterprises into stockholding companies no doubt creates a basis for market mechanisms in the future, as well as for an increase in worker motivation, provided other factors, including an influx of new investment and a transformation of the managerial model, are present. Thus, practically no real economic benefits ensued from the first stage of privatization. There were some exceptions in small and medium-sized enterprises, where management changes took place, the bureaucratic staff was reduced, and new motivational incentives were introduced.

The money stage of privatization, started practically a year after the official beginning of the process, did not give many reasons for optimism. The second stage seemed to be more oriented toward an influx of investments and the formation of so-called strategic owners, who would have a deep interest in an increase in economic effectiveness. The actual results, however, are modest. Since the beginning of the second stage of privatization, about 20,000 enterprises have been privatized—compared with 122,000 between 1992 and 1994. Approximately 88 percent of all companies privatized in 1995 have fewer than two hundred employees. These companies account for 38 percent of total output of all companies privatized that year. Fifty-six percent of the privatized companies operate in the trade and service sectors.

A presidential decree of 31 August 1995 authorized the sale of federal shares in twenty-three of the largest stockholding companies. Among them were the giants of Russian industry, including Luckoil, Norilsky Nickel, and Jukos. The federal government came under fire for its alleged favoring of certain commercial banks during the process, but the cases that reached the Federal Arbitration Court were adjudicated in the government's favor.

Contracts between the government and commercial banks expired on 1 September 1996. Nonetheless, the government and the Security Council imposed some limits on the future sales of the shares. The sale of shares in the most important companies was prohibited, and the amount of stock that could be held by foreign investors in any single enterprise was limited to 15 percent.[7]

The transition to the new stage of privatization entailed significant changes in the attitudes of workers toward privatization options. During the voucher stage, nearly 80 percent of the enterprises chose the second privatization option (which allowed the workers' collectives to obtain a majority of shares), compared with only 48 percent in 1995. The number of enterprises choosing the first option jumped from 28 percent in 1994 to 37 percent in 1995. The third option was chosen by 4 percent of firms. Approximately 8 percent of the new stockholding enterprises were created through the purchase of leased companies. These changes are associated with the new rules of privatization and the absence of investment opportunities in most companies.

A number of political and economic factors have contributed to the slowdown in privatization and low levels of investment, including political instability (frightening both foreign and national investors), faulty legislation, general economic slowdown, and relatively high inflation during most of the 1990s. In contrast to the declared goals, the government's efforts concentrated primarily on short-term measures designed to reduce budget deficits at the expense of privatization rather than pursue a strategic vision of economic transformation. But even these efforts proved to be insufficient. In 1995 the income from privatization accounted for 3.8 trillion rubles—only half as much as originally envisaged.[8] The securities auctions conducted in 1995 earned an additional 4 trillion rubles. Nearly all privatization revenues came from the sale of shares of stockholding societies; an additional 20 percent was derived from the sale of shares of leased property, 15 percent from the sale of real estate, and 9 percent from the sale of liquidated companies. In 1996 revenue from privatization was 3.2 trillion rubles.[9] In 1999 privatization revenues accounted for 8.3 billion (devalued) rubles, which was dramatically less than the 1998 revenues of 17.8 trillion.[10]

In 1996 the Accounting Office of the Russian parliament concluded that income from privatization that year was about 280 times less than it could have been; if it were properly implemented, privatization could bring about 70 trillion additional rubles to the budget, they said.[11] These conclusions were made after analysis of many investment bids and auctions that were considered inefficient. The findings confirm that the legislative basis of a new stage of privatization was not sufficiently elaborated as to either forms or methods.

The social results of privatization are controversial at best. Formally speaking, each citizen received a right to purchase a share of formerly state-owned property, meaning that the goal of fair and equal distribution of this property was supposedly fulfilled. Realistically, however, the principle of social justice was hardly realized. Perhaps the only significant social achievement of privatization on a national level was the privatization of housing, which was accomplished practically free of charge and applied to all Russian people. Nonetheless, only about 14 million apartments (39 percent of all municipal housing) were privatized by the beginning of 1999. Such a low level can be explained by public concern that privatization would result in a significant increase in property taxes.[12]

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Other social results and consequences have had limited effect and reflect mostly the principle of distribution "by force" rather than "by justice." Thus, significant parts of the companies' assets were transferred to the possession of the workers' collectives free of charge or for nominal prices. Within the workers' collectives, a relatively large portion of the ownership was allocated by the top management. The rank-and-file workers in most cases own their shares only on paper; they do not participate in decision-making processes and very often do not receive dividends. Moreover, outside investors have increased their ownership of company stock while the percentage held by the insiders has declined (see table 1). The data presented in table 1 are based on surveys conducted by World Bank experts. Other estimates correspond with these findings: As the 1999 edition of the *Survey of the Russian Economy* revealed, the inside owners have reduced their share to 56.3 percent of company stock on average.[13]

Approximately 75 percent of workers employed primarily in small firms and the public sector invested their vouchers in voucher investment funds. These funds played a major role in some of the voucher auctions. In 1994, 640 voucher funds were officially registered—150 operating in Moscow alone. Through May 1994, the funds invested 29.8 million of the 151 million vouchers that had been distributed among individual citizens. Many investment funds sought to increase their holdings in companies, although the managers of such companies resisted because they feared losing control. Rules were established to restrict an investment fund's ownership to no more than 25 percent of stock in a company. These limits prompted many investment funds to switch from long-term investments to short-term financial speculations.[14]

TABLE 1
Ownership of Stock in Privatized Companies in Russia, 1993–1996 (in percentages)

	1993	1994	1996
Company management	19	20	16
Company workers	48	45	42
Outside investors	13	23	33
Government	20	12	9

Source: Survey of the Russian Economy (Moscow, 1998), 163.

A significant number of these funds have declared bankruptcy, and as a result, investors have lost their shares. Those funds still functioning have practically ceased paying dividends. In practice, privatization by force has led to a marked increase in inequality in income distribution. The money stage of privatization has exacerbated this trend. Very few ordinary people can afford to invest money in companies. Therefore it is predictable that the major role in the ongoing privatization will be played not by individuals but by companies—large banks and financial-industrial groups already in existence in Russia. These groups and banks are the real basis for the modern accumulation of capital in today's Russia. Analyzing the formation of the new Russian elite, O. Krystanovskaya emphasized that "the economic elite in current Russia is a closed group of people who control most capital and industries with the permission of the government."[15]

Privatization in Russia has not yet created a large, stable middle class. Private ownership is spread too thin, and control of financial resources remains centralized in the hands of a narrow group of top managers and government officials. Equally regrettable, mass employee ownership has had practically no impact on the development of economic democracy in Russia. As was the case during the previous era of state domination of the economy, workers remain alienated from participation in decision-making processes on the enterprise level—in contrast to their counterparts in, for example, Germany and Sweden, as well as in some U.S. companies.

Despite the uneven social consequences of privatization, excessive pessimism is not warranted. First of all, when one considers Russia's overall economic and social situation and its prevailing balance of power, it was unreasonable to expect a better plan of privatization or better results. That does not preclude increased economic and social effectiveness of privatization in the future. Such aspirations can be realized through post-privatization reforms of the Russian companies, especially the introduction of different forms and methods of economic democracy. More autonomy of workers in the production process, their participation in management, and the dissemination of information on the enterprise level would be desirable trends in the development of productive forces—that is, short of the creation of a new technological paradigm. In addition, the development of economic democracy can promote a new partnership between capital and labor, of the type that has developed in the West during the last decade.

Economic democracy cannot be unlimited; it is unrealistic to expect effective results in a modern economy if all strategic economic decisions are made by voting. A different approach would be the active participation of workers in decision-making processes at the workplace, on the low and middle levels, and the representation of employees on company boards. The maximum delegation of power from top to bottom and broad worker autonomy would positively affect both economic performance and social climate in the company.

Any prognosis on employee ownership in Russia must take into account the macroeconomic mechanism of the market economy. The principal characteristic of such an economy is the free flow of capital and labor from less-profitable industries and companies to those that are more profitable. In the case of the ownership and control of stock by the workers' collectives, these advantages can be significantly limited, decreasing macroeconomic efficiency. Such negative trends can occur even in successful enterprises at the microeconomic level. This theoretical proposition, as well as the actual experience of many industrialized countries, allows us to suppose that there is probably some threshold level of effective employee ownership beyond which the negative macroeconomic effect can emerge. Although employee ownership can assuredly occupy an important niche in a market economy, it must not oppose macro- and microeconomic developmental imperatives inherent in such an economy.

It is also necessary to remember—and this is confirmed by the experience of advanced countries, first of all the United States—that employee ownership leads to positive social and economic benefits only when combined with other forms of economic democracy. This is underscored by many surveys, including a detailed survey of employee stock ownership companies in Ohio made by John Logue and colleagues.[16]

The trend toward decreasing employee stock ownership will obviously continue in the foreseeable future, as determined by the need for new investments, which, under present conditions, can be supplied only by outside investors, domestic or foreign. In this situation it is unrealistic to project the maintenance of employee ownership at today's scale. More important is promoting all other forms of economic democracy, which combined with effective employee ownership can bring positive economic and social results. In this connection it is essential to adopt new legislation that would provide for the development of workplace democracy, increased motivation of workers, diffusion of information about new methods of management and industrial democracy in other countries, and the attainment of a new culture embracing both worker-management relations and the rights and obligations of stockholders.

To promote maximum positive social effects of privatization, the government must also protect citizens from damage caused by abuses of privatization, swindlers, and financial pyramid schemes, creating mechanisms for compensation in such cases. Given the present transitional state of the Russian economy, the establishment of a socially oriented process and responsible private capital requires a reasonable and sophisticated government policy. The institutionalization of private property in Russia is not only an economic process but a social and political one as well, and it will determine the character of Russian society well into the twenty-first century.

NOTES

1. The Federal Program of Privatization of State and Municipal Enterprises in the Russian Federation for 1992, approved by a decision of the Supreme Soviet of the Russian Federation, 2989-1, 11 June 1992.
2. *OECD Economic Surveys: Russian Federation* (Paris: OECD, 1995), 82
3. The Federal Program of Privatization of State and Municipal Enterprises in the Russian Federation, adopted by presidential decree 2284, 24 December 1993.
4. Major Provisions of the State Program of Privatization, adopted by presidential decree 1535, 22 July 1994.
5. *Social-Economic State of the Russian Federation* (Moscow: Goskomstat, 1997), 125.
6. Ibid., 5, 13, 120; *Survey of the Russian Economy* (Moscow: Russian-European Center for Economic Policy, 1997), 172.
7. *Izvestiya*, 1 October 1996.
8. *Russia in Figures* (Moscow: Goskomstat, 1997), 379.
9. Ibid., 164; *OECD Economic Surveys: Russian Federation* (Moscow: OECD, 1997), 173.
10. *Izvestiya*, 11 January 2000.
11. *Financial Izvestiya*, 7 April 1997.
12. *Russia in Figures*, 390.
13. *Survey of the Russian Economy*, 52.
14. *OECD Economic Surveys*, 96.
15. *Izvestiya*, 10 January 1996.
16. John Logue and K. Thomas, *Improving Employee Ownership as a Competitiveness Strategy in Northeast Ohio Manufacturing* (Kent, OH: Northeast Ohio Employee Ownership Center, 1994).