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OUTSIDE VIEW

MORE NOMENKLATURA PRIVATIZATION

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When the Communist Party ruled Russia, the nomenklatura did not need pockets full of rubles or dollars to enjoy a privileged life style. Now they do and thanks to Yegor T. Gaidar's policies they now have bank accounts full of rubles and dollars. Prior to August 1991, the nomenklatura ruled the party that ran the state that owned Russia's enterprises. In effect the nomenklatura owned Russia. When Gaidar's current privatization program ends, the nomenklatura will once again own Russia.

Gaidar's policies, at best naïve, have caused one of the largest and quickest transfers of wealth in history from the many to the few. The few, of course, are the nomenklatura, and with their new stolen wealth will soon buy more than Mercedes Benz and BMWs - they will buy controlling interests in Russia's enterprises.

Gaidar's initial adherence to the International Monetary Fund's tight credit policies in Russia's monopoly economy drove up prices dramatically on goods and services during the first three quarters of 1992. Russian citizens were forced to deplete their savings in order to purchase the necessities of life at inflated prices.

At the same time, the lack of regulatory controls and lax enforcement allowed government bureaucrats and enterprise bosses (together the nomenklatura) to steal state assets or acquire assets at low state subsidized prices and sell them to Russia's citizens at inflated prices.

Nomenklatura, or as we in America would call them - mafiosos, directed overseas importers of state products to deposit payment in overseas bank accounts controlled by the nomenklatura. Enterprise managers and institute directors sold state products at subsidized prices to associate mafiosos who in turn resold the products at a higher price and divided the profits with the directors and managers. Because the monopoly nature of Russia's economy strictly limited the number of competing manufacturers, a few mafiosos in any one industry could divert enough products to brokers that supplies to state stores dwindled, leaving citizens no choice but to spend their savings buying from mafioso brokers. Enterprise managers also embezzled revenues from the sales of state products and services. One department store manager withheld sales revenues and used the money to purchase the store from the government; restocked the store mainly with imported goods and raised prices. Other enterprise bosses simply sold their company's product at inflated prices and pocketed the proceeds.

Bureaucrats, also considered a type of mafioso in America, used funds from ministry budgets to set up private commercial banks.

~~Naturally~~ they or their fellow travelers in larceny controlled the banks. These banks provided credits at reduced interest rates to a bureaucrats personal account or some type of trading activity. For example: importing Western and Asian consumer goods, drug trafficking, money exchange, purchasing Russian products at subsidized prices from nomenklatura managers at state enterprises and re-selling at inflated prices. In most cases the bureaucrat and the bank never intended the credits to be repaid, providing the bureaucrat a gift of state funds. In America such criminal activities are called "sweetheart" loans.

Failure to prosecute bribery allowed bureaucrats to fleece honest citizens and legitimate businessmen of their savings. Because without government approval, people were prevented from doing nearly everything from driving a car, to selling a few items for food money, to obtaining a license for a productive business venture.

In the end Gaidar's policies and lax regulation and enforcement allowed to apostles of greed to transfer the savings of Russian citizens into their pockets. Russia now has a class of ruble and dollar rich mafiosos and a huge class of impoverished citizens. Long lasting and influential wealth, however, requires more than bank accounts stuffed with rubles and dollars; it requires ownership of the means of production. That is where Gaidar's other policy, privatization, comes into play. Through privatization the old Communist nomenklatura, now the nouveau rich bourgeoisie, will buy up Russia's enterprises and enshrine themselves as Russia's robber barons.

Many of the poor, which now includes most Russian citizens, will sell their vouchers because they have no choice; they need the money now that their savings are depleted. The wealthy mafiosos will buy the vouchers and with their illgotten gains buy up most of Russia; thereby creating a relatively small class of capitalists who own much of Russia because they were allowed and encouraged to expropriate the life savings of most of Russia's citizens. Some argue that Russia needs a small wealthy capitalist class to exert proper control over managers and workers. Once again old authoritarian communist thinking is at work. In a competitive market managers and workers will do their job or they will be out of a job, because the enterprise will have gone bankrupt.

The small class of the rich can be deterred in their theft of Russia by making the privatization vouchers non-transferrable and eliminating the restriction that vouchers can be used to purchase only a minority interest in an enterprise. This would assure every man, woman and child a stake in the means of production that will create Russia's future and mitigate the control of Russia's future by its past nomenklatura. ■