The looting of post-Soviet Russia

by Rachel Douglas

The notion that the "reform" team, installed in Russia in the Thatcher-Bush era, launched a process of transforming the Soviet command economy into a smoothly working market economy, which then encountered the pitfalls of corruption and crime, is phony from the outset. The name of the game was always loot. Overseen by economists, trained by personnel from the Mont Pelerin Society's Institute for Economic Affairs in London and others in the theory of unbridled criminal finance as the engine of economic advance, the Russian reforms ensured that a stream of real and monetary wealth would flow from from the East into the ever more bloated world bubble of financial aggregates.

The major phases of the "reform" looting of Russia are painted here with a broad brush.

1989-91: On the eve of the break-up of the Soviet Union, the question of who will ensure that the foreign debt of the U.S.S.R. is serviced, dominates International Monetary Fund (IMF) and other Western policy discussions about economic relations with the region. In 1991, that debt stands in the vicinity of $70 billion. By 1998, Russia's inherited and new debt will balloon to around $200 billion.

1991: The week of Aug. 19 marks the end of the U.S.S.R., as Ukraine declares independence after the abortive State Emergency Committee coup attempt against Soviet President Mikhail Gorbachov. Russian President Boris Yeltsin emerges as the key figure of the transition. At the end of the year, he forms a cabinet dominated by London-schooled adepts of the Mont Pelerin Society, the organization of Friedrich von Hayek and Milton Friedman, purveyors of the most radical "neo-liberal" ideology of economic deregulation and diminution of the nation-state, which is being implemented in the West as "Thatcherism" throughout the British Commonwealth, and "deregulation" in the United States. Among the Russian Hayekians are Prime Minister Yegor Gaidar, privatization chief Anatoli Chubais, Finance Minister Boris Fyodorov, and Konstantin Kagalovsky, soon to be Russian "director" at the IMF.

1992: *Price decontrol and inflation.* Many prices are freed from regulation on Jan. 1, 1992, after 70 years of a state-run economy in which the artificial suppression of prices was a major mechanism of administrative control. For the year, inflation runs at 2,600%. The savings of Russian citizens, on deposit in the state savings bank (Sberbank), are vaporized.

IMF membership: In March, Russia's first policy pledge to the IMF is announced by Kagalovsky. He vows austerity to fight inflation, and promises mass privatization of state and collectively owned property, including land. In June, the Russian Federation becomes a member of the IMF.

Privatization: In August, Yeltsin announces "voucher privatization," whereby each Russian citizen receives a voucher with which to purchase shares in state-owned companies as they are privatized. For a population whose savings have been wiped out by inflation, pressure to sell the vouchers is great. The secondary market in vouchers becomes the venue for the accumulation of privateer fortunes, for the acquisition of choice properties. In 1995, Academician V.A. Lisichkin will report on the "avalanche-style" privatization of 70% of the small firms in Russia and more than 14,000 medium and big companies, by Jan. 1, 1994. By the end of 1993, official sources estimate that more than 60,000 Russian enterprises are controlled by organized crime.

According to Lisichkin, "the treasury of Russia received an average of $2.48 million for each of 87,600 privatized enterprises," among which were jewels of the Soviet economy, sold for a tiny fraction of the real worth of their plant and equipment and their products. On the list of 500 largest enterprises privatized under Chubais, were the Russian Joint Stock Society (RAO) "Unified Power System" (the entire power grid of Russia), for $649.6 million; RAO Russian Nickel, for $468.6 million; the Gorky Automobile Factory, for $26.6 million; the Port of Novorossiysk in southern Russia, for $22.5 million; the Murmansk Trawler Fleet, for $3 million; and so forth.

In sum, "Detailed analyses of the list of 500 major Russian enterprises privatized by Chubais's agency, yields the following conclusions:

"1. The real value of the enterprises sold is more than $1 trillion, based on the market value of similar firms in the United States and western Europe. On orders from the overseas gentlemen, shock therapists sold them for a mere $7.2 billion.

"2. Of these 500 major Russian enterprises, some 80% were sold at auction for less than $8 million. The price of 324 enterprises, out of the 500, was below $4 million. The Ural Machine-Tool Factory (Uralmash) in Yekaterinburg, employing 34,000 workers, was sold for $3.72 million; Chelyabinsk Metallurgical Combine, with 35,000 workers, for $3.73 million; Kovrovsky Mechanical Factory, supplying the entire Army, Ministry of Internal Affairs, and the special services with firearms, and employing 10,600 workers, for $2.7 million; Chelyabinsk Tractor Factory, 54,300 workers, for $2.2 million. By comparison: An average bakery in Europe costs about $2 million; a medium-sized Swiss sausage factory, $3.5 million. . . . Thus Chubais's team equated the Chelyabinsk Tractor Factory to a bakery." (Excerpts from the Lisichkin report, documenting many more such excesses, were published in *EIR,* Nov. 3, 1995, p. 6),

Big global players in privatization swindles, such as Crédit Suisse First Boston, were extremely active in the "voucher" stage of Russian asset-stripping. As an employee of CSFB, Boris Jordan amassed over 17 million vouchers on the secondary market for his clients. Huge fortunes were accumulated in this first stage of privatization.

Capital flight is in the form of tangible products, as well as cash. Industrial plants are authorized to sell off part of their strategic metals stockpiles, supposedly to invest the proceeds in regional economies. The world aluminum price plunges, as Russian metal floods the market. Estonia, a transshipment route for contraband metals cargoes from Russia, rises to third or fourth rank among all nonferrous metals-exporters, although it has no ore deposits of its own.

1993-94: *Pyramid schemes.* Old-fashioned Ponzi schemes, "investment" houses whose only offering was the promise of returns, paid out on the basis of the next round of suckers' deposits, sweep Russia. They are advertised in loud and lively fashion on state-run TV. They are calculated by economist Sergei Glazyev to have "wiped out 20 trillion rubles of the savings of 40 million people in a second round," when they collapse. The demise of the most famous, MMM, in July 1994 sets the stage for the ruble's 25% crash on Black Tuesday, Oct. 11, 1994.

The end of "democracy." Abolition of the elected Supreme Soviet and its suppression by force in September-October 1993, is Yeltsin's response to that parliament's resistance to the next privatization and financial market development measures, charted by Gaidar and Chubais.

1995: *Loans-for-shares.* Chubais and Alfred Kokh, especially, push through a scheme for Russia's commercial banks—institutions more resembling cash chutes than investors or places for deposits, which were built up during the first phase of real-goods and privatization looting, as well as from pools of Communist Youth League and other Soviet institutional funds—to lend to faltering major industries, with the assets of the latter as collateral. Through this maneuver, major production facilities such as Norilsk Nickel are acquired by the *nouveaux riches* financiers. Kokh loses his job, under the cloud of loans-for-shares-related scandals.

1996: *Bond pyramid.* Russia's government bond market, creation of which was sought by George Bush's administration and the U.S. Federal Reserve since early 1992, was established in 1993 with the sale of ruble-denominated bonds to finance the inflation-driven budget deficit. In 1996, the government bond market is opened for foreign participation. Short-term government bonds (GKO), with double-digit annual returns at first, and triple-digit in the Presidential election year of 1996 and the terminal year of 1998, suck potential investments out of the real sector and into speculation. By 1997, Russia has become "the best-performing emerging market in the world," in the words of dozens of financial hucksters.

Dope, Inc.: Based on law enforcement, banking, and other reports, *EIR* estimates that approximately 10% of world "dirty money" flows (totalling $521 billion from the drug trade and the rest from other criminal business, as of 1996) now comes from Russia and the former Soviet Union (*EIR,* July 26, 1996). Such black market capital flight, in turn, keeps the global speculative bubble afloat. Russian and other expert estimates place cumulative capital flight from Russia at $500 billion to $1 trillion in this decade.

1997: *Mega-privatizations.* The world's largest speculators, like George Soros, appear on the Russian market in their own name for the auction of Svyazinvest (the national communications company) and other major firms, with foreign bids allowed.

Global financial crisis. As shock waves from Asia hit, the Russian stock market plunges from its summer 1997 highs. By June 1998, some 40% of the nominal capitalization of Russian companies has been wiped out.

Aug. 17, 1998: The Russian financial bubble pops, as the ruble is devalued 34% in one day, and GKO transactions are frozen. The IMF's last, $22 billion loan package for Russia, of which $4.8 billion was disbursed to the Central Bank in July to replenish currency reserves, buys time for big players to escape the GKO pyramid before its collapse.

Who was in charge?

President of the Russian Federation

1991-present: Boris N. Yeltsin.

Prime Minister

November 1991-June 1992: Yeltsin.

June 1992-December 1992: Yegor Gaidar (Deputy Prime Minister since November 1991; returns as Deputy Prime Minister, September 1993-January 1994).

December 1992-March 1998: Viktor Chernomyrdin.

March 1998-August 1998: Sergei Kiriyenko.

August 1998-September 1998: Chernomyrdin (acting).

September 1998-May 1999: Yevgeni Primakov (dismissed after his serious crackdown on economic crime and capital flight, and measures to restart the real economy).

May 1999-August 1999: Sergei Stepashin.

August 1999-present: Vladimir Putin.

Privatization Minister

November 1991-November 1994: Anatoli Chubais.

November 1994-January 1995: Vladimir Polevanov (fired for exposing looting).

February 1995-January 1996: Sergei Belyayev.

January 1996-July 1996: Alexander Kazakov.

September 1996-August 1997: Alfred Kokh. (Succeeded by several others.)

EIR has documented the devastation of Russia's real economy and its population, by these financial policies. See especially, "The Financial Crisis in Russia," July 3, 1998; "Russia: Dark Age, or Recovery as Eurasia's Keystone Economy," Sept. 25, 1998; "The Systematic Destruction of Russia," April 16, 1999.

Besides Lisichkin's report, sources for this chronology are *Kremlin Capitalism: Privatizing the Russian Economy,* by Joseph R. Blasi, Maya Kroumova, and Douglas Kruse; Sergei Glazyev, *Genocide;* and Stanislav Govorukhin's 1994 film and book, *The Great Criminal Revolution.*