

SHOCK THERAPY AS A GENERATOR OF LIMITS TO RATIONALITY IN THE RUSSIAN TRANSITIONAL ECONOMY IN THE 1990S

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The paper offers Post Keynesian/Institutionalist critique of the shock therapy policy in Russia by means of analyzing its influence on rationality of the Russian economic agents in the 1990s. The main idea is that the shock therapy policy's implementation contributed to an institutional hiatus and led to both rising information overload and higher uncertainty. It created barriers to calculated valuations of expected costs and benefits in the process of decision-making. As a result, behaviour of agents became more arational. In the process of decision-making agents of the Post-Soviet Russian economy relied more on emotions, advertising, group pressure and "behaviour of others" rather than individual optimizing techniques. All these aspects were substitutes for real knowledge. The paper considers forms of arational behaviour of agents in the processes of consumption, investment and financial decision-making and its negative consequences. So such arational behaviour contributed to the great economic crash of the Russian transitional economy in the 1990s. Consumers generated adverse tendencies because of conspicuous consumption of the Western goods at the expense of demand for domestic goods. Investors refused to buy fixed capital goods due to higher uncertainty and provoked both investment collapse and technological degradation. Finally, agents that demanded on the financial markets were fooled by numerous financial fraudulent "players". It steered away funds from financing real investment projects.

Keywords: shock therapy; uncertainty; rationality; transition; institutional hiatus

JEL classifications: E21, P21, P51

ШОКОВАЯ ТЕРАПИЯ КАК ГЕНЕРАТОР ОГРАНИЧИТЕЛЕЙ РАЦИОНАЛЬНОСТИ В ПЕРЕХОДНОЙ ЭКОНОМИКЕ РОССИИ В 1990-Е ГОДЫ

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В статье предлагается критика политики шоковой терапии в России 1990-х годов с позиций посткейнсианства и институционализма. Эта критика осуществляется посредством анализа влияния такой политики на рациональность российских экономических агентов в тот период. Основная идея состоит в том, что реализация принципов шоковой терапии внесло вклад в институциональный хаотус и привело как к избытку информации, так и завышенной неопределенности. Это создало барьеры для осуществления расчетов по оценкам ожидаемых выгод и издержек в процессе принятия решений. В результате поведение агентов стало более арациональным. В процессе принятия решений агенты полагались более на эмоции, рекламу, групповое давление и «поведение остальных», а не на методы индивидуальной оптимизации. Все эти аспекты выступают в качестве субституттов настоящего знания. В статье рассматриваются формы арационального поведения агентов в процессе принятия потребительских, инвестиционных и финансовых решений и их негативные последствия. Таким образом, арациональное поведение внесло свой вклад в экономический крах российской переходной экономики в 1990-е годы. Потребители генерировали неблагоприятные тенденции из-за демонстративного потребления западных товаров за счет спроса на отечественные блага. Инвесторы отказывались от покупок основного капитала вследствие завышенной неопределенности и провоцировали как инвестиционный коллапс, так и технологическую деградацию. Наконец, агентов, предъявлявших спрос на финансовых рынках, обманывали многочисленные финансовые мошенники. Это уводило финансовые ресурсы из финансирования реальных инвестиционных проектов.

Ключевые слова: шоковая терапия; неопределенность; рациональность; переход; институциональный хаотус

1. Introduction

The Russian transitional economy of the 1990s was characterized by fantastic collapse of both production and investment activity. In 1998 real GDP was equal to 57%, and real investment was equal to only 21% of pre-reform 1990 values (Dzarasov, 2011, p. 199). These are indicators of very bad macroeconomic performance of the economy in these years and, of course, the big mistakes of reforming it: "... in Russia shock therapy left the country in a much more parlous state" (Murrell, 1993, p. 112) than before 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 industrial fixed capital has fallen from 11 years in 1990 to 21 years in 2004; and later data are not published at all.

Such systemic failure of the reforms of the 1990s is, perhaps, main cause of the most Russians' inimical attitude to the ideals of "liberalism and democracy". Talks about "liberalism" and other Western values are now perceived by many Russian people as an "invitation" to sink into the depth of new economic and social collapse. The attacks on the political and economic freedoms by the contemporary Putin's regime are often approved because for many people "maximum of liberalism" in the 1990s were associated with awful systemic breakdown. Various "toughenings" are treated by many agents as the factors of ordering and stabilisation. All this is important if we want to understand not only the roots of technological backwardness of the Russian economy, but also an enigma of anti-democratic tendencies in the Russian social life, in general, and popularity of the authoritarian regime by Putin, in particular. We should analyze more deeply causes of economic

crash of Russia in the 1990s because these causes are “responsible” also for the current “drift” of Russia from the ideals of the Western societies and increased economic underdevelopment.

Many Heterodox (both Post Keynesian and Institutionalist) economists criticized the shock therapy policy in various transitional economies including Russia (Dow et al., 2008; Dzarasov, 2010; Kozul-Wright and Rayment, 1997; Lah and Sušjan, 1999; Marangos, 2002; Sapir, 1999; Tsang, 1996). These scientists noted that shock therapy was inspired by the Neoclassical doctrine and did not recognize many important institutional aspects – in particular, “importance and complexity of institution-building” (Kozul-Wright and Rayment, 1997, p. 641) emphasized by Heterodox economics.

This paper offers new aspects of the critique of application of shock therapy to the Russian economy in the 1990s. The main idea is that *shock therapy was a phenomenon contributing to institutional hiatus* (Kozul-Wright and Rayment, 1997) *and negatively influencing on the rationality of economic agents via provoking informational limitations of rational choice*. In the conditions of the shock therapy policy’s implementation economic agents behaved in a much less rational manner. It led to adverse macroeconomic performance and other negative consequences. We will show why and how shock therapy was conducive to arational behaviour of the Russian economic agents in the 1990s in the all significant spheres of the “demand side”: consumption decisions, investment decisions and financial decisions. So shock therapy generated adverse changes in the level and composition of aggregate demand and contributed to the great economic crash. It is necessary to note that arational behaviour is treated here as decision-making not based on use of calculations and knowledge (Dequech, 2000a).

2. On Limits to Rationality in the Market and Planned Economies

The presence of obstacles to rational behaviour in the developed market economy has been broadly recognized in the Heterodox Economics, especially in the Post Keynesianism (Lavoie, 1994; 2006; Davidson, 1991; 1996) and Institutionalism (Hodgson, 1994; 1997). The point is that *fully optimising behaviour 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 behaviour 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”. “Faced with uncertainty, people rely on heuristics or rules of thumb...” (Raines and Leathers, 2011, p. 548).

In order to overcome informational limitations, economic agents generate some informal institutions. These informal institutions include habits and rules of thumb, moral principles, entrepreneurial culture, long-terms links between industry and banking, etc. (Lah and Sušjan, 1999; Tsang, 1996; Lavoie, 2006). The described informal institutions are supplemented by formal ones: contract law, legal protection of property rights, etc. These “elements” of the economic system provide favorable environment for making sensible economic decisions. The important point is that favourable economic evolution requires smooth and uninterrupted development of institutions. 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, pp. 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).

Sharp destruction of some institutions 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).

The additional barriers to rationality are generated in the planned economy. As Kregel (1995, p. 168) pointed out, "an economy based on exchange for private gain in the form of learned behaviour, a particular form of human culture which cannot be expected to resurface unaided which more than 75 years in the Soviet Union, and over 40 in most of Eastern Europe have been spent trying to form 'New Socialist Man'".

In order to understand this sentence we should take into account that rational behaviour implies "calculatedness" (Leibenstein, 1976, pp. 72–82), i.e. detailed personal account of current and future benefits and costs that are concerned with the decision-making. Only politically, socially and psychologically independent people with deliberate objectives, personal responsibility and care for own material welfare will make rational decision in their economic life. That is why *rationality is not universal feature of human behaviour; it should be treated as the behavioural norm formed by religious, cultural and social factors*. The most famous illustration of last sentence is Weber (1965) conception of the Protestant ethic influence on rise of capitalism. Western capitalistic society itself compels people to be rational, as it implicitly follows from the famous work of Leibenstein (1976, ch. 5).

On the other hand, *the planned economy implies both political and social dependency of people and low level of personal responsibility*. Many social-and-economic relations are based on the state paternalism (Kornai, 1980). In the planned economies people usually shift the burden of individual decision-making responsibility to somebody's shoulders. As a rule, this "somebody" is the state. The level of wage, consumption bundle and other important objects of economic choice are determined by the state in exchange for guaranteeing of staple economic goods and social maintenance. People are insured against starvation, homelessness, bankruptcy, misery, unemployment. Their personal efforts do not make them bankrupt or unemployed and allow them to enrich. Needless to say, planned economy leads to very high degree of psychological dependence of people and their very low propensity to innovate in any spheres of economic life. *Arational behaviour of participants of the planned economy is a natural consequence of fundamental institutional properties of such system* such as the state property of the most productive assets, the command style of coordination, fixed prices, the guaranteed sales and employment.

3. Shock Therapy as a Generator of Informational Obstacles to Rationality: The General View

The transitional economy as the system moving from the "planned socialism" to the "market capitalism" is (by definition) characterized by fundamental changes of its institutional structure. Such "shift" in institutions itself leads to enormous obstacles to rational behaviour. The *institutional hiatus* (Kozul-Wright and Rayment, 1997, p. 643) takes place: "the old command system had collapsed before the new coordinating mechanisms of the market economy could be put in its place and generate effective responses" (see also Kornai, 1993). Such phenomenon as "transition uncertainty" takes place (Marangos, 2002, p. 575).

However, the situation becomes worse when shock therapy takes place because such strategy – implying quick and simultaneous implementation of radical reforms such as price/foreign trade liberalisation, privatization and financial stabilization – means not shift but break in the institutional base of the economic system. As a result, "the destruction of the old was hardly matched by the creation of market-oriented institutions of economic control" (Murrell, 1993, p. 137).

The transitional economy of Russia in the 1990s was the obvious example. In 1991, this country had still some analogue of the planned economy: "Price controls and state orders each applied to about 75 percent of economic activity" (Murrell, 1993, p. 132). A law on contract and other basic institutions of the market capitalism had been not created yet. The 1992 year was first year of implementation of the shock therapy policy. 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 "informational chaos" in the form of both enormous information overload in the sphere of consumption decisions and extreme uncertainty in the sphere of investment and financial decisions (the same informational problems appeared in other transition economies, for example, in Slovenia – see Lah and Sušjan (1999), but in more "moderate" manner). The point is that these information problems did not permit to make considerably calculated decisions. Economic agents started to behave in a considerably less rational manner. Their behaviour was turned to be often arational.

The point is that *complexity and uncertainty lead to inability to behave in unboundedly rational manner*; and absence of norms and habits of rationality in the behavioural principles can exclude even bounded (procedural) rationality.

In turn, both inability and unwillingness to behave rationally – to collect, process and evaluate all relevant information – is the essential cause of – up to now unexplored – "propensity to herd". "Herding is the tendency for agents to follow their competitors" (Parenteau, 1999, p. 52). Personal "propensity to herd" measures (indirectly, of course) intensity of such tendency for each concrete agent. Aggregation of personal "propensities to herd" gives collective "propensity to herd". The more the latter "indicator", the more consensus of opinion is high.

The degree of consensus of opinion, in turn, does the influence on economic decisions in the "demand-side" of the economy, in particular, on the consumption decisions (Lah and Sušjan, 1999), and also investment and financial decisions (Keynes, 1936, ch. 12; Pollin, 1999, pp. 44–45). In the 1990s it led to very adverse economic consequences for the level and composition of aggregate demand and macroeconomic performance. Below we will show how – generated by shock therapy – informational barriers to rational behaviour affected adversely on consumption, investment and financial decisions of the Russian economic agents in the 1990s.

4. Lack of Rationality in the Processes of Consumption Decision-Making Due to Shock Therapy

Due to the great economic downturn under the shock therapy policy's implementation in the 1990s many Russian economic agents started to receive income that 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. As we already noted, consumption decisions of such "poor" households had made in the conditions hindering rational behaviour. The consumption decisions were making in the situation of massive inflow of imported goods with unknown quality and characteristics (Lah and Sušjan, 1999, p. 593–600). Furthermore, these people had no "appropriate" consumption culture and experience of making economic choices, because the planned economy of shortage (Kornai, 1980) characterized by massive rationing. *Such rationing was the important barrier to develop consumption decision-making skills.*

All these aspects were reasons for both information overload in the sphere of consumption decisions and arational behaviour of many Russian people in this sphere. *Many consumption goods' purchases had been made 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 able to collect and to understand relevant information or because this information was too complex for them.* In other words, the problems of extensiveness and complexity stressed by Hodgson (1997, pp. 668–671) – as the two types of information overload – played the enormous role. It is obvious that such decisions were very far from optimal ones. It led to massive sales of goods characterized by low quality and big “amount” of cheating, dissatisfaction and disillusion. Moreover, one of the sad consequences of arational behaviour on the goods market in the 1990s was decrease of life expectancy in Russia due to the massive alcoholic counterfeits.

The similar statements can be applied to the households with incomes belonged to the opposite ranges. We imply “rich” households. Such agents had possibilities to go far beyond satisfaction of physiological needs unlike “poor” households. They strived for the best possible consumption goods stressing their position of “winners” in the Russian transitional society. All other people should have known about “life success” of such “rich” households. The criteria of such success had emerged very quickly in the beginning of the 1990s. The phenomenon of conspicuous consumption described by Veblen (Mouhammed 1999, p. 596; Trezzini, 2011, p. 503; Kapeller and Schutz, 2015, pp. 53–55) took place in all its completeness. Many purchases of “rich” households were the result of the desire to be in accordance with the “life style” of the “economic winners”. However, it is not fully (optimizing) rational behaviour because such one means independent, atomistic choice of purchased item. The point is that in the conditions of both aforementioned inflow of mass of new imported goods (“invasion of Western goods”, as Lah and Sušjan (1999, p. 594) wrote) such patterns have rapidly embodied in distorted forms. It was reality in the Russian transitional economy of the 1990s.

The problem is that such *arational, based on the conspicuous principles, consumptive choice was very harmful for the macroeconomic performance, because the most goods demanded by the “rich” households were imported.* Cars, clothes, mobile phones and other means of economic success’ demonstration were Western (or Japanese). So “rich” households’ consumption culture encouraged economic expansion outside, but not inside, Russia. 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 oil prices fall in 2014). Possibly, if behaviour 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

5. Lack of Rationality in the Processes of Investment Decision-Making Due to Shock Therapy

The idea of the negative influence of uncertainty of the future on fixed investment is the common theme in many Heterodox publications, especially of Post Keynesian authors (Keynes, 1936, ch. 12; Davidson, 1972; Minsky, 1986; Lavoie, 2006). We already mentioned above that shock therapy have generated extreme uncertainty of the future. In this environment, the Russian potential investors had no any bases for sensible investment decision-making. It was not very surprising (at least, for Post Keynesian/Institutionalist Economists) that collapse of fixed investment took place.

Higher uncertainty contributed to low animal spirits and total lack of confidence of investors. The agents acquired various “surrogate store of values” (Grahl, 1988) in the forms of foreign currencies and other financial assets, precious metals, antiques, Old Masters rather than fixed capital and other productive assets. For example, according to various estimations, capital flight from Russia in the 1990s was equal to 50–500 billion dollars. These forms of non-productive investment can be treated as arational reactions to higher uncertainty and impossibility to make calculated decisions. Such *fixed capital investment collapse is a something like an effect of mass psychosis due to sharp break with the planned economy’s institutions in the process of the shock therapy policy’s implementation.*

Moreover, there is also the “hidden” side of the story about influence of uncertainty on behaviour of investment decision-makers in the Russian economy. The environment characterized by impossibility of reliable and effective calculations created incentives for various “shadow” and “black” activities ranging from trials to conceal income for the sake of tax evasion to real criminal acts. In other words, many Russian firms were engaged in the 1990s in diverse forms of the “shadow economy”. Shock therapy – especially via privatization – generated “a breakdown of institutional norms resulting in corruption and illegal activities” (Marangos, 2002, p. 573). The Russian capitalism of the 1990s was emerged, to some extent, 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 (Shmelev, 1997). It is not surprising that now both businesses of many influential Russians have criminal origin, and some actions of the Russian governmental officers violate (international or domestic) law. It is an effect of the shock therapy policy’s implementation which hindered (substantially) rational behaviour in the legal sphere of the economy.

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 that allow to hide activity from the “third parties”. Such means are cash, barter, mutual arrears and various monetary surrogates. These means – unlike bank money – are anonymous. That is why the Russian monetary system of the 1990s was characterized by displacement of bank money by cash, barter and mutual arrears. “The rise of... pure barter transactions, transactions in promissory notes, and mutual debt write-offs, was observed in almost all of the 20-plus transition economies in the 1990s. However, it was most severe in Russia and Ukraine...” (Dow et al., 2008, p. 28).

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 – M0/M2 ratio was equal to 0.37 in 2000 and 0.22 in 2014 – remains structural weakness of the Russian monetary system at the present moment. Furthermore, during the 1990s the Russian economy was significantly demonetized. Coefficient of monetization had fallen from 19.9 per cent in 1993 to 14.8 per cent in 1999, while in the UK, USA, Germany, France this ratio is between 50 and 100 per cent; in Eurozone between 1995 and 2005 it had increased from 72.5 per cent to 89.2 per cent. Although later – in Russia – it did steady increase until 2013 when it was equal to 47.1 per cent it is very low value according to the international standards.

In turn, *demonetization is the “public bad” because, to some extent, it generates disintegration of the unified economy, its transformation into big quantity of weakly linked «islands».* Such economy is doomed to be characterized by permanent underinvestment. This problem is central for the Russian economy so far.

The roots of all these problems are in the beginning of 1990s when the shock therapy policy’ implementation led to the situation that shadow activities became both economically appeal and morally not bad. Higher uncertainty provoked the choice of assets in the illegal economy rather than in the legal one: investment/GDP ratio in Russia is much less than, for example, in China or India. It seems that slow evolutionary transition would hardly generate such consequence.

6. Lack of Rationality in the Processes of Financial Decision-Making Due to Shock Therapy

In the sphere of financial decisions, agents faced with another “general” informational problem that is uncertainty. Various financial companies offered extremely high returns for own shares, stocks, bonds, papers and so on. The agents 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 arational behaviour of many Russian economic agents.

Such behaviour can be well explained by Keynes’s conception of “conventional judgement” (Keynes, 1937). *In conditions of uncertainty, some agents follow other agents*, and an informal commitment to “behaviour of others” takes 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 confidence and trust of people to financial markets.

We suppose also that another important behavioural reason for it was mix of very low income and the famous Russian behavioural norm titled “to get all at once”. For many people purchase of “junk papers” was the only trial of quick run away from misery. Some people who had bought such “securities” in the beginning of expansion of “doubtful” financial companies have really escaped from misery. But the majority of buyers of such companies’ papers had lost their money.

These consequences could be nil if the freedom of financial markets would emerge slowly. Even the experience of advanced countries shows that stock markets often destabilize the economy (Binswanger, 1999; Singh, 1995, p. 104). It should not to forget that *the Soviet planned economy was the system without financial markets*. Therefore, *the most participants of the transitional financial markets in Post-Soviet Russia had no skills for rational decision-making*. What such skills are?

Firstly, *makers of financial decisions should be able to comprehend financial health of securities issuers*. Such agents should both possess minimum relevant information about them, for example, about recent balance sheets and income statements, and be able to understand and evaluate it. It is necessary condition for calculated decision-making in the sphere of portfolio choice. Otherwise they can be easily cheated by fraudulent, unscrupulous, dishonest or simply “fallen in hard times” issuers. In such case their choice will not be rational and do the harm to them in some future period. It should be noted that described things are beyond asymmetric information problems, although the latter is also relevant for it.

Secondly, *makers of financial decisions should be able to estimate future movements of macroeconomic conditions and understand links between them and situation on the financial markets*. For example, if such agents see that in the near future slump is inevitable they should realize that expectations of high dividends or high capital gain cannot be fulfilled. Usually such information is absent because of the uncertainty of the future (Dequech, 2000b).

Thirdly, *makers of financial decisions should be able to estimate future dynamics of financial market itself, particularly when their planning horizon is short*. For example, they should understand that domination of bearish tendencies in the market is unfavorable for large purchases of financial assets. This and previous kinds of skills are also important for (at least, unboundedly) rational decision-making in the described sphere.

Broadly speaking, many makers of financial decisions in the developed countries hardly possess these skills (at least, completely). However, such lack had been filled there by special institutions, first of all, institution of financial brokers. These agents help to “ordinary” participants of financial markets to make portfolio choice and get fee by using of own special skills and knowledge. Due to brokers, many “ordinary” people have been insured from fatal errors and mistakes. Another special institution that could fill lack of knowledge is institution of financial advisers. Such advisers guide “ordinary” participants of financial markets and help them not to make serious mistakes.

However, both brokers and advisers institutions had emerged much more lately than financial markets. Just as the state regulation of financial transactions, such institutions

are the reflection of maturity of securities markets. The history of developed countries contains numerous cases of arational speculations (for example, Tulipmania in Holland).

Participants of financial markets in the transitions economies were in danger of knowing bitter experience of developed countries. *Inability to make rational financial decisions made them victim of insolvent and fraudulent companies*. The described pattern of portfolio choice – the lack of skills for rational financial behaviour – is an example of “information overload” (Lah and Su jan, 1999) and, using more narrow definition, complexity of information (mentioned above). The latter is a situation when “... there is a gap between the complexity of the decision environment and the analytical and computational capacity of the agent” (Hodgson, 1997, p. 665; see also pp. 669–671; Simon, 1959). *Complexity is one of the bounds to unboundedly rational behaviour* (see details in Hodgson, 1997). The second main bound is also aforementioned uncertainty of the future that was also relevant for the considered issue, although this “bound” matters always in sphere of private real investment and financial decisions (see Carvalho, 1992).

So, the emergence of financial markets without normal private sector and rules of law was one of the mistakes of the shock therapy policy's implementation and led to mass cases of arational 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 economic agents to these markets are both the sources of success of authoritarian tendencies in political and social life of Russia and serious obstacles to steady economic growth.

7. Conclusion

Why was economic crash in Russia in the 1990s so great?

We believe that the fundamental mistake is the chosen mode of reforming: shock therapy inspired by the Neoclassical doctrine. This paper has showed that *the shock therapy policy's implementation implied rapid breakdown of old institutional system without creating new one. It led to great informational obstacles to rational behaviour*. The most of the Russian economic agents could not behave not only according to the principles of fully optimising behaviour, but also sometimes even according to the procedural rationality. It means that *economic actions often were not based on any calculations and were driven by emotions, advertising, group pressure, “behaviour of others” and other substitutes for real knowledge*. We have demonstrated that in the sphere of consumption decisions Russian 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 investment decisions firms refused to make long-term fixed capital investment and preferred to buy various “surrogate store of values” like foreign currencies, antiques, Old Masters, and also invested in the shadow and criminal economy. In the sphere of portfolio decisions, many holders of financial assets were fooled by financial companies. These cases of cheating were due to arational and often just stupid behaviour. All these decisions and activities were both effect of informational obstacles to rational behaviour and cause of both allocative inefficiency and bad macroeconomic performance of the Russian economy in the 1990s

According to Post Keynesian/Institutionalist view, 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 such informal institutions are the result of slow evolutionary development and 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. The successful example is China after 1978. In other words, shock therapy was not efficient and effective mode of transition.

To 1999–2001, some informal institutions emerged. We could speak about some long-term relationships between some enterprises and some banks, about the habits to understand and evaluate some market information. These ones were supplemented by about the presence of (although very imperfect) system of property rights, contract law 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 arational behaviour prevented to create in Post-Soviet Russia efficient institutional environment that is favorable to innovation-driven 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 arational behaviour was shock therapy. The paper argues that such reforming was rather harmful for the Russian economy.

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