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## Privatization or piratizing in Russia: population opinion 20 years later

**Abstract. Introduction.** In 1992, Russia began to privatize the state property. A lot of scholar and popular literature was published to describe and analyze the Russian privatization process from different points of view. The presented data given both by Russian and foreign economists are often very controversial. What really has happened in Russia – privatization or piratizing?

**Purpose.** To shows how the Russian population relates to the privatization, and what affects the population attitude to the process started 20 years ago.

**Methodology & Results.** The presented findings are drawn from the results of the series (2006–2014) of the author's original economic and sociological research of population as well as private investors of the stock market in the Kursk region.

**Conclusion.** The main factor that gradually changes public attitudes to the privatization process is the age, i.e. there are more people with neutral or positive attitude among the younger respondents. As a result, the gradual change of generation will have a positive impact on the attitude of Russian citizens to the property.

**Keywords:** Socialist System; Collapse; Privatization; Opinion; Russia

**JEL Classification:** A14; D12

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#### Приватизация или пиратизация в России: взгляд населения 20 лет спустя

**Аннотация. Введение.** В 1992–1994 годах в России начался процесс приватизации государственного имущества. Опубликовано много научно-популярной литературы для описания и анализа процесса приватизации в России. Представленные данные, приведенные как российскими, так и зарубежными учеными и экономистами, часто очень противоречивы. Что на самом деле произошло в России – приватизация или пиратизация?

**Цель статьи** – показать, как население России относится к приватизации, и что влияет на отношение людей к процессу, который начался 20 лет назад.

**Методы и результаты.** Представленные в статье данные получены в результате проведения в 2006–2014 гг. серии авторских экономико-социологических исследований населения и частных инвесторов фондового рынка в Курской области.

**Выводы.** Основной фактор, который постепенно поменяет отношение населения к процессу приватизации, – это возраст. Чем моложе респонденты, тем больше среди них людей с нейтральным или положительным мнением о приватизации. Постепенная смена поколений будет положительно влиять на отношение российских граждан к собственности.

**Ключевые слова:** социалистическая система; коллапс; приватизация; отношение; Россия.

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#### Приватизація чи піратизація в Росії: погляд населення через 20 років

**Анотація. Вступ.** У 1992–1994 роках у Росії почався процес приватизації державного майна. Опубліковано багато науково-популярної літератури щодо процесу приватизації в Росії. Дані, наведені як російськими, так і зарубіжними вченими й економістами, часто дуже суперечливі. Так що ж насправді відбулося в Росії – приватизація чи піратизація?

**Мета статті** – показати, як населення Росії ставиться до приватизації, і які чинники впливають на формування громадської думки щодо процесу, який розпочався 20 років тому в країні.

**Методи й результати.** Представлені в статті дані отримано в результаті проведення серії (2006–2014 рр.) авторських економіко-соціологічних досліджень серед населення і приватних інвесторів фондового ринку в Курській області.

**Висновки.** Основний фактор, який поступово змінить ставлення населення до процесу приватизації, – це вік. Чим молодші респонденти, тим більше серед них людей із нейтральним або позитивним поглядом на приватизацію. Поступова зміна поколінь позитивно впливатиме на ставлення російських громадян до власності.

**Ключові слова:** соціалістична система; колапс; приватизація; ставлення; Росія.

**Introduction.** There are events in the history of every country that change the habitual way of life of the majority. In the U.S., it is the War of the North and the South in 1861–1865. There had been such events in Russia over the past 150 years. They are the abolition of the law of serfdom in 1860, the socialist revolution in 1917, the collapse of the Soviet Union, the formation of the new Russian State and the change of its political system in 1991.

The collapse of the socialist system began in 1989. It had existed in the Soviet Union for more than 70 years, and in the Eastern Europe – for about 45 years. It started with the fact that in February 1989, in Poland, the independent trade union called «Solidarity» gained the right to participate in sittings of Parliament and Government of the country. Then, the opposition peacefully came to power in Czechoslovakia, Hungary and Bulgaria. In Romania, the Ceausescu regime was overthrown by military means. The non-interference position of the USSR had played a crucial role in the collapse of the socialist regimes

in the Eastern Europe. In 1991, CMEA<sup>1</sup> (The Council for Mutual Economic Assistance) and the Warsaw Pact<sup>2</sup> were disbanded. After the Soviet Union collapse, 29 post-communist countries

<sup>1</sup> The Council for Mutual Economic Assistance is an intergovernmental economic organization, which operated from 1949 to 1991, set up by the decision the economic meeting representatives of Bulgaria, Hungary, Poland, Romania, the USSR and Czechoslovakia.

<sup>2</sup> Warsaw Pact is a document issued the establishment of a military alliance of European socialist countries under the leadership of the Soviet Union and secured the bipolar world for 34 years. The agreement was signed by Albania, Bulgaria, Hungary, East Germany, Poland, Romania, the USSR and Czechoslovakia, May 14, 1955, at the Warsaw meeting of the European states to ensure peace and security in Europe. Due to the changes in the Soviet Union and other countries of Central and Eastern Europe, States Parties ATS have abolished its military structure on February 25, 1991, and signed a protocol to terminate the Agreement in Prague on July 1, 1991.

with emerging economies were formed. These countries were ready for market reforms in different degrees. Regardless of the differences, these countries had to pass a series of similar market reforms. One of them was the privatization of the state property.

**A Brief History of the Privatization in Russia.** Russian privatization was unprecedented not only in its expansion, but also in its content. In most developed market economies, the transfer of state assets to private ownership (as it happened in 1980's) solved the problem of the companies' effectiveness increasing. In contrast, the Russian privatization was intended to provide a radical change of attitude to the property and to solve the problem of the economic basis of society changing. The majority of Russian population can remember privatization checks, or so-called vouchers. Privatization is associated with them, when, in fact, there were several ways of privatization.

#### 1. *The privatization of the housing fund.*

It has been lasting since 1991 up to the present. In 1991 the law «The privatization of housing in the Russian Federation» passed, according to which the population got the right to receive their apartments in the private property. That led to the housing market establishing in Russia, and the fact that majority of citizens got the serious property. This stage has been lasting up to the present day, i.e. the Russians still have the right to privatize (free acquisition of the property) public housing they live in.

#### 2. *The voucher privatization.*

It lasted since 1992 to 1994 [1]. Here is an excerpt from the newsletter «Your privatization check», disseminated in 1992 by the Russian State Committee on State Property Management: «Every citizen of Russia from infant to a very old man gets a privatization check. You can buy shares or assets of any company or an investment fund by your privatization check. You are also allowed to sell your privatization check for cash ...»

Almost all of the Russian population took part in that privatization. In total, 144 million of checks were issued. According to the official statistics, about 40 million people invested their checks in shares in various companies and organizations, about 25 million of Russians invested their vouchers in voucher investment funds, and about a third of owners sold checks for various reasons.

#### 3. *The money stage of privatization.*

It has been lasting since 1994 up to the present. In 1994, the monetary stage of privatization started, which was to ensure the implementation of some strategic objectives for market economics development. They were as follows: to form a number of investors, owners of significant shareholdings, who would have their interest in the long-term investments; to provide privatized enterprises with cash for their restructuring; to contribute in fiscal problems solving by means of the budget replenishing. The feature of the money stage was its focus on the transition from free distribution of property to its actual sales. This stage did not become wide-scaled for various reasons. Thus, as we mentioned above, the privatization is still associated with privatization checks.

**Problem Statement.** Russian and foreign researchers had repeatedly addressed the privatization topic over the past twenty years [2; 3]. The presented data [4; 5; 6; 7] is often very controversial. Thus, there is a need to research the attitude towards the privatization among Russian population using solemn statistical basis and to estimate the opinions of the population on the privatization issue 20 years later.

#### **Analysis of some researches and publications.**

- *The privatization or piratizing?* In the U.S., there are two popular publications concerning Russian privatization with almost the same name, in which the authors have expressed diametrically opposing views on the process of the privatization in Russia. In 1995, in New York, there was published a book «Privatizing Russia» [6]. The authors M. Boyko, A. Shleifer, and R. Vishny (1995) demonstrated a need and success of privatization as an important step for the further development of Russia. The Director of the Centre of Russian and Eurasian Studies at Harvard University Marshall Goldman (2003) [7] had published a book «Piratization of Russia» where the very title of

the book describes the process of Russian privatization. The author criticized the aggressive way the decisions were made when a model for the future development of Russia was chosen in the 1990s.

- A research carried out by the Russian companies (FOM polls, the Levada Centre, ISPI) from 1993 to the present, shows that at the beginning of privatization, people had no idea about inevitability of the country's economic movement towards a new way [8; 9; 10]. Most of the population believes that privatization has not helped in the creation of a broad class of property owners. They suppose that it has brought more harm than good to the country, and the owners of large private property mostly do not own it by right. A third part of the population suggests that the privatization should not have happened at all; 46% think that it should have been conducted, but in another way; and only about 5% of the population believes that the privatization was conducted properly. A part of the population has a radical view. They would like to cancel all results of the privatization and to return all the property to the state. The number of respondents, who believe that it is necessary to revise the results of privatization completely, has fallen from 60 to 30% for 20 years (from 1993 to 2013). These data indicate a gradual change in realizing the privatization and the need to form new relationships in the field of property. The change has started since 1993.

**The purpose** of the article is to identify the factors that resulted in the negative attitude to the Russian privatization process.

**Characteristics and main results.** The author has been conducting a research of existing private investors in the Russian stock market for 9 years [11; 12]. Therefore, individuals who invest their savings or accumulations in equities or other stock market instruments, their motives, investment behavior have been studied. At the beginning of 2014, there were about one million individuals as the private investors in Russia. This year, the author has summed up the results of the research «The current private investor – who is he?» including regard to the relation of existing private stock market investors to the privatization of 1990s. The author's study covers 2500 people, or 70% of all Russian private investors living in the Kursk region<sup>3</sup> and undertaking private investment activities from 2006 to 2014. A data collection method was a questionnaire survey. Study sampling is solid. All the studied private investors are representatives of different groups of the population.

To determine how the participation in investment activity affects certain indicators, including the attitude to the privatization, the author has carried out an additional study «Investment preferences of the population» to collect the material for comparison. The method of research was a questionnaire survey; the sampling is quota age (10 categories from 18 years) of 670 people. The indispensable condition is that a respondent does not invest in the instruments of the stock market. From aforementioned follows that we denoted these two groups as Group 1 (private investors) and Group 2 (population). The brief results, which indicate the attitude of respondents to the Russian privatization, are given hereafter.

**Relation to the housing privatization.** The majority of respondents in Group 1 and Group 2 have expressed a positive attitude towards the housing privatization. Only the housing privatization was virtually supported by all Russians, despite the fact that the ownership of property implies certain risks, including the loss of the property.

**Respondents' participation in the voucher privatization.** 96% of respondents received the vouchers in 1992. 0.5% of respondents did not participate in the privatization as at that time they lived in other states. About 3% of the respondents were born after the issuance of vouchers, so they also did not take part in the process at all. A part of the respondents was minors in the privatization period, so their parents disposed the privatization vouchers. Many – up to 30% – of respondents (or their parents) sold their vouchers. No more than 40% of respondents participated in the privatization process independently.

<sup>3</sup> Kursk region is a typical Russian region, the population is 1.120 million people, the territory is 30,000 square km.

Some explained that they had sold their vouchers because they did not understand the process of privatization, or because of lack of money. About 30% specified the expectation of returning to the old system of government in which, in their opinion, all innovations, including privatization, would be canceled as one of the reasons for selling the voucher. About 30% of respondents invested their vouchers in different voucher investment funds, most of which went bankrupt. In addition, the funds, which are still active, pay dividends at a rate of a few rubles a year for one privatization check. 6% of respondents invested their vouchers in shares of such companies, as Gazprom, Lukoil, RAO UES and Sberbank, Norilsk Nickel. About 1% of the respondents invested not only checks of their family, but also checks purchased at the unorganized market at the price of 3 to 10 thousand rubles (in prices of 1990s).

Moreover, respondents were asked: «What do you think of the privatization in 1992?» (Variants of answers are «positive», «negative» and «neutral»). At the same time, they were also asked to give some comments. After analyzing the answers, the author had the following results. In Group 1, there are 24% of positive answers, 39% of negative answers and 37% of neutral answers. In Group 2, there are 28% of positive answers, 66% of negative answers, and only 6 % of neutral answers.

The percent of those who expressed a positive attitude towards the privatization is approximately equal in both groups. However, only one third of them believe that everything was well organized. Two thirds of the respondents answered that their attitude towards privatization was positive, but expressed the claims that they had failed to take advantage of the opportunities provided. Thus, among those who have positive attitude towards privatization, less than 10% do not have claims to activities that were conducted during the privatization.

The percentage of respondents who expressed negative attitude towards the privatization in the Group 2 exceeds by half the same category of the respondents from the Group 1.

Among the respondents who expressed negative attitude towards the privatization, one third believes that the privatization was not a need and that it is necessary to nationalize the property. Two thirds expressed the view that the privatization was a need, but the process was organized extremely improperly, so that it led to a result that the grassroots productive property owners did not overtook the economy.

Most of the respondents who expressed neutral attitude believe that there is no need today to look for somebody to blame for the failed investment process; it is meaningless now to find out if the privatization process was organized properly or not, but it is necessary to leave everything as it is and move on.

Figure 1 demonstrates the number of respondents who did not participate in investment activities and expressed neutral attitude to the privatization is 6 times less than among private investors.

The author believes that investors get better understanding of the investment process itself through investment activities and tend to neutral attitude with respect to the process of privatization. An extended answer of one respondent on the issue is very characteristic: «After all, today a good investment voucher is really worth two cars «Volga», and you have to blame yourself rather than Chubais that you were not able to put vouchers well»<sup>4</sup>.

Significant is the view of the current private investor of 75 years old who put his 2 vouchers and 20 vouchers bought for a pittance in the shares of «Gazprom» and now has more than 50,000 shares of the company. The cost of his shares at the time of the interview was about 10 million rubles (400,000 USD). He proved that the privatization was unfair, «all was given to confidants, people were as always deceived», and everything must be returned to the state. At the same time, he affirms that he purchased the shares of «Gazprom» fairly without violating the law. Therefore, it is faire now to withdraw the shares from oligarchs.

In the research process, the author has analyzed more than 10 factors (income, marital status, social status, etc.) that could affect the attitude to the privatization process. Only one factor (age) has a significant impact on this attitude. Younger respondents give more neutral or positive ratings (Figure 2-3).

The majority of older and middle-aged respondents, talking about the attitude towards privatization, noted that they had lived much better before the «free market» period in the modern history of Russia. The respondents of these age groups had some kind of a time line «before and after», and chose the privatization 1992–1994 year as the milestone. The proclamation of Russia as an independent state in 1991 did not particularly affect the way of life of the majority of the population. Contrary, the privatization with parallel price liberalization and other economic reforms significantly changed the level and way of life. A

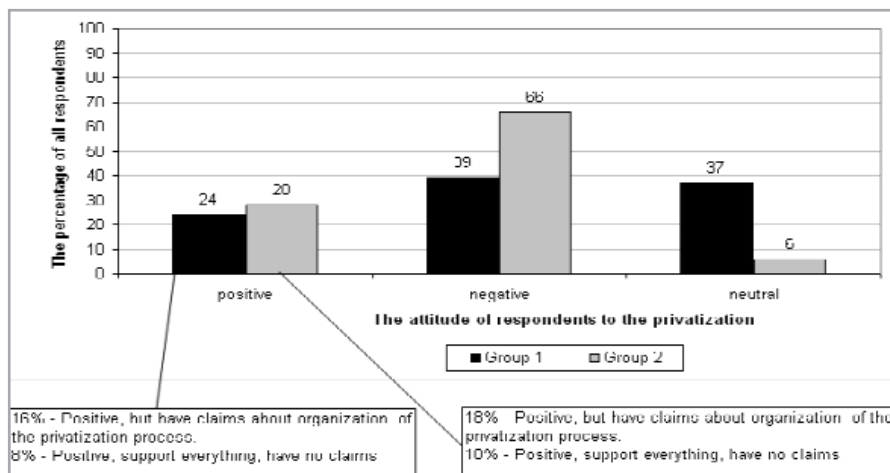


Figure 1. The attitude of respondents to the privatization  
 Source: Based on the author's research

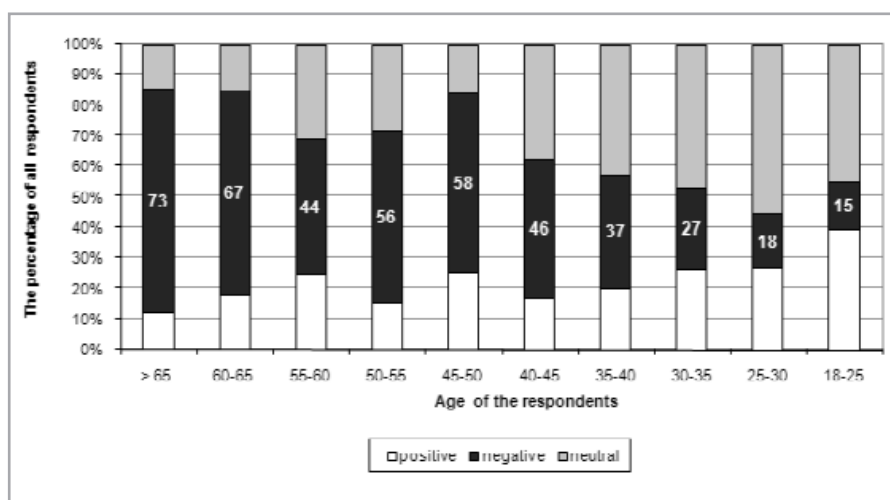


Figure 2. The attitude to the privatization by age in the Group 1  
 Source: Based on the author's research

<sup>4</sup> One of the leaders of privatization, A. B. Chubais, in 1993, claimed that in a few years it would be possible to buy two cars for the shares received by the privatization checks.



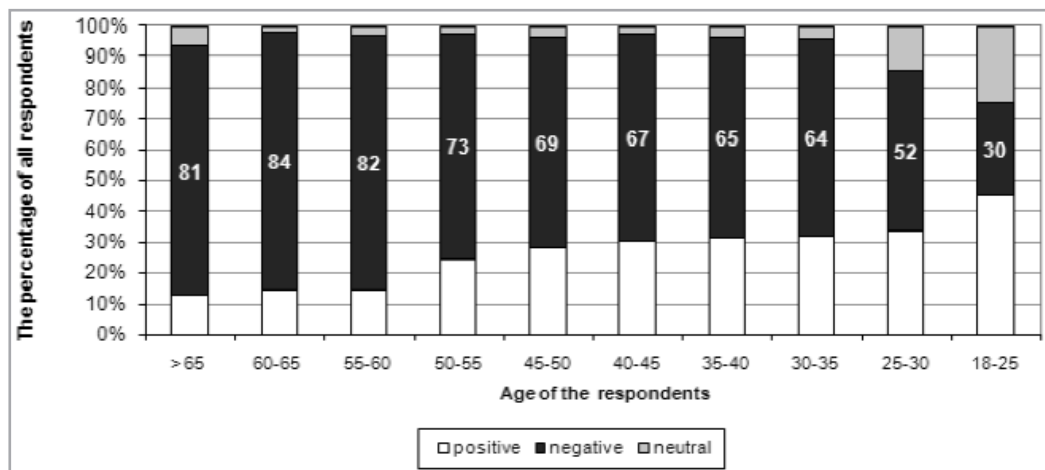


Figure 3. The attitude to the privatization by age in the Group 2  
Source: Based on the author's research

quarter-century ago these respondents were in their prime and today it seems that at that time (prior to the privatization), everything was much better.

In this context, it would be appropriate to recall the prologue of the famous film «Gone with the Wind», where one of the most important periods in American history is shown (which is the War of the North and the South of 1861–1865):

«There was a land of Cavaliers and Cotton Fields called the Old South... Here in this pretty world Gallantry took its last bow... Here was the last ever to be seen of Knights and their Ladies Fair, of Master and of Slave... Look for it only in books, for it is no more than a dream remembered. A Civilization gone with the wind...»

**Conclusion.** The main factor that will gradually change public attitudes to the privatization process is the age, i.e. there are more people with neutral or positive attitude among the younger respondents. Thus, the gradual change of generation will result in positive impact on the attitude of Russian citizens to the property.

The Russian Government now plans and conducts the further privatization through the controlling stakes sale to large investors. This automatically closes the opportunity to participate in the process for the public, as well as paves the way towards indebtedness on investments in the economy – soft loans, guarantees for loans by enterprises, tax incentives for businesses. A shared route of investments into economy (through the participation of the population in the authorized capital) still gets little support from the state.

There should be a real opportunity to participate in this process for the entire population including free participation. It seems that now the Russian authorities have the opportunity to correct errors and omissions committed in 1992, which can significantly improve the social and investment climate in the country. This could lead<sup>5</sup> to a massive community of owners more quickly and help strengthening the respect to the institute of private property, as well as promote the development and formation of the middle class.

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<sup>5</sup> According to Bible book «Exodus», Moses by God led the Jews through the desert for forty years. The task before Moses was not to reach the promised land faster, but the fact that in desert was born and strengthened the new generation of the people of Israel, able to survive in the most difficult conditions, and most importantly, not knowing anything about Egypt.

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