

RPTSS 2018
International Conference on Research Paradigms
Transformation in Social Sciences

PRIVATIZATION CYCLES IN RUSSIAN ECONOMY

L. Nefedieva (a)*
*Corresponding author

(a) IRNITU, Irkutsk, Russian Federation, 664074, Irkutsk, , Lermontov Str., 83, vknefediev47@mail.ru,
+79148839590

Abstract

The article is devoted to typical problems of effective use of state and municipal property. It analyzes the reasons for the ineffectiveness of state-owned enterprises and substantiates the appropriateness of privatization, i.e. transfer of these resources into private hands at a fair market price. Based on these reasons, the requirements of privatization program of state-owned enterprises are considered, which are, first of all, to keep the controlling stake in the hands of the state.

The subject of the study are objects planned for privatization, which currently cause as many questions as the conditions for privatization. The object of research is "Baikal Suburbs Passenger Company", which specializes in passengers transportation by suburban rail transport in the Irkutsk region. The activities of this company are compared with competitors available on the market, in particular, bus transportation services. The financial results of the company for 2013-2016 are presented, which make certain conclusions about the main economic indicators, such as sales revenue, costs and profit.

Analysis of traditional rail transport competitive advantages, such as high speed, safety and comfort, a small trip price compared to alternative modes of transportation, proves that suburban rail transport is a full-fledged competitor in the passenger transportation market. The presented material indicates that the hypothesis of demand inelasticity is incorrect for the aggregated product in the railway industry and is even less true for individual submarkets where state-owned enterprises operate (in particular, the Baikal SPC), as the demand for their services has proved very elastic .

© 2018 Published by Future Academy www.FutureAcademy.org.UK

Keywords: Russia, Economy, Privatization, Transport, Research.



1. Introduction

State property privatization became the most radical reformation in Russian economy held in the 1990s (Danilova, 2010). An alternative to privatization can be only price liberalization. A disaster in State budget in Russia led to privatization. Chronicle deficit did not let financing the state economy sector as it was common in the USSR. That is why the first step of privatization was pretty quick. After that, the privatization pace fell. At the beginning of the 2000s, privatization has gone. Then crawling reprivatization epoch began.

2. Problem Statement

Privatization and reprivatization steps in Russian economy clearly depend on state budget. State property grew as budget deficit problems have disappeared (Vinogradov, 2006). But, while budget facing problems, the privatization questions become popular again.

3. Research Questions

The privatization program looks humble for the time being. Quoting a well-known statement of Lloyd George, we can say that political power in Russia risks to fall in the bottom instead of bridging a gulf (Aidinov & Gugnyak, 2013). The privatization program is limited by three requirements. First, the majority off the control must be owned by the state. Second, it is unacceptable to let non-residents get the property. Third, it is unacceptable to sell the property at cheap prices. (Ivanov, 2007). All these demonstrate misunderstanding of the gravity of the moment. It is not clear why, it is believed that everything would become better or there may be some fears that there can be “harm”. These steps can be “semi-measures”. Nobody knows why political authorities are going to keep the control over property. The main problem of the moment is that state enterprises because of ineffective management have hung on the state budget or in a better case stopped to fill it (Grinberg, 2012). It is important to rather quickly hand these enterprises to the effective managers who will lead them to profit. There is no state control function in this case. Investors with serious intentions seem not to agree to state bureaucracy control. The same can be said about non-residents, as well as about their nonparticipation. It must be a try to boost Russian xenophobe. But the fact is that there is no time for plays and populism. It is time to put quickly these enterprises into the hands of effective owners whoever they are (Ulukaev, 2011). And the price of course in not so important. This is a question of a strategy, getting rid of weaknesses. How much money will be earned is not so important at the moment. But if the privatization process will be followed by additional conditions, i.e. state control, restrictions to non-residents and so on, the conditions of selling the property at “fair” price will not be followed (Koshkin, 2010). Any restriction on demand leads to lowering market price (this must be meant when we talk about “fair” price).

4. Purpose of the Study

The number of objects picked for privatization raise as many questions as privatization specifications do. Why not to make a privatization program common? It is known that during market reformations there were solid time gaps when all government offices, including municipal, get rid of property which can be used in commerce (Pavroz, 2010). Then, when suddenly political powers and the

reformation evaluation changed, which was in the nineties of the 20th century, the property privatization process in municipal ownership has stopped. In the beginning, the municipal Powers told that "at the moment the market conjuncture does not live to sell the property at fair (once again!) prices. Then it became useless because of overflowing the state budget with raw oil incomes and municipal authorities just kept the property. In this way, a dangerous and costly model of using budget funds has formed on a municipal level. (Grinberg, 2012)

5. Research Methods

Enterprises in Municipal ownership were rarely profitable and became a source of budget incomes (Shevel, 2010). We do not know such examples. But these and the prices have influenced and keep influencing the spending of budget requiring constant subsidies. In our opinion, an audit of budget spending must improve the budget at any levels, if the process of property privatization at a local level is the first thing to do (Gallyamova & Mordyushenko, 2014). Similarly to "small" privatization, which was carried out a quarter of century ago, the program of municipal and regional property privatization was called as "medium" privatization.

The enterprises in municipal ownership mostly carry out social functions and according to this definition make no interest for business. In fact, prices became a form of redistribution of budget income between local bureaucracy (Mikhailov, 2011). Such enterprises without control on the market side compete between each other in losses. It is fabulously profitable business as losses of such Enterprises fully compensated from budget. Some of municipal authorities go further and pay to the enterprises "planning profit" at the end of the year. Meanwhile the main idea of principal non-profitability in certain spheres is a myth, a trick to form a favourable public opinion. For sure, enterprises can get some profit or at least lower their losses, but they are not interested in it. One more theoretical winning is denying the market, as enterprise costs control, which for sure lead to extra costs and the disappearing of the incentives, has two fair activity (Malginov & Radygin, 2017). The most dangerous enterprises, which totally lose their market motivation bent and to use effectively limited public resources. Let us take a look at Enterprises in Municipal ownership in Irkutsk City.

An object of our investigation is a corporation called "Baikal local passenger company". It is specializing in passenger transportation by local railroad trains in Irkutsk region, mostly in suburbs. The company attracted attention when it is safe for a joint stock company striving to maximize profit.

6. Findings

In September of 2014, private companies transporting passengers between Irkutsk and Angarsk by bus decided to rise cost by 40% (from 50 to 70 roubles per trip). Companies intuitively expected that they were monopolist in this market; it cannot be explained where inflation level does not come over 7 or 8% per year. However, companies immediately have to make sure that they have a competitor. The fact is that the passengers flow in this direction is very significant. The population of Irkutsk makes about 600 thousand people, and in the city of Angarsk - just over 200 thousand people. A significant part of the passenger flow of on this route is labour migrants and students of higher educational institutions, located in Irkutsk. Faced with the growth in tariffs, a significant proportion of passengers refused bus transportation and began to

use the services of a local railway service. The quantity of tickets sold immediately grew twice! Having changed the mode of transportation, passengers faced temporary, as it seemed, difficulties. So, intra-urban public transport was not adapted to the massive influx of passengers in the direction of the station of the city of Angarsk in the evening and in the morning. But the railway itself has become unaccustomed to such stream of passengers comparable to the 80s of the 20th century: the number of trains and the time of their movement were not adapted. In addition, in the years when the river of passengers became shallow, the railway reduced the length of the train 2-2.5 times, cancelled some trains, which led to unimaginable crowding in the cars. It seemed that the last difficulty could be corrected easily since the cars were in reserve. But it did not happen. Neither in the near future, nor in a more distant time, no car (a pair of cars) was attached to the train. Six months later, tired of the turmoil on the railway, the passengers returned to buses that are more comfortable. The railway missed the opportunity to retain a significant market share. It could seem that it did not even notice it.

This surprising case made us pay attention to the financial position of JSC Baikal local passenger company. The financial results of the company are shown in table 1.

Table 01. Financial results of JSC Baikal local passenger company (passenger transportation in suburban traffic) in 2013-2016. (thousand roubles)

№	Index	Years			
		2013	2014	2015	2016
1.	Revenue	375 151	579 909	588 185	591 478
2.	Cost price	883 252	1 420 584	1 506 143	1 405 208
3.	Profit (loss) of sales	(508 121)	(841 575)	(917 958)	(813 730)

As we can see, in recent years (we have no financial reports of the company for 2017), the losses from the company's main activity have come close to 1 billion roubles. The entire number of company's losses is reimbursed from the budgets of various levels. However, the most interesting thing in our opinion is the dynamics of the company's revenue. In 2014, there was a sharp jump in revenue (perhaps due to the bold actions of road carriers). However, in subsequent years, revenue growth was almost zero. Taking into consideration the fact that the company regularly raises tariffs, it loses the struggle for passengers to its competitors. But the example we have examined proves that contrary to popular belief, suburban rail transport is a full competitor to bus-operating companies on suburb routes. It can be proved that competent use of competitive advantages of suburban railway transport solves two problems: first, increasing the profitability of suburban railway transport (it is similar to improving the efficiency of the distribution of suburban flows between different modes of transport); second, the problem of congestion of roads within the city is reduced. The effect from the solution of the second task is measured in saving time lost by traffic users.

The traditional competitive advantages of rail transport include the following features:

1. High speed
2. Accurate timetable.
3. Safety and comfort.

4. A small price for a trip compared to alternative transport.
5. Huge opportunities to realize economies of scale. (Balatskiy & Ekimova, 2006).

Having refused the services of railway transport, people can use either a private car or public transport (buses). Let us consider the advantages and disadvantages of rail transport over these competitors.

The target audience of railway transport - labour migrants and students - mostly appreciate the possibility of a relatively rapid move to the workplace (place of study) and return. For this audience, time is the most valuable resource. In this case, the total time spent by the migrant on the way can be divided into two periods. The first period is the time from home to the parking of one's own car or to the stop of public transport, as well as the time taken for the journey from the stop (parking) to the workplace (time of departure-approach). The second period is the time directly spent in public transport (car). When a trip is made in one's own car, it is necessary to include fuel and depreciation of the car. We do not include driver's salary in alternative costs, since for many people driving is a hobby.

A distinctive feature of railway transport is, as a rule, a significant duration of approach-departure time. Since the construction of railways requires considerable investment and a massive flow of passengers, it is not possible to build railways in large urban areas. This circumstance became the main reason why the high-speed train had not become a common type of city public transport. The need to use buses to reduce the time of approach-departure has led to the fact that the total cost of traveling by high-speed train exceeded the cost of traffic by traditional types of city public transport. Investments in road network are much less, so road transport can solve the problem of approach-departure with lower average costs. These costs tend to zero if the stops / parking spaces for cars (both private and public) begin to come very close to the residence of the migrant worker and to their place of work. Even in this case, as the public transport network approaches the residences, where people live in compact places, the benefits provided by the scale effect begin to decrease, but this happens with a much smaller radius of coverage than in the case of rail transport.

Railway trips will displace automobile ones, if the relative gain of time on a trip will be greater than the relative loss of approach-departure time. It is clear that this circumstance as easier, the greater the distance that the passenger needs to travel along the highway. That is why suburban rail service should be much more competitive in the market of passenger traffic rather a high-speed train. The distance is measured by dozens of kilometers. Studies show that there is a straight dependence between the distance travelled and the proportion of respondents who prefer electric trains to vehicles. At the same time, in total accordance with the theory, there are quite definite boundaries beyond which people stop making migratory trips, considering them too expensive. In this case, they either choose a place of work near their place of residence or rent a house near their place of work. The problem is that the most intensive passenger traffic rushes to Irkutsk from nearby cities - Shelekhov and Angarsk. But in this case, the competitive positions of the suburban railway are not so strong. The question arises: are there any opportunities for strengthening the competitive positions of electric trains?

As we already mentioned, the time losses that the passenger incurs as a result of a longer approach-departure time to the railway station are compensated by a higher train speed. As a rule, cars move without intermediate stops, while electric trains make several dozen stops during the journey. If the number of intermediate stations could be reduced to a minimum, the costs associated with the use of suburb trains

would be reduced. Therefore, the main way to enhance competitive advantages is to coordinate better the work of road and rail transport.

Currently, fixed-route taxi services in some regional cities (Irkutsk, Angarsk) use the practice of flexible routes when the car drives directly to the passenger's place of residence, thereby shortening the approach time to zero. This innovation has become one of the most powerful competitive advantages among those that are owned by automobile transport enterprises. The authors of the article believe that this experience can be successfully used by enterprises which organize suburban communication.

Observations show that the biggest share of the time spent on the road by the train is spent on speeding and stopping of the train at the stopping point and during the period while of the passengers get in the train. One way to increase the speed of the train is to reduce the number of stops. At the same time, passengers from overpassed stopping points should be delivered to base stations by road transport. The timetable for road transport must be clearly synchronized with the timetable of electric trains. Enterprises that carry out suburban communication can determine themselves the way of coordinating the work of rail and road transport: it can be own buses, or this service can be competitively placed among independent trucking enterprises.

It is impossible to predict theoretically whether such system is effective or not. Finally, this can not be done until we have at our disposal data on the alternative price of time, calculated on the basis of the preferences of a representative passenger in the given location, as well as the elasticity coefficient of demand for services of suburban railway transport. The calculation of these quantities is an ambitious task that has already begun in accordance with the research program placed at the end of this article. The fact that our proposals are not a utopia is proved by the fact that the suburban communications enterprises in some regions of the country have already started using the services of road transport as a way to optimize the financial well-being of the company (Shevel, 2010). But as it is known from the article in Kommersant newspaper, these enterprises consider automobile and railway trips as competing services, while we tend to believe that these services complement each other. But here everything depends on the specific value of the coefficients of the direct and cross elasticity of demand for the services of railway commuter transport in this or that region.

Even if we put aside the issues associated with direct price competition between automobile and railway companies, the latter still has a number of competitive advantages that, with the corresponding accompanying activities, can convince the buyer to choose the railway trips instead of traveling by road (whether private or public). (Grinberg, 2012).

So, the undisputed advantage of rail transport is the exact adherence to the traffic schedule. The schedule allows the passenger to predict accurately the time of arrival at the destination and thus save time. Despite a slight decrease in the discipline of traffic in rail transport, this advantage is maintained and even strengthened as road traffic begins to be hampered by traffic jams. The traditional careless attitude to the traffic schedule on the part of drivers of private buses, which slopes to sacrifice strategic advantages for the sake of momentary benefits, is also significant.

The third and fourth advantages of public transport - traffic safety and the relatively low price of a trip - will be retained for rail transport in the foreseeable future. The problem is to find a form in which the availability of these benefits can be brought to the attention of the end users of rail transport services.

The realization of economies of scale advantage is possible only if, as a result of the implementation of all the measures listed above, it will be possible to win the struggle for customers from public and private motor vehicles (Rogova, 2013). And just at this point, the organization of a campaign to attract customers to the railway transport experiences the greatest difficulties. These difficulties are, mostly, of institutional nature. They are connected not only with the traditions of behavior that have developed in JSC Russian Railways and with the erroneous marketing self-identification of this company. Difficulties also arise in connection with the unsuccessful choice of organizational forms, in which suburban railway communication is currently being carried out.

As for OJSC RZD, the main reasons for the low efficiency of its activities are related to the quasi-market status of the company itself. Infinite litigation between the Government of the Russian Federation and the management of JSC Russian Railways about tariffs indexation rate of the company or the size of state participation in investment projects, as well as the annual subsidy from the Government of subsidies to cover planned losses, explains why the company is so immune to traditional market signals (Slay, 1992). It is difficult to expect that the company will make any efforts to reduce costs or try to attract additional passengers to its side if it has the opportunity to achieve a revision of tariffs upward. It follows that JSC Russian Railways feels itself a monopoly and therefore behaves like a monopoly. But there are big doubts that it is really so.

Traditionally, railway companies (and not only Russian Railways) believe that only they are able to transport a product or passenger. Furthermore, life shows the railwaymen that this is not so. Once, the construction of the Eastern Siberia-Pacific Ocean oil pipeline was a big disaster for Russian Railways. But in fact this was just a demonstration of the obvious fact that there are ways of transporting mass products which are more efficient than the railway. This lesson did not make any good, and now the monopoly demands an increase in tariffs, regardless of the promises of customers (primarily coal mining companies) to turn to alternative ways of transporting the product. This shows that intuitively the company Russian Railways proceeds from the hypothesis of a complete inelasticity of consumers' demand for its services. In other words, it does not recognize that the one can find an alternative mode of transportation or, in extreme cases, generally refuse producing goods and, accordingly, using transportation services. Life shows that this is not so. Suffice it to recall at least a catastrophic - almost 20% - decrease in the volume of cargo transportation at the beginning of the crisis year, 2009. The fall in passenger traffic then turned out to be even more significant. It seems that with a new reduction in aggregate demand, rail transport will face similar problems. However, problems can arise for other reasons, for example, because of a drop in world oil prices and, correspondingly, a reduction in the price of petroleum products inside the Russian economy.

7. Conclusion

One way or another, the hypothesis of inelasticity of demand, incorrect for the aggregated product of the railway industry, is even less true for individual submarkets on which rail transport enterprises operate. The sphere of suburban passenger transportation is not an exception. The demand for passenger suburban trains, contrary to the expectations of the sellers, proved to be very elastic, which was demonstrated with greedy drivers of suburban buses following the route Angarsk-Irkutsk. An even more impressive example was the outflow of customers from the sector specializing in cargo transportation. It

turned out that with a sufficiently high level of prices assigned by the railroad, alternative transportation by road is competitive. This explains the flourishing of the sector of the economy called as "long-distance" transport.

Transportation company JSC Baikal acts as the largest, but by no means the only enterprise that claims to receive budgetary funds. In Irkutsk, there are a number of municipal enterprises operating in a variety of activities: Municipal Unitary Enterprise "Irkutskgorelectrotrans" (in-city passenger transportation), MUP "Rus Hotel" (hotel services), "SibExpocenter" (exhibition activity). All of them are united by the inability to make a profit. Even the Municipal Unitary Enterprise "Irkutsk Central Market", an enterprise occupying a large area in the very center of the city, claims for budgetary financing. It is clear that the transfer of all these enterprises operating in competitive industries to the hands of individuals will contribute to and improve the regional and municipal budgets.

References

- Aidinov, H., Gugnyak, V. (2013). *Privatization process in Russian Economics modernization*. Moscow. Vlast.
- Balatskiy, E. Ekimova, N. (2006). Time borders of privatization cycles, *Society and Economics*. 9, 120-131.
- Gallyamova, Y., Mordyushenko, O. (2014) Cargo owners brakes RZD, *Commerzant newspaper*. 180, 9
- Grinberg, N. (2012). New "big privatization" and other "unpopular reforms", *Russian Economics Magazine*. 3, 26-32.
- Danilova, E. (2010). Factors and lessons of privatization, *Law*. 3, 25-37.
- Ivanov, V. (2007). Privatization: results and perspectives, *Social researches*. 6, 48-59.
- Koshkin, V. (2010). Privatization to modernize the country, *Problems in management theory and practice*. 2, 101-109.
- Malginov, G., Radygin, A. (2017). Perspectives of privatization policy for 2017-2019, *Russian economic development*. 2, 38-45.
- Mikhailov, A. (2011). Privatizations in Russia: myths and reality, *ECO*. 6, 4-25.
- Pavroz, A. (2010). Privatization as a part of contemporary administrative reforms *Moscow University Newsletter: Vol. 21. Management (State and society)* (pp 23-32) Moscow: Moscow university publishing house.
- Rogova, O. (2013). How do privatization and new industrialization reconcile, *Economist*. 8, 52-57.
- Shevel, O. (2010) Anticrisis privatization, *Finance*. 3, 14-19.
- Slay, B. (1992). Privatization and demonopolization, *Economics questions*. 3, 58-68.
- Ulukaev, A. (2011) Privatization: how to do it, *Free thought*. 2, 169-186.
- Vinogradov, V. (2006). *Privatization: global tendencies and national features*, Moscow, Science.