**Russia: the fall and rise of the market economy**

A recent survey compared the cost of living for expatriates in cities around the world. Not surprisingly, the top ten most expensive cities included Tokyo, London and New York. But more expensive than any of these was ... Moscow! Less than two decades ago, Moscow was the heart of the world’s biggest planned economy. There was no property for sale then. The state-run shops had few consumer goods. Shortages for simple things like shoes were common. Today, things are different. Moscow is the centre of a free market with some of the highest property prices in the world. The state-run shops have been replaced by expensive shopping centres and designer stores. But the change has not been easy.

The figures for Russia’s real Gross Domestic Product since 1991, when the economic reforms began, show that the economy has been on quite a roller­coaster ride. In 1991 GDP was over $350 billion. That fell dramatically year after year until 1998, when GDP was just over $220 billion. However, the situation improved again from 1998. In fact, Russia’s GDP increased steadily year after year from 1999 until 2006 when it reached around 8740 billion. What caused such a change of fortunes?

Changing over to a completely different economic system could never be painless. The Russian government of the early 1990s decided to use a shock therapy approach. They introduced severe fiscal and monetary policies. The government drastically reduced its spending. It cut subsidies to its crumbling state industries. Interest rates and taxes were raised. Government price controls on nearly all consumer goods were lifted. Only prices for staple goods like food and energy remained controlled by the government. New laws were introduced to allow private ownership and businesses to exist.

All of these measures were intended to create conditions for a market economy to grow. However, they also caused great hardship for ordinary people. Most workers at that time were on fixed incomes. The measures caused the cost of living to rise, but their salaries did not rise at the same rate. To make matters worse, events in the banking system in 1992 caused the money supply to balloon. This resulted in hyperinflation levels of 2,000%. Despite Russia’s enormous reserves of oil and gas, the economy went into a long and difficult depression. Finally, in 1998, when an economic crisis hit the East Asian Tigers, oil prices began to fall around the world. For Russia, it turned a depression into an economic crisis

However, from 1999, world oil prices began to rise again. Mostly with money earned from energy exports, Russia began to pay off its foreign debts. Inflation fell and the value of the rouble stabilised. The economy was recovering. GDP grew steadily year after year, and foreign investors began to show confidence in investing in the country. Moscow’s place at the top of the list of the world’s most expensive cities is not enviable. However, it is a clear sign that the Russian economy has survived a difficult time.