

SERGEI GLAZYEV

GENOCIDE



**RUSSIA
AND THE
NEW WORLD ORDER**

THE GENOCIDE CONVENTION

Article I. The Contracting Parties confirm that genocide, whether committed in time of peace or in time of war, is a crime under international law which they undertake to prevent and punish.

Article II. In the present Convention, genocide means any of the following acts committed with intent to destroy, in whole or in part, a national, ethnical, racial or religious group, as such: a) Killing members of the group; b) Causing us bodily or mental harm to members of the group; c) Deliberately inflicting on the group conditions of life calculated to bring about its physical destruction in whole or in part; d) Imposing measures intended to prevent births within the group...

Adopted by the United Nations General Assembly, Dec. 9, 1948

Sergei Glazyev on Russia in the 1990s



"The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s... There has been nothing like this in the thousand-year history of Russia."

Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, the only member of the Russian government to resign in protest of the abolition of the Parliament and the Constitution in 1993,

Doctor of Economics Sergei Glazyev looks at post-Soviet policy in Russia from a unique vantage-point. He is confident that Russia can recover, but only if the "reform" policies of the 1990s are rejected as the instrument of national catastrophe that they have been. Glazyev's book is must reading for an understanding of what went wrong, and what was wrong from the outset, after the Soviet Union broke up.

Genocide

(October 1993-August 1998)



Russia and the New World Order

A Strategy for
Economic Growth
on the Threshold
of the 21st Century

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Preface

Behind Russia's Catastrophic Liberal 'Reforms': A Fatal Pattern of Policy-Shaping

by Lyndon H. LaRouche, Jr.

Russia might outlive Thatcherism.

At the time the English edition of Dr. Sergei Glazyev's book goes to the printer, we have reached the point of successive economic collapses of not one, but, now, both of the principal super-power alliances which had dominated the post-Franklin Roosevelt world. At the present moment, there is no scientific way of foretelling on which week the present International Monetary Fund-dominated world financial system will collapse, but it is nonetheless certain, that that system is doomed, and that soon.

For the period immediately ahead, we can be certain of only two facts about the world economy as a whole. First, we may be certain, as many leading bankers and others are certain today, that the present, hopelessly bankrupt IMF system, is at the brink of either one, or a series of precipitous systemic, fatal, chain-reaction implosions. Only the exact date and choice among several probable detonators of that general collapse remain uncertain. Second, we know, that either the present world financial system will be put into bank-

ruptcy-reorganization, that by joint action of some of the world's leading nations, or the system will simply disintegrate of its own accord. In the latter case, the result will be the unleashing of a virtually global, economic chaos. A collapse of the latter sort would plunge most, or all of the world into something echoing Europe's mid-fourteenth-century "New Dark Age," perhaps for decades to come.

In the case of the 1989-1991 disintegration of the Comecon and Soviet Union, it is arguable that many among the contributing causes for that collapse were of a voluntary nature. Which were those mistaken choices of action and inaction, by the Soviet leadership, is still being debated; but, the fact that some grave errors of choice occurred, is not debatable. At bottom, whatever those voluntary errors of leadership were, the essential fact is, that the collapse of the system was ultimately not simply the result of some isolable bad individual decisions; the bad decisions were the outcome of a pervasive systemic flaw within the decision-making characteristics of the system within which particular decisions were made.

The same judgment must be passed on the presently collapsing world financial system: the so-called "IMF system." After all secondary questions are taken into account, the reason the present world financial system is now disintegrating, is simply that any system of the special functional characteristics described by my "Triple Curve," the characteristics of the decision-making of the present IMF system, must cause that system to disintegrate.

Therefore, we must say, that the reasons for the presently ongoing collapse are of a systemic, rather than an accidental nature.

For example, it was President Richard Nixon's follies of August 1971, which launched what has been demonstrated to have been an inherently ruinous "floating-exchange-rate monetary system," the present IMF system. It might seem that any of Nixon's successors among the leaders of the G-7 nations, could have, theoretically, reversed the 1971-72 blunders of Nixon, George Shultz, et al. In fact, they did not do so; instead, the later decisions made, simply made things much worse than Nixon's blunder had done. When one takes into account the powerful interests which usually control the election and downfall of governments, perhaps the bottom line

is, that those officials simply lacked the ability to make anything other than foolish decisions on these matters of long-term trends in monetary, financial and economic policies.

The reasons the Atlantic powers did not reverse the terrible monetary-policy blunders of 1971-1976, lie in the systemic, policy-shaping characteristics of the dominant factions within that social formation fairly identified as the London-led "Atlantic establishment." It was not any one policy which has steered the present IMF system from the folly of August 1971 to the fatal "derivatives bubble" crisis of today. The fault behind the onrushing doom of the world's present financial system, lies not with individual policy-decisions, but in an ultimately fatal pattern of policy-shaping innovations. Typical of what have proven to have been the most crucial among such follies, were those introduced by the trans-Atlantic powers under the influence of the long reign of the Mont Pelerin Society's British Prime Minister Margaret Thatcher.

That point should be repeated. The fault lies not in any particular decision, as such; the fault lies in the social and ideological characteristics of today's "Atlantic establishment," just as the collapse of the Soviet system flowed from the ideological and related characteristics of its establishment. The fault lies in the habituated, ideologically charged pattern of changes of decision, an ordering of changes which shape the "planetary" orbit of the net effects so produced. We say, therefore, that the fatal trajectory of events is, like a planet's orbit, essentially systemic, not the result of several isolable policy-decisions on direction made along the way.

Thus, in both doomed cases, the fallen Soviet system, and the presently doomed IMF system, the ultimately inevitable doom of the system lies in what may be viewed as the characteristic behavior of the species—the characteristics of that species of system.

The rabbit who is killed by the automobile, had the physical ability to avoid that risk; it was the characteristic of the rabbit's nature, to choose the new decision which then doomed it to serve the pleasure of the waiting crows. The skilled hunter relies upon his or her knowledge of the inhering follies of the intended prey's inhering behavioral traits, just as the skilled military tactician regularly outflanks his unwitting intended prey. Animal species can learn, but they can not improve upon the axiomatic assumptions

which govern their behavioral propensities. The doom of any lower species is, therefore, systemic, rather than the accidental result of the animal's isolated decisions.

The doom of social and political systems, lies not in any one or several among the decisions leading into that doom. Human beings, and therefore societies, have the ability to change the characteristics of a society's mass behavior. The cause of the collapse of a society, is, rather, those flawed, axiomatic habits of decision-making which the system itself stubbornly refused to change. So it was with the Soviet system; so it has been with the 1971-1999 pattern of decision-making by the IMF's establishment.

Therefore, in examining the self-inflicted doom of once-powerful political systems, we must focus on both the similarities and qualitative differences between the lower animal species and human beings. The difference lies in the rational options always implicitly available to human beings. Therefore, the crucial issue is, the potential of societies, using reason, to survive, by recognizing and correcting the follies of their own seemingly built-in, axiomatic assumptions.

The analogy for such fatally flawed decision-making by the two presently doomed systems, is the problem posed by the way in which the mathematician's adoption of any specific set of definitions, axioms, and postulates, dooms that mathematician to adopt only those theorems (e.g., policy-decisions of practice) which are consistent with his (often unwitting) axiomatic assumptions. If his opinions are shaped, like theorems, by the wrong set of definitions, axioms, and postulates, every crucial theorem he develops will be wrong. Such errors are systemic, and neither accidental, nor transitory in nature.

If that kind of policy-shaping error is adopted by a society, that society is ultimately doomed by its stubborn acceptance of its own "generally accepted ideas." This defines what we must regard as the true cause of a systemic collapse, as distinct from a temporary collapse which might be caused by a series of accidental mistakes in choice of policy. That is the difference between a systemic economic crisis, such as the present world crisis, and a mere temporary, cyclical crisis in an otherwise successfully ongoing economic system.

So, Dr. Sergei Glazyev and I, as others, have been impelled to

study the systemic, rather than merely accidental reasons for the apparently imminent doom of both the Soviet system and its neo-liberalism-dominated Russian successor. For me, that is the most important implication of his book. On the problems and options presented to Russia's economy today, he is an exceptionally qualified insider. Such Russian specialists must sort out what was valid in the former Soviet system, and distinguish that from the causes of the systemic collapse of both that system and the doomed liberal experiment which followed.

Similarly, I, like any serious patriot of the present-day economies of the USA or western continental Europe, must define both the virtues and follies of post-Franklin Roosevelt U.S. economic systems.

We have come to the point, that the present IMF system is hopelessly doomed to an early end. Either we change the system fundamentally, or we must expect a plunge deep into a prolonged period of vast devastation. That catastrophe few nations, if any, were likely to survive. To prevent that, we must act, very soon, to change the system systemically. We must sweep aside, and replace, many of what have become, over the interval 1971-1999, the most passionately adored among the post-1971 changes in the present world financial, monetary, and economic system.

To save civilization, we must act immediately, to change the present world system in a most sudden and radical way. Otherwise, all of us are berthed on a sinking world-economic Titanic, with no lifeboats available.

To make such radical and sudden changes, two preconditions must be satisfied. First, the USA must find a powerful array of accomplices among nations of the world. These nations, acting in concert, must make those sudden and sweeping changes, which eliminate immediately the present IMF system, and introduce its healthy replacement. Second, we could not bring such agreement about in a timely fashion, unless the authority of successful precedents from the pre-1971 period could be invoked as proof of what might work to replace the presently doomed, post-1971 evolution of the IMF system.

The nations which must be brought together to make such a quick decision, must be a group of sovereign nation-states representing a majority of the world's population. This includes, together

with the President of the USA, the sovereign governments of Dr. Glazyev's Russia, China, India, at least some nation from western continental Europe, plus other states of Eurasia, Africa, and the Americas likely to rally to the same effort.

On this account, the lessons of the successful experiences of those nations' past must be taken into account. Dr. Glazyev's role, his background as a professional economist, and his several important roles as a leading youthful, upcoming figure of a Russia whose participation is essential to the USA and other prospective partners, make his knowledge and opinions of special included importance to all those, in every nation, who must be assembled to establish the urgently needed new world monetary system.

On both sides of the former divide, I, for example, for the USA, and Dr. Glazyev, for example, for Russia, these are the types of issues which serious policy-shapers must consider, in searching for happy ways out of the presently threatened common doom of both former strategic systems. The English-speaking reader, including, one would hope, President William Jefferson Clinton, should view Dr. Glazyev's book with that thought in view.

—September 17, 1999

Author's Foreword

To the Second Russian Edition

The present work is in three parts, the first of which analyzes the results of six years of "the great turmoil." The second examines the tendencies for formation of a New World Order, and Russia's place in it. These two sections deal with the present condition of Russia and the directions of its social and economic evolution. The third part is devoted to prospects for the development of the country and characterizes the basic lines of an economic growth policy, oriented toward activation of the competitive advantages of the Russian economy, its internal reserves and potentialities, and its optimal integration into world economic relations. It surveys the still existing possibilities to restore Russia's might and prosperity, against the backdrop of the gloomy tendencies of recent years.

The groundwork for an economic growth policy, developed here, shows that there are alternate scenarios of economic and overall social development, and supports the argument that the catastrophic results of the past six years were contingent in nature, following from the conscious policy of the oligarchy that ruled the country. Its exploitation of power for purposes of personal enrichment effectively led to genocide against the Russian people.

The bankruptcy of that policy of destruction of the country's productive forces, which transpired on August 17, 1998, opened up possibilities for a change in economic policy, in the direction of an upswing of production and prosperity for the people, and the creation of conditions for economic growth and an increase in the competitiveness of the Russian economy. The leading organizers of the genocide have been removed from power. The influence of the parasitical oligarchy of financial speculators has been reduced, as a result of the destruction of its established practice of appropriat-

ing the country's national wealth, which vanished together with the collapse of the system of state finances. Thus, an opportunity has been created for the rebirth of Russian statehood and a transition from a policy of destruction and genocide, to a constructive policy in the national interest.

Each part of this work stands on its own. The purpose of combining them in a single monograph is to point up the choice facing the country today: Either we passively submit to a suicidal policy of self-destruction and the colonization of Russia, which has been imposed from the outside by deception and graft, or we concentrate the political will of society's healthy forces on the goal of breaking the tendencies that have been so catastrophic for the country and the Russian people, and move to a scientifically grounded strategy for economic growth, improvement of the people's welfare, and restoration of the spiritual-intellectual strength and the scientific and technical potential of the Russian State.

—November 1998

PART I

Genocide

(October 1993-August 1998)

The August 17, 1998 collapse of the radical reform policy, conducted since 1992, provides the occasion to assess the results of the new Russian revolution. After the destruction of the country's productive forces, and its economic and financial system, we face a historic choice once again. This time, it may be final. With the change of government in September 1998 and the weakening of the positions of those, whose policy it was to turn Russia into a colony, there is a possibility to make that choice from the standpoint of our national interests. It is important for the relevant decisions to be taken in full consciousness, which means that the period of revolutionary transformations (which we date from the moment of the breakup of the USSR in 1991, to the financial collapse of August 17, 1998) must be subjected to an objective evaluation.

The policy of self-destruction of the economic system of the State, which was carried out in Russia after 1992 in the guise of liberal economic reforms, cast off the shackles of legality and became economic genocide against broad layers of the population, as a result of the coup d'etat of September-October 1993. After the shelling of the Russian Parliament at the beginning of October 1993, the victorious revolutionaries felt that they could commit any acts whatsoever, with impunity, whereupon they turned the reforms in the direction of their own personal enrichment: The privatization of state property, as well as financial and budget policy, became synonymous with lawlessness and corruption. From a political and juridical standpoint, therefore, the policy of genocide should be

reckoned from October 1993, when the revolutionaries usurped power and assumed full responsibility for the formulation and conduct of social and economic policy. Having gotten free rein for the implementation of their intentions, they carried out, under cover of market reforms, a consistent policy of appropriating the national wealth and colonizing the country for the benefit of international capital, the consequences of which have been catastrophic for the Russian people.

There is not yet a coherent opinion among the public, about the results and the effectiveness of the revolutionary transformations that took place. The partisans of the policy that was pursued give high marks to certain outward effects: the absence of queues, the saturation of demand, and the freedom of each person to do as he pleases. Its opponents refer to the monstrous economic depression, the social catastrophe that has gripped the majority of the population, the growth of crime, and the de facto loss of national independence. The former define these deprivations as a "transformation recession," attributing them to some objective causes, while the latter call it a "systemic crisis," which stemmed primarily from the type of economic reorganization policy that was carried out.

It is important to give a precise definition of the content of the policy that was implemented, from the moment of the breakup of the Soviet Union and the beginning of radical reforms in 1992, through to August 17, 1998, not only for the sake of comprehending what happened, but also in order properly to plan for the future. This definition ought to reflect an interpretation of the implemented policy that subsumes the objective, factual domain and the value and idea content, as well as an evaluation from the standpoint of law. It should be given in precise juridical terms, defining the responsibility of the ruling authorities before society, in order that each citizen may have a clear idea of what is happening in the country. Such an adequate evaluation of the changes that have occurred and the present situation is also necessary for the development of a constructive action program, aimed at the elimination of threats to the national security, and at overcoming the crisis.

The precise definition, as will be shown below, is the concept of "genocide," used in international law.

1 Definitions

Let us recall that in 1954 our country adhered to the United Nations International Convention on the Prevention and Punishment of the Crime of Genocide. According to this Convention, genocide is defined as a crime, committed "with intent to destroy, in whole or in part, a national, ethnical, racial or religious group, as such." The Convention emphasizes that genocide by no means has to entail the use of physical violence or the conduct of war. Among the instruments of the crime, the Convention identifies, in particular, "deliberately inflicting on the group conditions of life, calculated to bring about its physical destruction in whole or in part," and "measures intended to prevent births within the group." [1] *

Although the definition of genocide includes the element of intent, i.e., deliberate commission of the crime against large groups of the population, in practice the policy of genocide is not always fully conscious on the part of those who perpetrate it—far less, is it openly proclaimed. It may be cloaked with quite respectable slogans about reforms for the good of society, to attain freedom and social justice. Many de facto parties to the crimes may "not notice" the real consequences of their actions, genuinely believing that they are heroes and benefactors of mankind.

It is no accident that the most monstrous acts of genocide in world history were carried out in the name of very noble and attractive goals for society. The French Revolution's genocide against influential layers of society, and the Napoleonic Wars that ensued, were waged in the name of the ideals of "freedom, equality, brotherhood." Genocide was carried out against the native population of North America in the name of progress. Genocide against the

*Numbers in brackets refer to the Bibliography, p. 285.

clergy, nobility, merchants and peasants in 1917-1937 was organized in Russia in the name of universal justice and happiness. Even the ethnic genocide, committed by Hitler's followers against all the peoples of Europe, was justified with Utopian ideas about the formation of a breed of "superman."

In the latest wave of genocide against the population of Russia, during 1992-1998, a paradoxical ideological "cover" was provided by the doctrine of "universal human values," in which a central concept is the priority of human rights within the state system and in policy. Those who carried it out were not troubled over the means by which this doctrine was implemented—consistent violation of the rights of the overwhelming majority of the citizens of Russia to labor, education, welfare, and life itself. Instead of universal human values such as goodness, peace, and justice, the policy actually implemented in Russia resulted in the propagation of misanthropic values like enmity, money-grubbing, depravity, violence, evil, and arbitrary injustice.

In this sense, the intellectual and, in some part, genetic forebears of the organizers of the contemporary Russian revolution—the leaders of the two Revolutions of 1917 and the Civil War—have found "worthy" successors. Eight decades ago, genocide against the population of Russia, which ultimately cost 100 million persons either killed or not born, just as F.M. Dostoevsky had warned in his novel *The Possessed*, was unleashed under the ideological cover of "overcoming the age-old backwardness of Russia," building a "civilized," and subsequently "the most advanced" society, universal brotherhood, equality, and happiness. Genocide against the population of Russia in 1992-1998 has been perpetrated under cover of the ideas and semblance of democracy, utilizing the very same slogans about freedom, equality, and moving closer to "civilized" countries.

The distorted implementation of proclaimed positive values, which is frequently diametrically opposite in content to what is proclaimed, ought not to discredit the real essence of those values. Beyond any doubt, the plotters who overthrew the Tsar, the leaders of the "Red Terror," and their modern successors, who donned the toga of democrats and liberals, did not act according to the values they proclaimed, but rather against them. The idea that actually drove them was hatred toward Russia and Russian culture, and a desire to crush our civilization, turning Russians, in the expression

attributed to Trotsky-Bronstein, into "white slaves."¹ Today's heirs of that organizer of the Civil War in Russia differ from him only in the form of the values they proclaim. The sense of the revolution remains the same—the destruction of Russia. Privatization, their chosen method for effecting revolutionary change, has been no less effective than the nationalization and requisition of property during War Communism, in its destructive impact on the country's productive forces. Likewise, the mass privatization of state property by the present-day revolutionaries is just as remote, with respect to the real content of production relations, from the institution of private property under actual market relations, as the network of forced labor detention camps, developed by their spiritual-intellectual predecessors, was remote from the principles of socialist competition among labor collectives.

As we can see, the ideological cover for the revolutionary destruction of a country is chosen for the given situation. A social Utopia is designed for the public mood, depending on the state of public consciousness. Then, in the name of establishing that Utopia, society is split into warring groups, blinded by principled antagonism, which destroy each other and the country in their exhausting combat, clearing out space for those who commissioned the revolutionary process.² It is, therefore, a most important task for every honest researcher and writer to distinguish the essence of acts of genocide from their ideological cover, while exposing the mendacity of the top leaders, executors, and apologists for the genocide policy, who have organized the division of society and civil war to the point of self-annihilation. For genocide is a crime committed against great masses of people by a whole army of executors. It is only possible to organize these executors, if there is an appropriate ideology to anesthetize the human conscience, which will justify the crimes they commit in the name of "noble" goals and depict the victims of the genocide as non-people or, at the very least, inferior. In order to carry out genocide, the army of executors must assimilate ideas, which permit and even compel them to commit mass crimes, and in light of which the ideologists of the genocide are seen by the executors as prophets. The executors themselves feel like missionaries for the great idea of transforming society, and they cease to see their victims as people like themselves.

The content of these ideas may vary, but their general characteristic is the division of people into two categories—the chosen mis-

sionaries and others, the latter being subject to "reeducation," annihilation, or enslavement. Thus, many religious wars in the past were justified by the concept of "the chosen quality" of the bearers of the relevant creed, the ideologues of which portrayed themselves as prophets, while the adherents of traditional views were seen as inferior people. The Civil War in Russia was justified by the concept of "class enemies" being "cannibals" and "bloodsuckers," worthy only to be eliminated, while society as a whole required total reeducation. Fascist ideologues justified the Second World War by their racial superiority and the inferiority of other peoples, whose members did not fit their notion of the "new" man.

Today's revolutionaries, the radical reformers in Russia and in most of the other republics of the destroyed Soviet Union, justify the crimes against the population and coups d'etat, committed in the course of reform, by citing the inferiority of the former socialist society and most of the people who comprised it. The latter are sacrificed for the sake of an increase in economic effectiveness and prosperity, which is allegedly expected some time in the future. The social obligations of the State and social protections are abolished, in the name of phantoms like macroeconomic stabilization and the creation of apparent conditions for economic prosperity in the future. In reality, as will be shown here, in the minds of the directors of the new Russian revolution, the policy conducted from 1992 to 1998 meant Russia's annihilation, while for the majority of those who carried it out, it came down to banal self-enrichment, the formation of a privileged veneer of "New Russians," most of whom are not ethnically Russian, who feel that they are a new ruling class.

The subjective disposition of the ideologues of the contemporary revolution in Russia strongly recalls, in the hatred and contempt for the people of their own country, Hitler's propaganda or Trotskyite agitation. Suffice it to recall the commentaries from many of them during the shelling of the Russian Parliament or the forcible dispersion of protest demonstrations. Violence on the part of the authorities was justified by representing its victims as inferior, aggressive "less-than-humans," who were hostile to everything progressive. Certain "figures from the world of culture" and journalists, who supported the shelling of the Supreme Soviet, have sullied their reputations forever.

Specialists have compared the political rhetoric of the leading

mass media in Russia with Goebbels' propaganda. The ideologists of the ruling oligarchy exhibit the same sort of zoological dislike for people who uphold the national interests of Russia and demand that the Government honor social guarantees, as Hitler's Nazis had for those of other racial stock. They treat the people as a whole as "lowlife," who can be deceived and robbed blind, towards whom "all is permitted." Accordingly, acts of violence against political opponents of the regime are portrayed as heroic deeds, the appropriation of state property by the ruling oligarchy as progressive reform, and the impoverishment of the population as a result of the implemented macroeconomic policy is explained as due to the population's inferiority, its inability to adapt to the "progressive reform" in a timely fashion.

Certain advice, given to the Russian leaders by their "liberal- and democratic-thinking" consultants, is noteworthy in this connection. One well-known Polish liberal economist recommended that the radical reforms be accompanied by the airing of pornographic films on television and the sale of cheap alcoholic beverages on the street, in order to soften up the youth and distract their attention, as well as to demoralize the population and mitigate the mood of social protest against the policy of "shock therapy." One of his Russian colleagues tried to convince a presidential candidate from the democratic opposition, that people older than 40 were by definition incapable of "correctly" understanding the reform, and thus were objectively inferior, condemned to a pitiful existence and undeserving of any sympathy.

In light of our spiritual character, based on Russia's humanistic culture, the misanthropic motivation of the ideologues and organizers of the radical shattering of Russian society seems incredible. They are accused of incompetence, lack of talent, and corruption, as if our woes were due to the personal shortcomings of individual members of the ruling oligarchy. This is only partly true, and it is not the most important element. The commission of mass crimes is always accompanied by a flowering of all the human vices, which break out under conditions of social chaos. But they are not what directs the historical process.

The time has come for us to understand that it is not a matter of accidental manifestations of human foulness in the upper echelons of the ruling oligarchy. For the second time in this century,

we have clashed with the enemies of Russian culture and civilization, who treat us, at best, the way a bad hunter treats a herd of animals. For the ideologists of the present-day Russian revolution, as for their spiritual predecessors, who unleashed the Revolution, the World War, and the Civil War during the second decade of this century, our people and our country are no more than an object of material gain, whose planned enslavement requires the annihilation of the Russian cultural genotype.

Therefore, "all is permitted" with respect to us. Therefore, actions that civil society defines as criminal, are hailed in the case of Russia as great achievements by the reformers. Therefore, we have gotten the rule of the criminal instead of a competitive market environment, an oligarchy with its subservient corrupt bureaucracy instead of a law-based State, total disinformation instead of freedom of speech, demoralization of the population instead of a flowering of creativity, and colonization instead of economic growth.

It should be noted that ideologies, establishing fundamental differences among the rights (actual rights, not juridical ones) of various groups of people, are widespread in not only historical, but also modern social systems. The revival of the institution of slavery in Chechnya, the American financial oligarchy's ambitions for world rule, discrimination against the Arab population in Israel or Russians in Estonia and Latvia, and the colonization of Russia by comprador clans with an ideology of dividing society into full-fledged and second-class people (according to which "all is permitted" the former with respect to the latter), are akin to the practice of racial, ethnic, or religious discrimination in centuries past. In many ideological systems, the division of society into "the chosen" and "all the others," whereby the former appropriate all the rights of the latter, is an incontestable norm. There is a broad spectrum of such systems—from the prison camp's division of society into "bosses" and "zeroes," to the pseudoscientific school of class struggle in "scientific communism," and the age-old, much-travelled talmudic ideology of "the chosen people."

Ideological systems that justify the division of society into two parts, privileged (full-fledged) and those without rights (inferior, abnormal), granting the former the moral right to conduct any form of exploitation and violence against the latter, have played a great role in the actual practice of social relations, and continue to do so.

These ideological systems may be promulgated either overtly (as usually occurs during periods of war, which require the mass mobilization of people for the organized killing of the citizens of hostile states and, consequently, some arguments in favor of the inferiority of the latter) or covertly (among groups of those who consider themselves chosen, and live by a "double" moral standard). In the second instance, behind the smokescreen of an official ideology of equality for the broad masses of people, the ruling groups, or those who would claim a privileged position, preach their own special ideology of being "chosen," which erases moral restrictions and permits crimes against the rest of society.

The mobilizing significance of the contraposition "we-they" for any social group is well known in social psychology. It is the basis for the formation and self-preservation of each nation, each clan, each group warring for power. Of course, this contraposition by no means has to assume an antagonistic character, and still less frequently does it go so far as to become a war of mutual annihilation. At the same time, the contraposition of a ruling elite to the rest of society is of fundamental importance for structuring social relations and maintaining the mechanism of a privileged minority's rule over the unorganized majority, in most known social systems. Throughout almost the entire history of mankind, this was the norm, which served as the basis for slaveholding, serfdom, and overt social inequality. It is no rarity to this day, being encountered in diverse social systems, from totalitarian to democratic. Socialist society's oft-denounced practice of a division into a privileged nomenclatura and all the rest of the population, is similar, in this regard, to actual practice in the countries of so-called advanced democracy, where there is a clan-like ruling elite, structured through family ties, prestigious clubs, Masonic lodges, and religious and ethnic communities.

In our history, the organization of society in practice was characterized at various times by very cruel forms of opposition between a ruling elite and the popular masses, although that ran counter to the popular religious philosophy of sobornost.* During periods of social revolution, however, the ideology that served as the basis

*Sobornost in Russian denotes collectivity, community, solidarity. Its root, meaning "to gather," is shared by the word for cathedral—sobor.
—Translator's note.

for the privileged position of the renovated ruling elite would be russophobic and anti-popular in nature. So it was, for example, in the epoch of Peter I, and then in the period when the Autocracy was overthrown, followed by the Civil War. In the period of collectivization and the GULAG, through to the USSR's victory in the Great Patriotic War, russophobia was an element of great importance in the self-definition of the ruling elite. An analogous situation may be observed in the contemporary structural formation of the new ruling class, which arose on the soil of the dissolved Soviet empire.

An anti-popular self-definition by a ruling elite, in the sense of counterposing itself to the majority of the population and, on that basis, justifying its moral (and, sometimes, juridical) right to rule and its privileges, is more the norm in world history, than an exception. Initially, claims of the right to rule were usually based on ethnic grounds. (In particular, that is how the Roman, Mogul, and Inca Empires were made, in which power was consolidated in the hands of a privileged ethnic minority.) Later, during formation of great empires that needed a broad social base in order to maintain the power of the elite, the religious principle came to dominate, which greatly mitigated social conflicts (the Byzantine, Arab, Holy Roman, and Russian Empires). The modern period has revealed an even greater diversity of ideological grounds for the mechanisms of reproducing ruling elites, both within countries and on the international level. The formation and maintenance of a dual ideology of social organization has become the rule: one ideology for the broad masses (universal equality, freedom, and justice), and another for the elite groups (defining the basis for the elite's right to rule, its privileges, and why, for its members, "all is permitted"). Members of the elite may preach different ideologies, depending on their position in the machinery of power—from people's representatives (in the organs of state power), to ethnic associations of people from the same area and family clans (with their covert form of self-organization and their own system of moral norms), to, finally, Masonic lodges and sects (with a secret form of self-organization, special obligations to fellow members, and a standard that "all is permitted" with respect to the uninitiated).

Unfortunately, we have a short historical memory and an extremely weak understanding of the real mechanisms of power in modern democratic societies. Due to Russian culture's ideals of

social justice, humanism, truth, and goodness, the real picture of how society is ruled remains hidden from public awareness, which easily succumbs to myths and is shaped by modern techniques of mass propaganda and inculcation.

The ideology of fascism does not lodge well in the head of the Russian, who thrice saved Europe and the world from enslavement and destruction—by the Mongol Horde, by Napoleon's Army, and by Hitler's forces. But an anti-Russian ideology of precisely that sort is characteristic of the revolutionary reformers, who seized and held power in 1992-1998. Unnatural as it is for our world view, it must be recognized that the theoreticians and practitioners of such an ideology, who have appropriated our national wealth and befouled our country, do not view us as full-fledged human beings and, in accord with their convictions, believe that they have the right to do as they will with the population of Russia—from the appropriation of public property, to the organization of civil wars and coups, moral corruption of children, and demoralization of society.

Until we learn that lesson, we are doomed to degeneration, and the country to colonization. We have to know whom we are dealing with, and act accordingly. If our fathers and grandfathers had tried to placate Hitler's or Napoleon's aggressors with bread and salt, coaxing them not to plunder our towns and villages, we would likely be unable even to speak our native language today. We, however, for almost seven straight years of destructive revolution were co-responsible, by our passivity and submissiveness, for a policy of genocide against our own people.

Let us, however, leave the study of the subjective motives of the ideologists and purveyors of the genocide policy implemented in Russia to specialists in the area of philosophy and animal psychology [2], and turn to an examination of its factual content. The policy carried out by the fascists is more important than the speeches of their fuehrers, for understanding the essence of fascism. The main element of the above-cited definition of genocide is its objective side, which reflects the qualitative characteristics of the social and economic policy carried out in Russia. The present work is not intended to substantiate accusations against the individuals, who planned and conducted the genocide policy. That is the business of jurists. Our task is to give an objective characterization of the policy implemented in Russia. It is obvious that in order to stop the

course of any disease, the most important thing to do is to identify and remove the causes of the illness, rather than to catch and punish an individual carrier of the infection.

Another important task of this study is to develop the basis for proposals on how to shift to a constructive economic policy for overcoming the crisis tendencies and reviving the nation, a policy oriented toward the people's welfare and the successful economic, scientific and technological development of the country. The basic elements of such a policy are characterized in the concluding section of the book. At the same time, it is only possible to remove the causes of the crisis in Russian society, based on an understanding of the objective nature and the mechanisms of the policy that has been carried out to date, and its long-term effects. Therefore, the book begins with analysis and generalization of facts and exposure of the lines of cause and effect, which have determined the tendencies of Russia's social and economic evolution.

2 Facts

As a result of the social and economic policy carried out from the end of 1991 until August 1998, conditions have been created, which seriously hinder the normal reproduction of the social communities, comprising the great majority of the population of Russia. Statistical data about demographics and the standard of living provide vivid evidence of this.

Since 1992, Russia has experienced a steady tendency of depopulation, characterized by a 1.5-1.7-times excess of deaths over births (Fig. 1). The birthrate in Russia at the present time is one of the lowest in Europe, and is almost two times below the level necessary for the simple numerical replacement of generations of parents by their children (approximately 123 births per 100 women on average). The mortality situation remains highly inauspicious, with the highest rates in Europe [3].

An overwhelming majority of the jurisdictions of the Russian Federation are losing population. The highest rate of natural population decrease is observed in Central Russia [3]. The total excess of the number of deaths over the number of births in the 1992-1997 period is estimated at 3,890,000 persons [4]. At the same time, Russia's overall demographic losses for those years, as a consequence of the deterioration of the social and economic situation and the destruction of a normal cultural and daily life environment, are estimated at 8 million people, of which approximately 3 million died prematurely and 5 million were not born, due to the sharp decline of childbearing. The rate of annual population loss during the mid-1990s was more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s. [5].

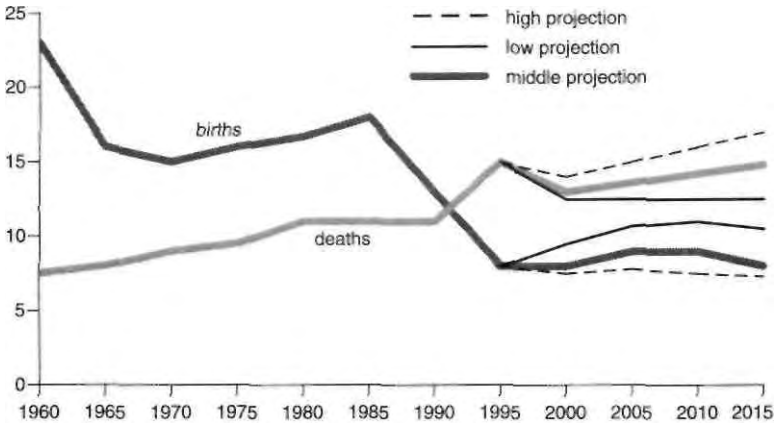
According to demographic forecasts, "the population of Russia

will decline by another 8.6 million people, or 6%, during 1998-2015.

FIGURE 1

Overall birth and death rates

(number of people born and deceased per 1,000 population) [3]



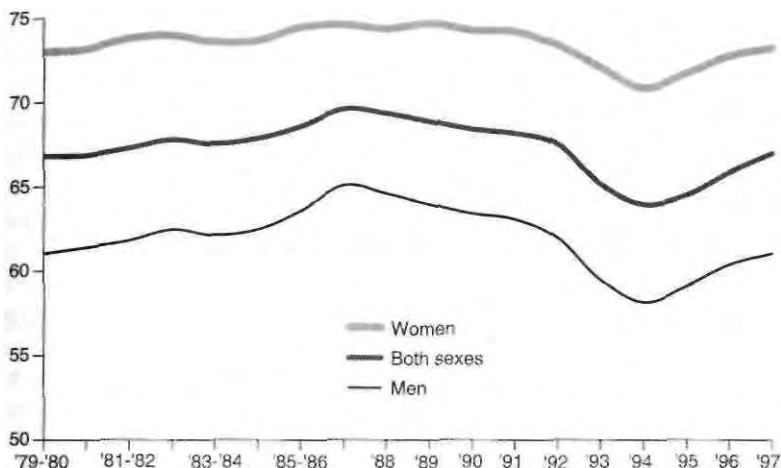
The rate of decline will be virtually constant for the entire forecast period—an average 0.3% per annum. Numerical reduction of the population will be observed in 68 of the constituent territories of the Russian Federation and in five autonomous areas. Due to negative natural growth and out-migration, the expected population decline in the Taimyr, Chukotka, and Nenets Autonomous Districts ranges from 40% to 34% in the forecast period. In Murmansk, Amur, and Tambov Provinces, it will decline quite significantly, by 15-18%." [3, p. 4]

A long-term forecast of the tendencies of degeneration that have gripped Russia indicates a "half-life" for the nation (i.e., the period within which there occurs a reduction of the country's population by a factor of two) of 60-80 years [5]. Russia now has an extremely constricted population reproduction profile, whereby each generation of newborns is quantitatively smaller than its parents' generation and does not compensate for the population lost. This type of population reproduction pattern is now characteristic of Russia alone, and is quite persistent. In 1996 the net population reproduction rate had fallen to the level of 0.603, which has catastrophic

FIGURE 2

Russian population: average life expectancy at birth

(number of years) [49, 76]



demographic consequences, while for the urban population it was even lower—0.544 [75]. Such a low level of reproduction is unprecedented, and has not been observed before now, neither in our country, nor in others, even during wartime.

The depopulation and degeneration of the nation are especially clearly manifest in the reduction of life expectancy, which fell below 58 years for men and 70.5 years for women during the first years of radical reform (Fig. 2). In several regions of the country, the situation is even worse. In some republics and provinces in the Ural, West Siberian, and East Siberian regions, life expectancy today is 49-57 for men, 62-71 for women, and 55-64 for the population as a whole. Russia lags 13-15 years behind economically developed countries in life expectancy, and is at the level of Mongolia, Morocco, and Guatemala [3,77].

It is important to give some qualitative characterization of the process of Russia's degeneration, in order to analyze it. Around one-third of the people who die are of working age. Alongside the reduction of the birthrate, we have an increase in the number of

disabled children, drug addicts, seriously ill persons or carriers of diseases that cause disabilities. On top of the swift aging of the population, there is a rapid degradation of the younger generations and a loss of the nation's capability to carry out constructive labor.

The rapid destruction of the country's human potential is indicated by the sharp increase in alcohol consumption and the growth of socially caused diseases—drug addiction, psychological disturbances, and suicides. Pure alcohol consumption is an estimated 15 liters per capita per annum, which is almost double the critical level defined by the World Health Organization, which marks irreversible changes in a nation's genetic pool. Around 20 million people are affected by alcoholism; 6 million people suffer from narcotics addiction, and the majority of these drug addicts are young people under 25 years of age, who have not yet taken up any constructive activity [5]. Mortality from poisoning with low-grade alcohol, including imports, nearly tripled from 1993 through 1997. Every year, 90,000 people are hospitalized for poisoning by alcohol surrogates, of whom 40,000-50,000 die (Fig. 3) [26].

The narcotics trade has developed at a furious pace (Fig. 4). In 1994-1997, the number of drug addicts among school children and university students (especially in large cities) increased 6-8 times. Ministry of Internal Affairs data show that, over a ten-year period, the number of fatal outcomes resulting from narcotics usage has increased twelvefold, while among children the increase was over 40 times. Given that the main age group of drug addicts is 13-25 years, essentially the entire generation that is now growing up in the country is at risk [8].

Especially alarming is the socially determined growth, by comparison with 1990, of cases of tuberculosis—by a factor of 1.7, syphilis—40, drug addiction—5, alcohol psychosis—5, and poisonings—double (Figs. 5-9). The AIDS epidemic has begun to spread rapidly; the number of victims increased eightfold in 1996 alone, and is continuing to grow at that rate [5]. In 1997, the number of newly diagnosed cases of HIV infection tripled by comparison with 1996, exceeding the number of HIV infection cases diagnosed in the entire preceding decade by a factor of 1.6 (Fig. 10) [7,8].

There is no doubt that the tendencies of depopulation and degeneration are connected with the sharp decline in the population's

FIGURE 3
Deaths from alcohol consumption
(thousands) [75]

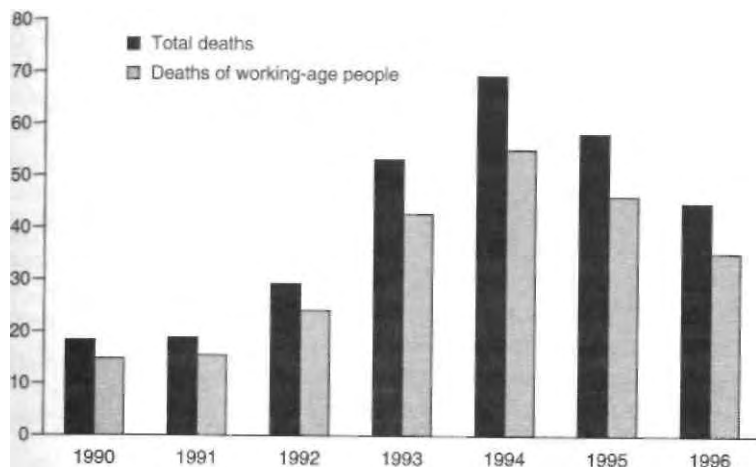
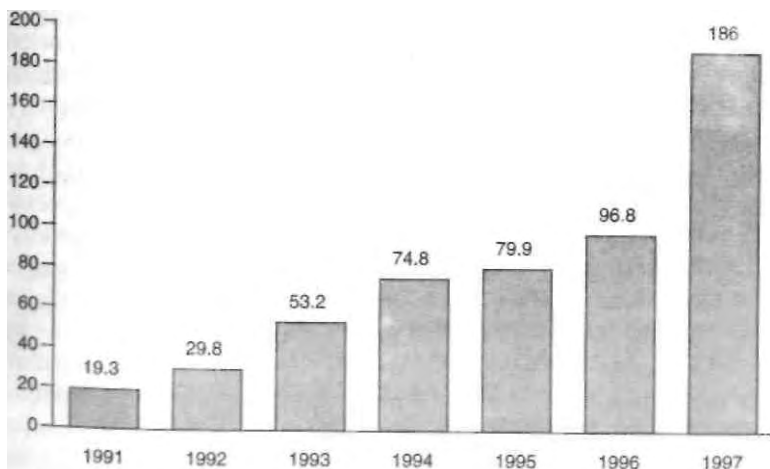


FIGURE 4
Narcotics-linked crimes
(thousands) [49,76]

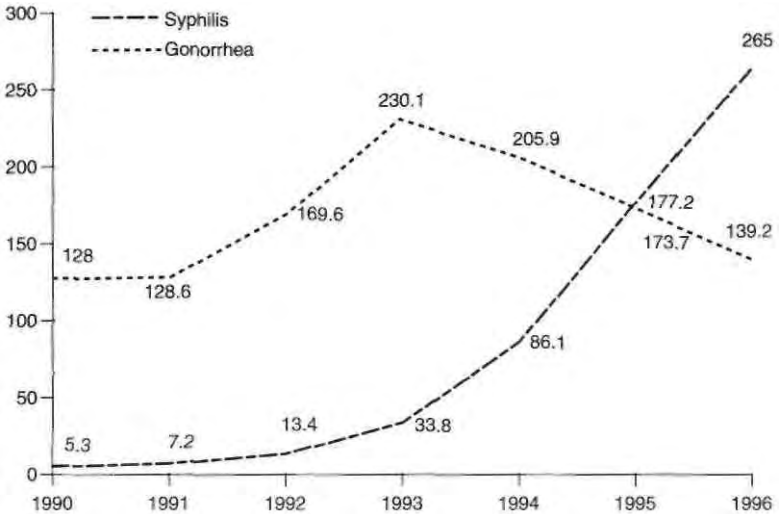


income, as well as the shutdown of social protection systems as a

FIGURE 5

Syphilis and gonorrhea

(cases per 100,000 population) [75]



result of the economic policy that was carried out.

Data from the State Statistics Committee show that the population's real monetary income fell by approximately 43% in the period 1992-1996. Real wages fell by 52%, pensions by 45%. Over 30 million people (every fifth citizen of Russia) regularly receive monetary income, lower than the subsistence minimum. After the artificially organized financial crisis and the subsequent surge of inflation in 1998, this segment of the Russian population reached 40%. According to this indicator, poverty in Russia has increased fifteenfold since 1990. Today, around half of employed people receive wages at or below the subsistence minimum. Thus, the existing wage level does not provide an acceptable standard of living.

Official statistics employ the recorded incomes of the population. Under conditions of a chronic payments crisis, however, months-long delays in the payment of wages, pensions, and allowances for children have become a universal phenomenon, which reduces the population's real income by another 5-10%. The official statistical

FIGURE 6

Infectious and parasitic diseases

(cases per 100,000 population) [75]

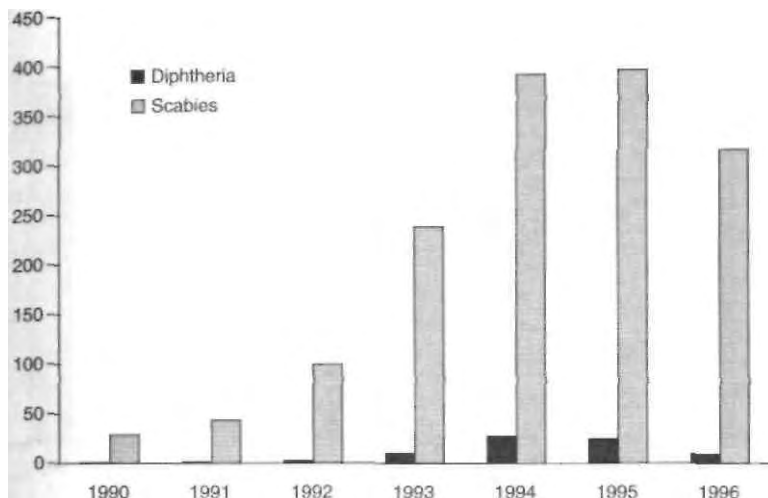
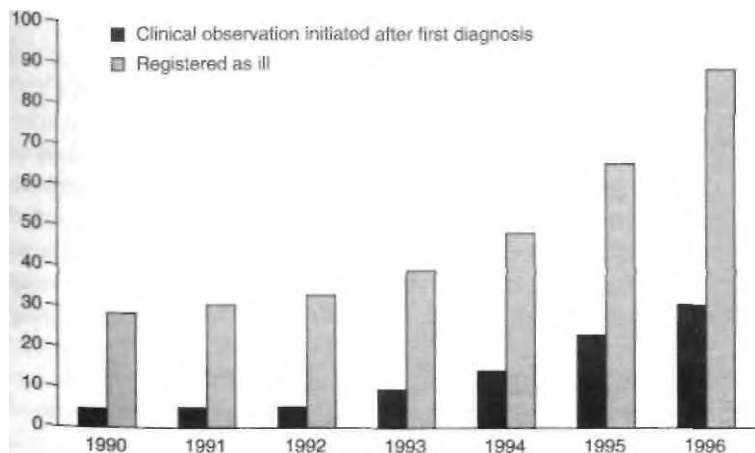


FIGURE 7

Narcotics addiction

(thousands of people) [751]

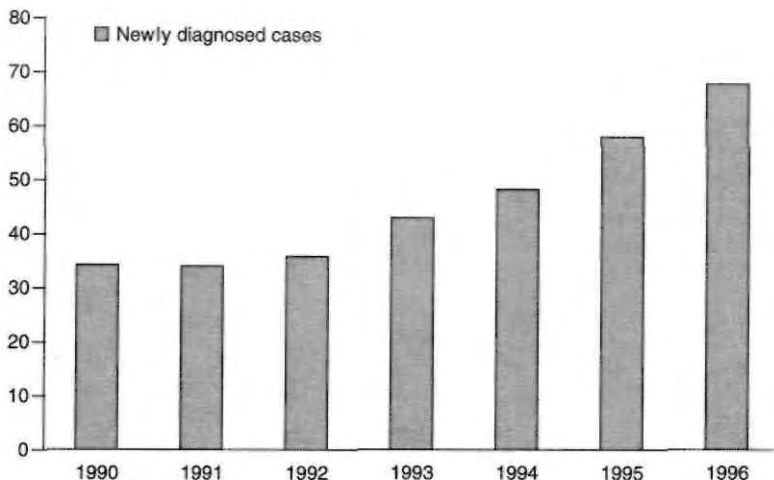


data about an alleged incipient growth of real income must be

FIGURE 8

Active tuberculosis

(cases per 100,000 population) [75]



corrected for this circumstance. If the level and rise of prices, especially for housing and utilities, transportation and communications, are taken into account, no fewer than 70 million people, i.e., almost half the population of Russia, live on the brink or over the brink of destitution [4].

Consumption by the population is also falling, in the wake of the reduction of real income. The per capita consumption of meat and meat products has declined during these years by more than one-third, of milk and dairy products by more than one-fourth, and of fish and fish products by two-thirds. The threat of mass malnutrition and even famine has arisen in the country. Already today, the diet of Russians is 35-50% protein-deficient. The caloric content of food intake, which determines the state of health and ability of a person to work, has fallen to 2,200 calories per diem, which is significantly below the necessary level (3,500-2,500 kcal. per diem). The supply of vitamins, which determine the level of immunity to diseases, has fallen to 50% of the norm. The structure of the population's food

FIGURE 9

Deaths from accidents, poisonings, and traumas

(per 100,000 working-age population)

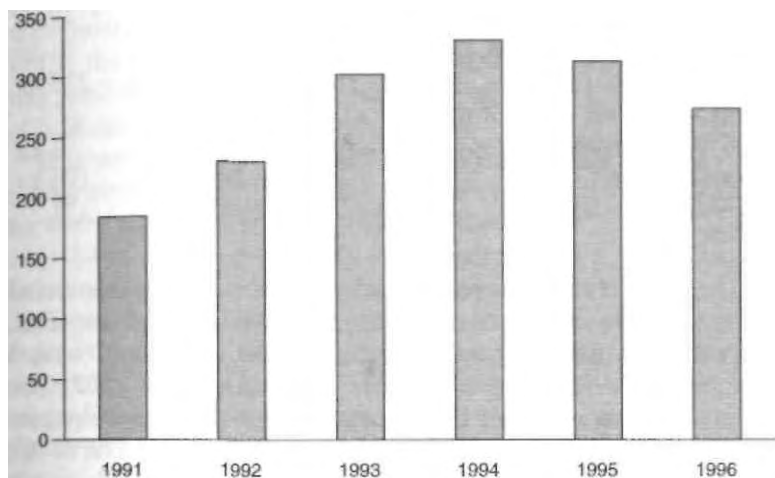
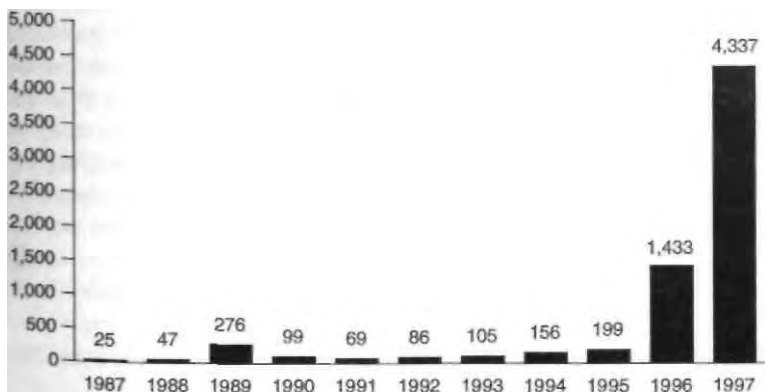


FIGURE 10

HIV infection among residents of Russia

(number of people)



consumption is changing in the direction of ever skimpier portions. The consumption of basic food products per capita per annum fell, from 1990 to 1997 [11]:

	1990	1997
Meat and meat products	70 kg.	48 kg.
Milk and dairy products (expressed in terms of milk)	378 kg.	235 kg.
Fish and fish products	15 kg.	9 kg.
Potatoes	94 kg.	108 kg.
Eggs (number of eggs)	231	173

The reduction of the population's real income is compounded by the takedown of the previously existing social protection system. In real terms, financing of all sectors of the social and cultural sphere was reduced by a factor of 2-3 during 1993-1997. The reduction of spending for these purposes has outstripped the rate of economic recession and state budget cuts. Expenditures for health care, for instance, have fallen to 2.5% of gross domestic product (GDP), compared with 8% in other European countries.

The natural reaction of the population to these socio-economic conditions was a decline in the birthrate. With over 40% of families with two or more children living in poverty, the probability for a family with many children to be impoverished is 50% [10]. It is not surprising that in the past ten years (1987-1997) almost 6 million fewer children were born than during the preceding decade.

The reduction of the birthrate for economic reasons has been compounded by aggressive propaganda for depravity and the destruction of the family through the mass media, as well as the introduction of dubious methods for the sexual "enlightenment" of schoolchildren, developed abroad for the purpose of lowering the birthrate and introduced into Russia by the government-supported Russian Family Planning Association [12,13]. The organizers of this policy, who are generously financed from foreign sources, make no secret of their goal, which is the further reduction of the birthrate and, consequently, the population in Russia.

The corruption of children has become a leading means for

achieving these goals. Adolescents are brought up in a spirit of sexual permissiveness, an attitude toward sex as just a game and an amusement is cultivated, the traditional connection of sexual relations with the childbearing function is destroyed in the public consciousness, and the institution of the family is discredited and weakened. All of this is implemented according to handbooks, with which the above-mentioned Russian Family Planning Association has flooded Russian schools, with the connivance of the Ministry of Education and the Ministry of Health.

It is not surprising, that 600-700 of every 1,000 marriages in Russia break up. In Russia today, there are two aborted pregnancies for every child who is born, and more than half a million children and adolescents are growing up without parental care. At the present time, every fourth child is born out of wedlock [14].

Because of the contraction of production and the steep deterioration of the financial situation of enterprises in almost all sectors of material production and the federally budgeted sphere, due to the macroeconomic policy that was carried out, real wages have declined sharply, and unemployment has increased. Consequently, many fully able and healthy people have experienced degradation, becoming unable to support their families and raise children. "Approximately 500,000 children and adolescents each year are left without one of their parents. Around 40% of underage criminals have been raised in these families. Fleeing cruel treatment and physical and psychological violence, around 2,000 children and adolescents commit suicide each year, some 30,000 run away from home, and 6,000 run away from orphanages and boarding schools. A child on the streets, as a rule, attracts the attention of the criminal milieu and comes under its specific control." [26, p. 37] During the first four years of radical reforms, the number of newly registered orphans and children abandoned by their parents increased by almost 70% (from 67,000 in 1992 to 113,000 in 1996). The number of parents deprived of parental rights quadrupled [14]. As a result, a new layer of unsupervised children has been formed (quantitative estimates by sociologists and journalists range between 2 million and 4 million such children).

The authorities have not only taken no measures whatsoever to overcome the demographic crisis, but they have effectively aggra-

vated it, by implementing the relevant "culture" policy on state TV channels and providing state funding for the introduction of method guides, aimed at the corruption of youngsters in primary and secondary school. By encouraging the demoralization of the population, discrediting basic family values, and replacing marriage with relations of "free" love, the ruling oligarchy has destroyed not only the traditional organization of life in Russia, but even the very basis for modern human society—the family as the basic social structure, which ensures the reproduction of society and its development.

With the breakup of the family, society loses continuity in its development, and stability, and is destroyed by spiritual degradation and physical degeneration. The degradation of the family and demoralization of the rising generation create a fertile soil for youth to be drawn into asocial, pseudoreligious schools. Some data suggest that 500,000 minors and 1 million young Russians, ages 18-25, are under the influence of destructive religious cults at the present time [26].

The organizers of contemporary social engineering are (though they themselves may not suspect it) the successors of Hitler, who announced his plans for reducing the population in Eastern Europe: "We can only accept large families among the local population, if the girls and women will have as many abortions as possible. There should be active promotion of contraceptives in the Eastern territories, insofar as we have not the slightest interest in the increase of the non-German population" [12].

The depopulation techniques, developed by the fascists, are being used today to cleanse the economic space of Russia, for the benefit of a new ruling class. In complete accordance with the definition of genocide, children and, consequently, future generations are the chief victims of this policy. Recall, in this connection, that the definition of genocide subsumes not only the creation of intolerable conditions of life for a group, but also "measures intended to prevent births within the group." [1]

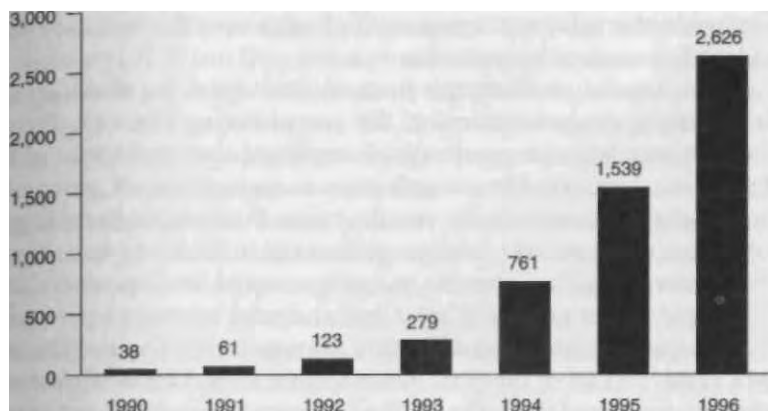
In Russia today, the situation is worst for the youth, who have been deprived of social guarantees, confidence in the future, and stable guidelines for life. Over half of all schoolchildren are in a weakened condition of health, usually because of poverty or their parents' poor material circumstances. As much as 30% of children

who graduate from school have restricted career options due to

FIGURE 11

Children diagnosed with syphilis

(number of people)



the condition of their health, while only 15% of children leaving school can be considered completely healthy. Medical examinations of military draftees in the latest rounds of conscription have the pitiful result that up to 40% of the younger generation is unable to perform to even the lowest standards of physical training for soldiers and sergeants. Eleven and one-half percent of them were underweight. Every fourth conscript required medical supervision due to a weakened state of health and chronic illnesses, while 28% presented symptoms of mental retardation [5].

Socially transmitted diseases among children have become a pandemic: Cases of syphilis increased tenfold among children during 1993-1996, and 6.8-fold among adolescents (Fig. 11); in the 15-17 age group, cases of syphilis increased 24.6 times in 1990-1994 [48].

Children are the poorest and most vulnerable segment of society. A newborn Russian citizen has something on the order of a 70% likelihood of growing up in poverty. In the new system of social relations, cultivated in Russia, that means a higher than 50% proba-

bility of not receiving an adequate education, and a higher than 30% probability of becoming an alcoholic, a drug addict, or a criminal. Against the backdrop of these tendencies, catastrophic as they are for the people of Russia, state spending on children has been reduced by a factor of 2.3 [18]. For children to be in such a situation, alongside the persistent excess of mortality over the birthrate, is certainly a marker for genocide.

Official statistics show that the tendencies for depopulation and impoverishment have embraced the overwhelming majority of the Russian population, in practically all areas and almost all social and professional groups. The exception is a numerically small group of successful businessmen, the so-called New Russians, high-ranking officials, employees of government financial institutions, businessmen catering to the interests of foreign capital, and members of organized crime groups. Almost half the total income of persons goes to the relatively "best-off" 20% of the population. The wealthiest 10% receive 31.6% of the total income, an amount 13 times greater than the income of the poorest 10% of the population, which receives 2.4% of the total income [15]. When the magnitude of invisible, undeclared incomes is taken into account, it has been calculated that this income differentiation factor ought to be restated: The wealthiest layer's income is not 13, but at least 20-25 times greater, and 45 times in the city of Moscow, than that of the poorest [4].

The lion's share of the national income is appropriated by the numerically small (up to 200 families) ruling oligarchical group, which has taken shape in recent years, usurped the right to dispose of a significant portion of the accumulated national wealth, and monopolized state power. The majority of working people, meanwhile, have not only been deprived of their earlier accumulated savings and steady income, but also have lost their status in society and prospects for life, and have become foreign and useless in their own country.

The fact that the majority of the "new indigent" are fit-to-work, trained professionals, who are now doing socially unnecessary work for paltry compensation, confirms the characterization of the economic policy implemented in Russia, as genocide. These people comprise over two-thirds of the poor [4]. The reduction of their wages to an extremely low level, which is lower than in the developed countries by a factor of three, measured per unit of output [16], as well as

the rise of unemployment among highly trained professionals, were caused not by a decline in their labor productivity or devaluation of the results of their labor, but by the economic policy being applied.

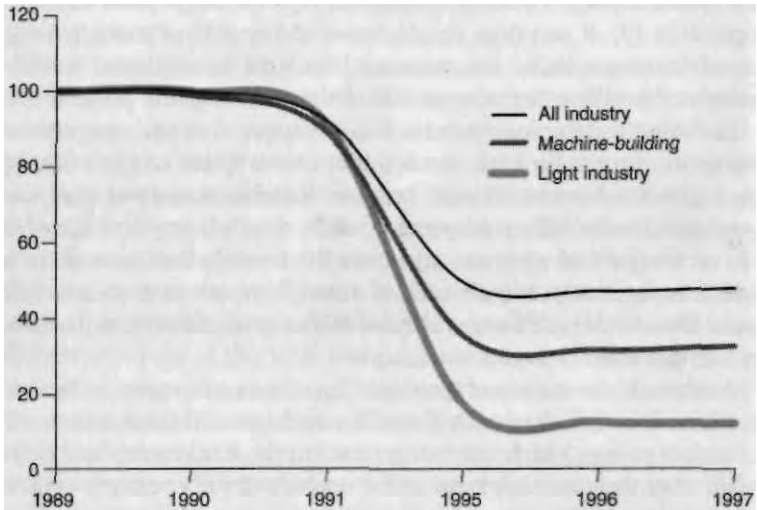
These macroeconomic processes caused the rise of unemployment as well as the reduction of real wages. There are now 6.5 million unemployed persons in Russia, or 9.1% of the work-capable population [9]. If part-time employment and unpaid or partially paid forced leave are taken into account, the total unemployed is estimated at 15 million persons, or 20% of the work-capable population.

In evaluating the long-term social consequences of mass unemployment, it must be kept in mind that constructive labor is one of the highest values in Russian culture. Russian society always enjoyed practically full employment, while dependency or lack of a job, on the part of a person who was fit to work, was viewed as a vice. Consequently, a high rate of unemployment becomes a real social disaster, which fosters alcohol abuse, criminality, and psychological disturbances on a mass scale.

Analysis of the causes of the rapid rise of unemployment indicates that it is directly linked with the consequences of the implemented economic policy, which were expressed in the bankruptcy and degradation of the most labor-intensive sectors of the economy—agriculture, construction, manufacturing and science-intensive industries such as machine-building, light industry, wood processing, and so forth. During the first five-year period of radical "reforms," the volume of industrial production and construction contracted more than twofold, inclusive of a more than three-fold drop in machine-building output, while the production in the capital-investment machine-building and consumer goods sectors declined by factors of five to ten (Fig. 12). In a number of key sectors of the new phase of technological development, which determine contemporary technological progress and economic growth—such as the microelectronics industry, and automation and communications systems—production has fallen tens of times over. Many promising manufactures have virtually ceased to exist, clearing out the market for imported products.

Precisely those sectors are in decline, which form the basis of a socially oriented economy and the potential for it to experience an upswing, because they provide the connection between the growth of domestic production and demand. A properly organized

FIGURE 12
Industrial production by sector
 (Index: 1989 = 100)



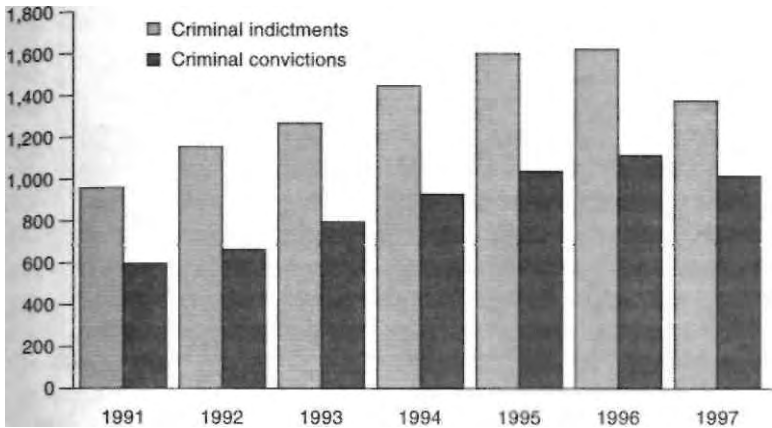
transition to a market economy should have ensured the expansion of production in these sectors and a rise in their efficiency, which would have made it possible to avoid excessive unemployment in regions with a high concentration of science-intensive and manufacturing industries, and even to transform them into locomotives for economic growth and centers of job-creation.

The rapid rise of unemployment, steep decline in the standard of living, and demoralization of the population have provoked a rapid increase of crime and the criminalization of society (Fig. 13, Table 1).

The crime rate tripled in 1991-1995 [26], the number of serious crimes rising especially fast (Fig. 14). (The new Russian revolution has earned its label—the Great Criminal Revolution [47].)

The policy of the ruling oligarchy's appropriation of the national wealth, carried out in the guise of progressive reforms, has brought about the degradation of a large part of the country's human potential,

FIGURE 13
Crime and criminal convictions, 1991-1997
 (thousands of people) [26, 76]



devaluing the education and training of millions of professionals and workers, as well as personal catastrophe for millions of people, who have been placed in intolerable conditions of life. The number of social outcasts, people effectively deprived of any social guarantees whatsoever and of their civil rights, is estimated by experts at no less than 10% of the country's urban population, or 14 million persons [10]. Symptoms of a society in decay are the sharp increase in suicides by people in despair, as well as mortality from accidents, poisonings, and trauma (Figs. 15, 16).

Table 1 Crime rate in Russia by five-year periods
 (recorded crimes per 100,000 population) [26]

	1961-1965	1981-1986	1986-1990	1991-1995	1996	1997
Annual average	407	901	983	1770	1778	1629
Growth above 1961-1965 level		+123%	+142%	+435%	+437%	+400%

FIGURE 14
 Felonies committed by minors [26]

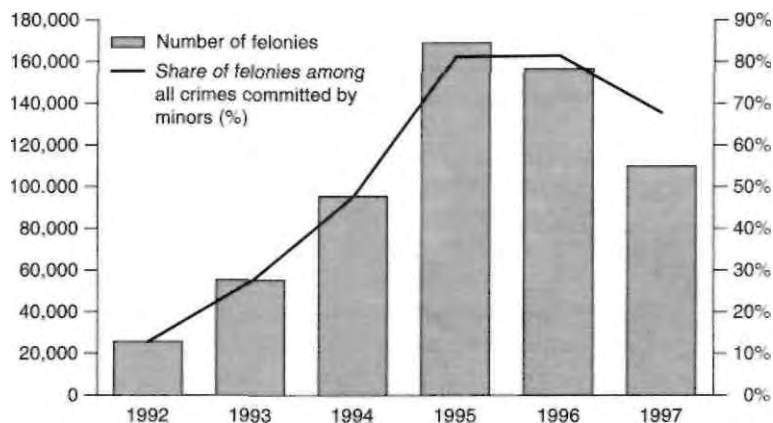


FIGURE 15
 Overall suicide rate, 1991-1995
 (Index: 1990 = 100) [49]

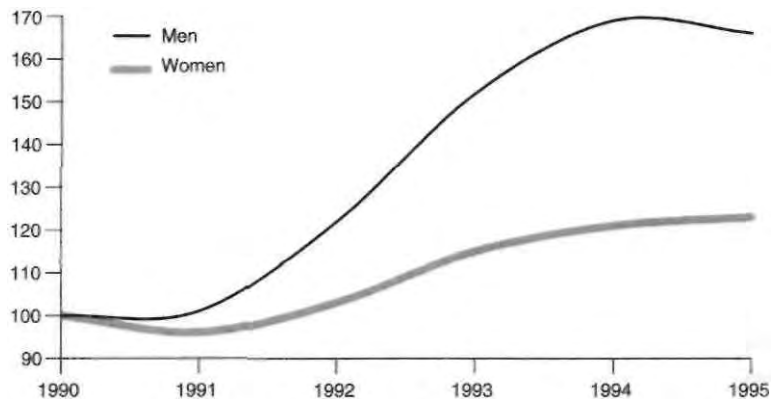
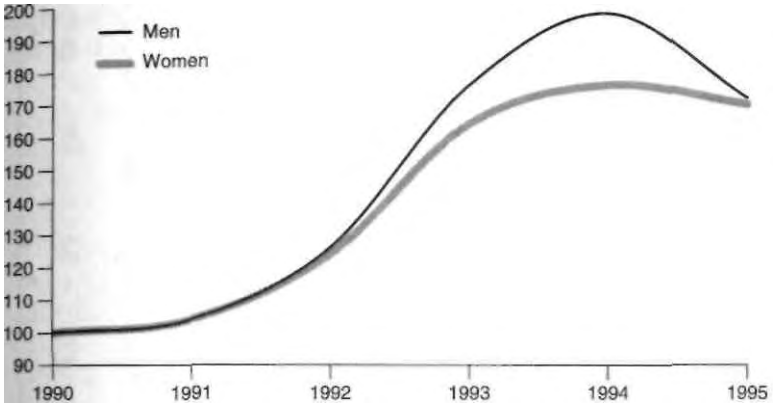


FIGURE 16

Standardized rate of mortality from accidents, poisonings, and traumas, 1991-1995

(Index: 1990 = 100) [49]



The rapid degradation of the population, especially youth, observed here cannot be attributed to some inherent flaws. There has been nothing like this in the thousand-year history of Russia. Even during the Civil War and collectivization, when the basic social groups of the Russian population were subjected to genocide, there was not such an unrestrained demoralization of society. Studies of the factors in the decline of the birthrate and rise of mortality, done by leading research institutes in our country [5], convincingly demonstrate the unnatural character of the demographic catastrophe Russia is experiencing. The conditions for it were created by the steep deterioration of the standard of living and quality of life.

There are no objective disasters (natural cataclysms, epidemics, wars, and so forth), destroying a substantial part of the national wealth, to which this catastrophe might be attributed. The main causes of the degeneration of the people of Russia are the abrupt deterioration of conditions of life, as a result of the ruling oligarchy's appropriation of the national wealth, its export abroad, and the destruction of the productive forces of society, as well as the artificial demoralization of the population and a great number of people's

Table 2 Russian Federation: Parameters of economic and social development, 1990-1997
[76,77]

Indicators	1990	1991	1992	1993	1994	1995	1996	1997
Gross Domestic Product (1990=100)	100	95	81.2	77.1	67.3	64.5	61.3	61.9
Volume of industrial output (1990=100)	100	92	75.4	64.8	51.1	49.6	48.1	48.8
Output of machine-building and metal-working industries (1990=100)	100	90	76.5	64.2	44.3	40.3	38.2	38.7
Investment in fixed capital (1990=100)	100	85	51	44.9	34.1	31.7	25.9	23.4
Loss-making enterprises as a portion of all enterprises (%)	—	—	15.3	14.0	32.5	34.2	42.7	47.3
Rate of profit in industry (% per annum)	12.0	27.1	38.3	32.0	19.5	20.1	9.2	5.2
Output of agriculture (1990=100)	100	95	86.4	82.9	72.9	67	62.3	59.2
Federal budget spending on basic research and support for scientific and technological progress (% of GDP)	—	0.96	0.54	0.49	0.46	0.32	0.31	0.10
Real wages accrued (1990=100)	100	97	65	65.3	60.1	43.3	46	48
Ratio of incomes of wealthiest 10% of population to incomes of poorest 10% of population	4.4	4.5	8.3	11.2	15.1	13.5	13.0	13.0
Natural increase or decrease of population (thousands)	332.9	103.9	-219.8	-750.3	-893.2	-840.2	-777.6	-756.5
Unemployment of work-capable population (%)	—	—	4.7	5.5	7.4	8.8	9.3	9.1

loss of clear life guidelines, confidence in the future, and understanding of the meaning of life. As is usually the case, this revolution has brought chaos and destruction in its wake, and the disintegration and collapse of society. It has brought the people to the boundary, where survival is in question (Table 2) [17]. This indicates the cause-and-effect relationship between the policy carried out in the country and the degeneration of the population, which permits us to identify it as genocide.

3 Causes

The causal connection between the degeneration of the people of Russia and the deterioration of the standard and quality of living, as a result of the changed economic situation, is so obvious, that even the most committed apologists for the reforms conducted in the country do not deny it. The debates revolve around the explanation of the causes of that deterioration. The apologists attempt to argue that the decline of production and impoverishment of the population, observed in the country, are objective in nature, being due to the past imbalances in the economy, its lack of competitiveness, and the inevitable difficulties of reform. Objective research, however, links the changes in the population's standard of living with the relevant directions of economic policy in recent years.

Analysis of the content and motives of the actual measures, carried out in the guise of "reform," convincingly shows that the depopulation of Russia and degeneration of perfectly healthy social groups were the direct result of the economic policy, and cannot be explained away by various objectivist and scientific-sounding terminological sleights of hand (such as: "transformational recession," "demilitarization of the economy," "curtailment of loss-making manufactures for which there is no market demand," and other such pseudoconcepts, coined by the apologists for the adopted policy). According to studies by the Institute for National Economic Forecasting of the Russian Academy of Sciences, we would have experienced a depression in 1991-1993, with a contraction of production by no more than 2%, had there been no changes [19]. If, however, a scientifically grounded transition to a market economy had been implemented, steady economic growth of at least 3% per annum could have been achieved. The experience of China, which has achieved annual 7-10% growth rates of GDP, as a result of

its market reform of the economy, refutes any pseudoscientific discourses about the lawfulness of a "transformational recession." There are always multiple options in economic policy, the results of which are largely decided by the aims and interests it pursues. These are revealed in changes in the distribution of incomes and property, and in policy respecting appropriation of the national wealth. Study of these changes readily uncovers the motives behind various directions of economic policy. This is the standpoint from which we now examine the basic elements of the economic policy carried out in 1992-1998, in view of the impact of their implementation on changes in the structure of appropriation of incomes and the national wealth, as well as the population's standard of living. These changes may be represented as a sequence of several cycles of impoverishment of the population.

Cycle 1—1992. Price deregulation; citizens' incomes and savings are devalued. Despite prolonged discussion of the mechanics of price deregulation, it was carried out in the most primitive fashion—by granting enterprises the right to set prices arbitrarily, without any restrictions to ensure honest competition, defense of the rights of consumers, or other restraining mechanisms.

The pre-reform rules for price formation, based on the simple calculation of costs, were not abolished; they were even reinforced by the Government's decision on price liberalization. It consolidated certain set mechanisms for cost-based pricing, which became the natural channel for cost inflation, under the new conditions. In the absence of competition and any experience in vying for markets, economic entities calculated prices for their products, based on the actual and expected rise of prices of the means of production they consumed, thus passing on the increased costs to consumers. The Government's own forecasts provided the initial impetus for cost inflation, as they indicated a tripling of costs for fuels and other basic price-forming commodities.

The decontrol of prices was not accompanied by the creation of appropriate institutions to ensure honest competition and market transparency. The Government's inaction with respect to regulation of the market encouraged its criminalization and the establishment of control by organized criminal groups over essential elements of the goods distribution network, retail and wholesale trade. The

elimination of state control over pricing and the deregulation of trade thus led not to the creation of market competition mechanisms, but to the establishment of control over the market by organized criminal groups, which derived superhigh revenues by inflating prices. Even six years after price deregulation, trade mark-ups comprised 50-90% of the price of most consumer goods, while the producer's share in the price of a domestically manufactured product at the moment of sale rarely exceeded one-half; the rest went to the middlemen, who control the market [20]. This means that as much as half of the value of consumer goods produced in the country is confiscated by criminal trade monopolies.

The numerous mistakes made in the course of price deregulation provoked hyperinflation of costs, which not only disorganized production, but led to the devaluation of citizens' incomes and savings. Economic entities, attempting to shift costs to the consumer and to maximize their own possibilities to increase their income, had no interest in an adequate increase in wages, the growth of which lagged significantly behind the rise of consumer prices. The State likewise "forgot" about the interests of the citizens, failing to index wage standards, as well as citizens' savings on deposit in the state Sberbank (Savings Bank), in a timely fashion. Despite protests by the population, demands by public organizations, and warnings from experts on the necessity of indexing wages and citizens' deposits in Sberbank, the purchasing power of which was guaranteed under the law by all the assets of the State, such indexation was not done, which led to the effective liquidation of the savings of the overwhelming majority of the population.

In world economic theory and practice, the defense of the incomes and savings of the citizens against inflation is assumed to be a function of the State. The greater the degree to which inflation has been provoked by the State's own policy, the more obligatory is that defense [21]. In our case, the connection was obvious: The Russian economy's slide into hyperinflation was the direct result of the technique employed for decontrol of prices. Equally obvious was the juridical obligation of the State to ensure the defense of the population's incomes and savings from devaluation. Respecting citizens' savings on deposit in the state Sberbank, this obligation was confirmed by decision of the Constitutional Court, which required the state authorities to take measures to restore the purchas-

ing power of the population's devalued Sberbank deposits. The Government, however, ignored this obligation, despite its having been legally formalized (Federal Law "On the Restoration and Defense of the Savings of Citizens of the Russian Federation").

Had credit and monetary policy been properly organized, there were ample possibilities to defend citizens' savings against inflationary devaluation. The volume of cash issues in 1992-1996 was 282 trillion rubles, which is a significant part of the amount by which the population's savings would have had to be indexed, in order to preserve their purchasing power at a constant level. This monetary emission, however, was channelled into the enrichment of financial middlemen, interposed between the monetary authorities (the Central Bank, the Ministry of Finance, and the State Property Committee*) and the rest of society. In 1992-1993, they acquired fabulous riches from the allocation of cheap credits; subsequently, they got the hang of "cycling" funds from state enterprises and the federal budget. Estimates indicate that in 1994 alone (after the main stream of direct appropriation of printed money, accomplished through middleman activity in the course of cheap credit allocation, had been halted) the outflow of monetary resources from the production sphere into the exchange sphere through the commercial banking system was equal to approximately 14% of GDP [22]. The superprofitability of financial speculation was combined with criminalization of the banking sector, where the annual rate of growth of discovered crimes was 78% in 1993, 170% in 1994, 264% in 1995, and over 250% in 1996 [49].

Thus, the devaluation of citizens' incomes and savings, as a consequence of the adopted approach to price deregulation, was the direct result of deliberate decisions by the Government and the Central Bank. The same thing goes for the devaluation of citizens' current incomes, above all wages and soldiers' payments. Real accrued wages fell steadily through 1996, in which year they were at 46% of the 1990 level; only in 1997, did wages rise 4% over the previous year [9].

*The State Property Committee was also called by its full name, the State Committee for the Management of State Property, and its Russian shortened name, Goskomimushchestvo, or acronym, GKI.—Translator's note.

As we see, of all the possible means for carrying out a reform of pricing, the version selected and implemented was the one with the direst consequences for the population's welfare. While it provoked hyperinflation, this version did not provide for the introduction of methods to regulate pricing or defend the population's incomes and savings from devaluation, although such methods are well known in economic theory and practice.

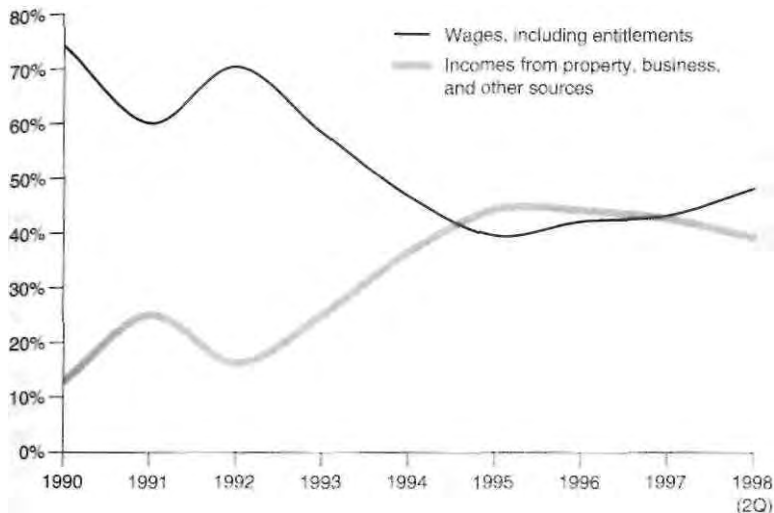
Another peculiarity of the chosen version was the large-scale and exceptionally rapid redistribution of incomes in society, under which they were concentrated in the hands of the numerically small social group of New Russians, while the incomes of the majority of the population dropped sharply. The methods of this redistribution had nothing to do with the creation of new value, but concerned exclusively the redistribution of previously created public wealth. Moreover, the "effectiveness" of these methods was inversely proportional to the efficacy of state regulation: the inflation of prices by enterprises enjoying a monopoly position and organized criminal monopolies in trade; discrimination against consumers by means of price differentiation and false quality certification of products (which became possible due to the effective absence of antimonopoly regulation or control over pricing); "cycling" of preferential credits; confiscation of enterprises' working assets by banks, which held interest rates on the deposits and clearing accounts of enterprises well below the rate of inflation (this became possible because of the Government's refusal to regulate interest rates or supervise the targeted utilization of credits, or monetary flows). The Government could easily have limited the effect of the destructive redistribution mechanism that emerged with the deregulation of prices, using well-known methods for price regulation, interest rates, and indexation of incomes, but, contrary to numerous recommendations, it failed to do so.

The above-mentioned reduction of real wages by one-half during the first years of "reform" reflects the intensity of the process of income redistribution in favor of the privileged social groups, which had established control over former state property and financial flows. The share of wages and social payments in the population's income fell from 74% in 1990 to 43.4% at the end of 1996, while income from entrepreneurial activity rose to 38.7% (Fig. 17). The

FIGURE 17

Relative changes in wages and business incomes

(as percent of total personal incomes)



other side of this process was a steep, at least threefold, increase in the differentiation of the population by level of monetary income. The stratification of society, in the course of which the numerically small privileged class of New Russians arose, while the overwhelming majority of the rest of the population experienced the devaluation of the savings they had entrusted to the State and a steep reduction of real income, bears clear witness to the nature of the interests and motives that determined the Government's economic policy. Had there been a desire to do so, many means could have been found in the arsenal of economic methods for regulation of a market economy, to avoid such a precipitous impoverishment of most of the population and, at the same time, to direct entrepreneurial activity into the constructive channel of creating new wealth, rather than the redistribution of previously created wealth. To that end, it would have sufficed to adopt necessary restrictions and pricing standards during the decontrol of prices,

ensure appropriate proportions in the distribution of revenue from cash issues, and index savings on deposit with the State, wages, and social payments to the population. Instead, the greater part of the enormous revenues from cash issues, generated by the Central Bank in the course of hyperinflation, was arbitrarily allocated to privileged banks and recipients of preferential credits, which cycled them into various speculative operations, while criminal monopoly organizations in trade redistributed for their own benefit the greater part of the value added, created in the production of consumer goods.

In the final analysis, the main source of the superhigh revenues of the ruling oligarchy as it was coming into existence during the first stage of "reforms," was the savings and wages of the rest of society. This redistribution took place by means of the devaluation of the monetary income and savings of the majority of the population, as a consequence of the refusal to index them during hyperinflation, and of the new privileged class's appropriation of revenue from cash issues and redistribution of value added in their own favor. As the volume and efficiency of production declined, the only source of increased revenues for one part of society was the reduction of the other part's income. This component of the price deregulation policy is key to understanding how the chosen method of price formation affected the population's welfare. Of all possible versions, the one was chosen for implementation, that least defended the incomes and savings of the population, rather provoking an intensive redistribution of current incomes and rapid social stratification. The selected method of price decontrol was the easiest to manage—the Government could spare itself the burden of creating complicated indexation mechanisms for citizens' incomes and savings, or organizing control over monetary flows. The main concern of the Government and the Central Bank was to allocate revenues from cash issues in the form of preferential credits and "cycling" of the monetary resources of the State and enterprises into speculative operations of commercial structures, close to the monetary authorities.

Cycle 2—1992-1993. The overwhelming majority of the population loses its rights to previously created national property, which is privatized by a thin layer of the ruling oligarchy. The

large-scale privatization of state property led to a redistribution of national property, accumulated over decades, in favor of the immediate organizers of this action and their "consultants" and partners, who set up shop in the vicinity of the State Property Committee and took an active part in various privatization measures. The population, unprepared for this action and poorly informed, was deprived of any opportunity to make effective decisions. Under conditions of a steep decline in incomes, people were forced to "dump" their privatization vouchers into the hands of shady middlemen. Most of the latter, who in turn lacked adequate information to make effective direct investments, merely resold the vouchers or speculated on the shares of privatized companies, appropriating what they made from those operations and deceiving gullible investors.

The people who ultimately gained from the chaotic redistribution of property and the speculative boom that arose as this occurred, were the best-informed people—those who had personally taken part in organizing the process. A typical example is the amazing commercial success of the foreign consultants and partners of the leaders of Russian privatization, who utilized their inside information to organize the mass acquisition of shares in privatized enterprises, for the benefit of foreign banks [23]. In the spring of 1997, a noisy scandal flared up around the shady dealings of these foreign advisers to the Russian privatization agency. True, the scandal was raised not in Russia, where they had inflicted enormous damage on the economy, but in the USA, where the actions of these American citizens were seen as criminal wrongdoing that discredited the values of democracy, threatening the successful implementation of market reform.

The well-informed people who speculated on the resale of stock shares of privatized companies accumulated enormous capital. The sums invested in buying vouchers from the population were multiplied tens of times over, in the course of reselling the shares of the privatized enterprises to interested foreign companies. A single foreign bank, which worked closely with the Russian Government and employed one of these "advisers," resold shares of Russian enterprises in the amount of nearly one billion dollars in 1994 alone. The voucher and investment funds, set up by such "advisers," dominate the Russian stock market to this day, continuing to "earn"

money by speculating on the greatly devalued shares of Russian companies.

Behind many of those who have thrived on speculation in vouchers and the shares of Russian companies that were privatized for a song, are international swindlers, "naturalized" under the wing of the organizers of mass privatization. They established themselves with official Russian agencies as advisers, consultants, and experts. The organizers of the privatization campaign needed them for several purposes. They would pave the way into international financial structures. They made it possible to extract superprofits by transferring abroad the rights to privatized national wealth. They provided the respectable appearance of a progressive "reform" as a cover for the unprecedented campaign that was being carried out in Russia to appropriate and loot an enormous quantity of property, and they secured recognition by the international establishment.

As a result of manipulation of their stock shares, many Russian enterprises ended up in the hands of foreign competitors, who handled them as suited their own short-term interests. As a rule, those interests were confined either to squeezing the maximum profit out of the companies (as occurred with many steel, chemicals, and paper industry enterprises), re-profiling them to meet the requirements of foreign companies for production of the most labor-intensive or ecologically polluting components (as in the case of a number of electronics companies), liquidating them as competitors (as often happened in science-intensive machine-building), or utilizing them for purposes of grabbing the domestic market (the food industry and construction materials).

The result was that during 1996-1997, financial speculators realized enormous profits from the price rises on shares of companies that had been privatized for next to nothing. Those share prices soared an average of 3.5-4 times over in the course of those two years [24]. Every ruble invested in the acquisition of privatization vouchers by these speculators, who were closely linked to the privatization agency, subsequently yielded them tens of rubles of profit as they resold, at rising prices, the shares of companies that had initially been valued at several times below their worth. The State suffered corresponding damage or missed opportunities for gain.

Here again, as in the case of the devaluation of citizens' savings, the organizers of the privatization campaign had every opportunity

to suppress the illegal machinations of their "advisers" and other intimates, to prevent speculative swindles involving the population's privatization vouchers, and to forestall their devaluation through thieving operations to redistribute property. Not only was this not done, but, to the contrary, investigations by the Prosecutor General's office [25] indicate that many of the leaders of the privatization campaign became actual participants in it, crudely violating the law as they privatized state property for their own benefit. The patently criminal nature of the mass privatization campaign (the Prosecutor's office has uncovered 3,000 to 5,000 violations of the privatization laws each year), however, had no effect on the policy of the individuals and structures running the process. Of the 140 top domestic entrepreneurs, 40 were previously involved in illegal businesses, while 20% of them have been prosecuted for criminal activity [26].

It is well known by now, that the most important actions in the privatization of state property were in the nature of a plot between officials and interested commercial structures, and were of a clearly criminal character. The most scandalous swindles of this genre were the privatization of several major oil companies through so-called "loans-for-shares" auctions, the privatization of leading banks and shares of major Russian natural monopolies by small groups of influentials, the seizure of many ports and other local monopolies by criminal organizations, the free-of-charge transfer of major industrial firms by the organizers of "competitive investment auctions" to their partners-in-crime, after which the "winners" failed to carry out their obligations. All that is merely the tip of the iceberg in the most gigantic swindle of the century, organized in Russia in the guise of "reform." In fact, it was the illegal appropriation (plunder) of the largest lot of property that ever fell into the hands of a criminal community in the history of the world.

The campaign to appropriate national property for the benefit of a small group of well-informed people was carried out under the slogan of "people's privatization." Additionally, it caused a disorganization of production, the rupture of economic ties, and a rise of transaction charges, which resulted in a sharp reduction of the efficiency of production and a devaluation of the privatized companies. The chaos in property relations, caused by the privatization campaign, and the elimination of any responsibility whatsoever, corrupted many economic managers, breeding a rapacious attitude

toward the privatized property. It was followed by the real looting of many previously efficient enterprises and the breakup of once highly productive labor collectives. A significant number of promising companies came under the control of foreign competitors. As a result of these developments, the efficiency of production, as measured by labor productivity, energy-intensity, and other generally accepted indicators, fell by more than one-third, and output dropped by one-half.

But the privatization campaign made its most destructive impact, perhaps, with the formation of stereotypes of business behavior. By creating opportunities for easy enrichment through the acquisition of state property and subsequent speculation in the shares of privatized companies, the adopted method of mass privatization oriented the most active and energetic businessmen not toward the creation of new wealth or the satisfaction of the needs of society, but toward the division of unearned wealth and the appropriation of sources of income, created earlier by society as a whole. Production thus ceased to be attractive for the majority of entrepreneurs—against a backdrop of triple-digit annual profits from the acquisition and subsequent resale of state property, the single-digit profitability rates in the productive sphere made any kind of activity in production economically senseless.

The privatization campaign in Russia shaped an anomalous type of businessman, oriented not toward earning profits by the creation of new material goods for consumers, as in a normal market economy, but toward the acquisition of previously created wealth. Accordingly, instead of economic growth, achieved by the activation of creative entrepreneurial energies, we have experienced a colossal collapse of such growth, as a result of the explosion of criminal activity, provoked by the legalized plunder of state property. It is not surprising, that the Prosecutor General's data show that the number of infractions of the law, committed in the course of the privatization of state property, has consistently exceeded the number of actual privatizations for the past several years. Privatization, organized as a free-of-charge distribution of property, became a powerful factor in the criminalization of the economy and society. In 1997 alone, the Prosecutor's Office brought to court 203 motions to declare null and void the results of state property auctions, 267 protests were lodged against illegal actions by the property funds

and privatization directorates, and 643 motions were submitted to eliminate identified violations of the law in this area [25]. In 1995-1996, Internal Affairs agencies in collaboration with employees of the Prosecutor's Office uncovered and stopped more than 10,000 of the grossest violations of the law, and brought to court 2,000 cases of the illegal privatization of state property.

As indicated in the Foreign and Defense Policy Council's report on the criminalization of Russian society, "over 30,000 crimes have been uncovered in the country in this sphere since the beginning of the reform of property relations (despite the largely latent quality of economic infractions of the law). Numerous instances of embezzlement of the monetary proceeds from privatization have been uncovered, as well as bribetaking by persons delegated by the State to handle the reform of property relations. The criminal nature of Russian privatization and its significance for the development of corruption in Russia is best illustrated by the fact that in practically every second region of the country, leaders of the local administrations, territorial property management committees, and property funds, have been indicted.

"It is evident today, that the privatization process from the outset was 'saddled' with criminal capital and became the most important instrument not only for laundering' money, but for raising the degree of criminalization of Russia as a whole. The very nature of privatization facilitates an explosive development of corruption in government, involving, first and foremost, those agencies that directly carry out privatization. The wages of the chief of the Vologda Province territorial directorate of the Ministry for State Property were \$16,500 per month, which is almost double the salary of the President of the United States [in recent times].

"Studies of the criminal milieu in major cities (Moscow, St. Petersburg, Yekaterinburg, and others) show an increase in the number of crimes, connected with the illegal acquisition of citizens' real estate, including buying and selling. In Moscow alone, there are estimates that over 30,000 people have lost their apartments and become homeless as a result of such crimes (and it should be emphasized that this figure does not include people who shifted to inferior lodgings, moved in with relatives, switched to rental housing, or moved out of Moscow)." [49, pp. 7-9]

A report by the Prosecutor General's Scientific Research Institute

for Problems of Strengthening Law and Order concluded that "the process of mass privatization of state-owned and municipal enterprises and housing ... occurred in a highly unorganized and hasty fashion, without due state supervision. Everywhere, it was accompanied by numerous serious infractions of the law, such as: illegal acquisition of federal property; transfer of a huge quantity of national capital into the hands of a select small circle of people; loss of the controlling block of shares in many companies in important sectors of industry; depression of the value of privatized entities; unlawful mortgaging of state property; unlawful sale of facilities belonging to the social services sphere; privatization of housing to the detriment of minors' rights under the law, and so on." [26, p. 19] These consequences were easily predictable, scientists warned about them, and they could have been completely prevented.

The predatory motivation that took shape among entrepreneurs is fully manifest with respect to the people who work at privatized enterprises. The "school of human relations" has been accepted in world management practice for a long time. It provides for a considerate attitude to the "human factor," as key to a company's competitiveness. The above-cited report, however, indicated that our "new owners and employers, in the race for profits and for other reasons, do not create appropriately healthy and safe conditions in the workplace. As a result, the level of on-the-job injuries is rising. Up to 300,000 people per annum are injured in production, of whom 6,000 die. The number of violations of labor safety laws, uncovered by the Prosecutors' offices, rose from 4,951 in 1995 to 8,062 in 1996 (an increase of 42%), and in 1997 the number grew to 11,571, i.e. 35% more. The percentage of industrial operatives working under harmful or dangerous conditions of labor rose from 18% to 42.3% in a five-year period." [26, p. 20]

Many articles were written to warn the authorities about the probable destructive consequences for the economy from mass voucher privatization. Nonetheless, the version chosen from all the possible schemes for the privatization of state property was this most primitive one, which was also the most destructive and fraught with social conflict, leading to the criminalization of the economy, the destruction of production and technological cooperation links, chaos in property relations, the steep decline of the volume and efficiency of production, and an increase of social tension. This

version ran counter to scientific recommendations, common sense, and international experience. It provoked the chaotic destruction of economic ties and massive violation of the law. It was illegal in its very method of implementation. Its unquestionable advantages for its organizers, however, included speed and exceptional possibilities for the appropriation of enormous state assets and redistribution of accumulated national wealth for their own advantage. This version of privatization was so attractive to the "oligarchy" that was taking shape, that a coup d'etat was carried out in order to implement it, and the Parliament, which resisted violations of the law, was crushed with artillery fire.

As was the case with the redistribution of monetary streams and savings, the ruling oligarchy's accumulation of property did not entail the creation of new values and material goods, but rather the redistribution, for its own advantage, of national wealth that had been created by the labor of the entire people—in effect, expropriation from the rest of the population. The ideologists of privatization for the benefit of its organizers treated state property as if it were ownerless, available to be divided up without infringing anybody's rights.

In reality, the appropriation of state property by any individual or group is the alienation of all other citizens' rights to it, and affects their interests. If today we make a comparative analysis of the decisions adopted by the interested parties, who organized the privatization campaign, with its consequences in the allocation of property and wealth, an unquestionable connection of the former with the latter is uncovered. The entire practice of privatization is likewise associated with the interests of the group that seized power, which demonstrates that the economic policy they carried out was subjectively influenced by these interests.

Cycle 3—1993-1994. The population experiences devaluation of its savings and loss of property in financial pyramids. The financial pyramids, which wiped out 20 trillion rubles of the savings of 40 million people in a second round, emerged on the crest of the privatization wave of speculation in vouchers and the shares of privatized companies. Since their appearance was readily Predictable from international experience, effective mechanisms to Prevent large-scale swindles against the population could have been

developed in a timely manner. Nothing of the sort, however, was done. On the contrary, government policy connived at deceiving the population. State television channels advertised the attractiveness of investing in financial pyramids that were manifestly fraudulent. Nothing was done to stop swindles aimed at an unsophisticated population, which presumed that the State would be monitoring the process.

Measures to terminate the financial machinations were taken late and, it was evident, unwillingly. Even the Fund for Assistance to Victimized Investors, which was established after the collapse of the main financial pyramids and was supposed to have the use of a portion of the State's privatization revenues, was squandered. The construction of the financial pyramids was carried out, in effect, as an adjunct to the privatization campaign. They allowed the concentration of property in the hands of organized crime and expanded the criminal societies' opportunities to acquire state property. The very process of duping credulous investors with lavish promises of superhigh income created a certain atmosphere of elevated expectations of rapid, easy enrichment, creating favorable political conditions for mass privatization to the advantage of the small group of organizers of this process.

The authorities' abetment of such large-scale financial machinations clearly testifies to the criminalization of the ruling elite and its transformation into a criminal oligarchy, whose interests are limited to ensuring its own exorbitant revenues and preserving its privileged position at any cost. Analysis of the consequences of the main directions of the implemented economic policy, shows that these interests contradict those of the overwhelming majority of the population and conflict with national interests and the interests of the State, which are perceived by the ruling oligarchy as a threat to its position. Accordingly the policy, carried out by the oligarchy with respect to the management of state property and revenues, which is aimed at its own enrichment and maintaining its grip on power, is antagonistic to the interests of the rest of the population and to the national interests.

Cycle 4—1995. The macroeconomic policy causes a steep decline in the population's real income and destruction of the productive forces of society. Having refused to regulate incomes

and defend the savings of the population, the Government pursued an anti-inflation policy of reducing aggregate demand by means of contraction of the money supply and reduction of state spending.

This method, selected as the main means to suppress inflation, is similar to other key lines of the economic policy, in its extreme primitivism and low level of effectiveness. The inadequacy of this method to the purpose of suppressing the type of cost inflation that was prevalent in Russia, as well as its destructive impact on the productive sector and depressive influence on economic development, were well known, and there was no shortage of warnings from scientists and prominent politicians. The consequences of this policy, as had been forecast quite distinctly, were: the payments crisis, the profound disruption of the entire system of monetary circulation, the criminalization of the economy and its transformation into a non-money economy, and a steep decline of wages and social payments to the population, as well as of the volume of production and investment.

Here, as for other lines of economic policy, there were various options for achieving the suppression of inflation and macroeconomic stabilization. Scientists proposed various methods to lower inflation, including tightened control over price formation in the highly monopolized sectors of the economy, targeted regulation of monetary flows in order to prevent them from being concentrated in the speculative sphere, measures to eliminate crime from the goods distribution network, imposition of export duties on raw materials, incentives for consumer goods production, development of competition, and so forth. None of these proposals was taken up.

The methods chosen were the simplest, least effective, and, at the same time, most damaging to the population's welfare and productive activity—suppression of demand, while the superhigh incomes and unlimited demand of the ruling oligarchy itself were preserved. Inflation was lowered by means of contraction of the money supply, which automatically stripped the real sector of the economy of money, and reduced the incomes and effective demand of the population, goods-producing enterprises, and the State.

Another means employed under the anti-inflation policy was to attract available financial resources into the financial pyramid of state domestic debt, by maintaining superhigh yields on government bonds. This had a double effect on the outflow of capital from

the productive sphere: The value of money rose with the overall contraction of the money supply, provoking an outflow of capital from the relatively low-return sphere of production; at the same time, the superhigh returns on state bonded debt guaranteed that monies that had departed from the real economy would be locked into the financial pyramid of government bonds. To put it another way, macroeconomic stabilization was achieved mainly by the contraction of aggregate demand for commodities, which led to a reduction of production and of state budget revenues, accompanied by a rapid decline in the income of the majority of the population.

The brunt of the battle against inflation thus was borne by the population, which, in the absence of proper indexation of wages, pensions, and social subsidies, and with the Government's abandonment of any role in the regulation of labor compensation or provision of social guarantees, experienced a steep decline of its real income and was forced to reduce demand. The reduction of consumer demand on the part of the majority of the population, however, only weakly suppressed inflation, which was mainly generated by the monopolistic behavior of enterprises and by structural imbalances in the economy. Moreover, the anti-inflationary effect of reduced demand on the part of most of the population, under conditions where the superhigh revenues of the ruling oligarchy were maintained and increased, was proportionally offset by growing demand from the New Russians.

The reduction of enterprises' working capital and demand was equally ineffective from the standpoint of suppressing cost inflation, but it was extremely destructive for production. It led to the payments crisis, demonetization of the sphere of production, and a steep decline in production and investment (Figs. 18, 19). The anti-inflationary effect of shrinking enterprises' current demand was offset by the reduction of the supply of commodities. Alongside the stabilization of the ruble's exchange rate under conditions of continuing high inflation, this led to a sharp deterioration of the competitiveness of domestic products and an even greater decline of their production. It aggravated the economic depression, drove unemployment upwards, and further reduced the income and standard of living of the population.

The destructive effects of the methods selected to suppress inflation and achieve macroeconomic stabilization proceeded in tandem

FIGURE 18

Non-payments and the money supply, 1990-1998

(billions of rubles)

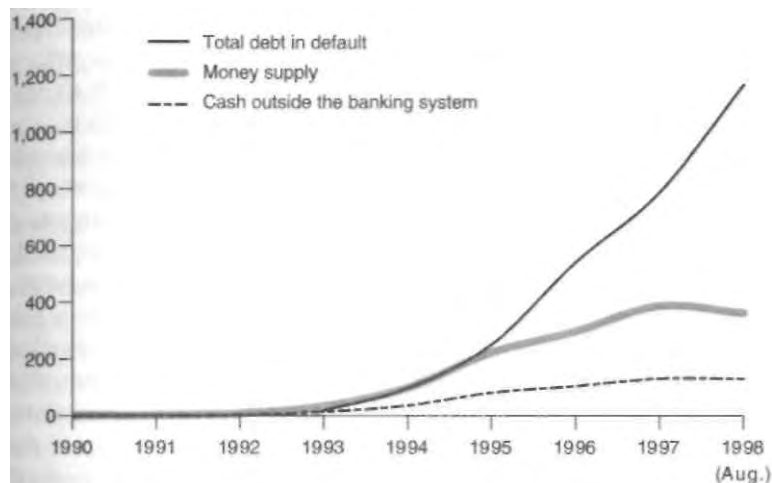
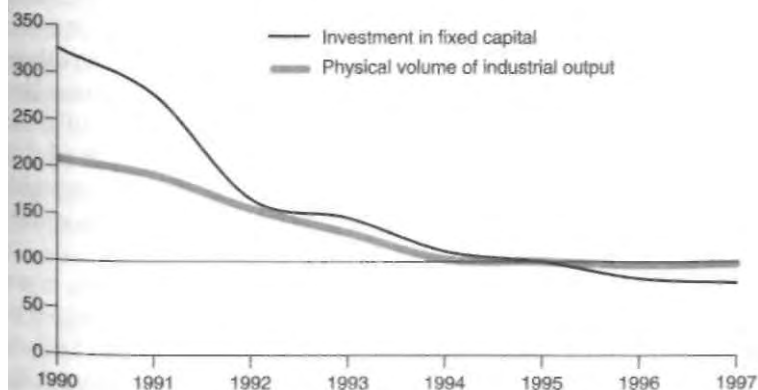


FIGURE 19

Industrial production and investment in fixed capital, 1990-1997

(1995=100)



with superhigh revenues for the financial oligarchy that was coming into being. The abrupt contraction of the money supply and the crisis increased the price of money and raised the rate of return on monetary assets. While provoking a slump in production, decline in the population's income, and steep reduction of investment in production, the chosen policy for suppressing inflation simultaneously generated superhigh revenues in the financial sector, which attracted scarce monetary resources, which were in short supply, and maintained the high profitability of speculative operations.

From the standpoint of creating conditions for economic growth, the sacrifices made for the sake of the anti-inflation policy were in vain. Inflation was reduced by means of putting the economy into an unstable equilibrium state, characterized by its dollarization, drawing of the money supply into the state debt pyramid, substitution of imported goods for most of the market, bankruptcy of half the goods-producing enterprises, and the shutdown of production in most sectors of manufacturing. It will be shown below, that economic growth was impossible in that unstable equilibrium state; preservation of the equilibrium required the rapid buildup of the state debt and maintenance of profit rates in the financial markets at a level several times higher than the average profitability in the sphere of production.

The goals of macroeconomic stabilization—an upswing in investment and rise in prosperity and economic growth—could not be achieved by this sort of anti-inflation policy. The stabilization through depression, experienced in 1997-1998, completely confirmed the forecasts of economists, with which the Government was quite familiar, concerning the consequences of attempting to combat cost inflation by means of contracting demand. The continuing fall of investment and production once again illustrates the theoretically well-established fact, that the suppression of inflation is insufficient for economic growth. At the same time, with all the social costs of the stabilization policy that was carried out, the desire to preserve and multiply the superhigh incomes of the ruling oligarchy was fulfilled.

The experience of planning the 1995 budget serves as a clear example of the anti-social effects of the implemented inflation policy. In the autumn of 1994, in the course of considering the draft budget for 1995, the Government adopted an administrative decision to

compose the budget and project revenue parameters, based on the assumption of an average 2% monthly rate of inflation. This was done despite reliable forecasts by leading institutes of the Academy of Sciences, the conclusions of experts working for the State Duma, and even the Ministry of Economics, which all concurred in projecting a monthly rate of inflation of 5-8%.

The adoption of a budget that assumed 2.5% average monthly inflation, whereas in the event the rate was 7.5%, meant a 5% monthly reduction of the real income of all budget-sector employees. It is not surprising, that the population's real income fell by 13% during 1995; wages declined by 28% and pensions by 19%. The Government, however, had made it easier to fulfill its formal obligations under the budget, turning the impact of inflation to good advantage. This was a quite conscious choice by the ruling oligarchy, made in full cognizance of the social consequences for the calculation of state budget parameters, of understating the inflation rate by a factor of three.

The shift onto the population of the burden of suppressing inflation, through cutting budget spending, became even more blatant later on. In 1997, in gross violation of the Federal Law on the Budget, the Government simply slashed budget spending on the social sphere, investment programs, and subsidies to production and science by one-fourth, in order to make increased interest payments to financial speculators in government bonds, without exceeding the established budget deficit ceiling.

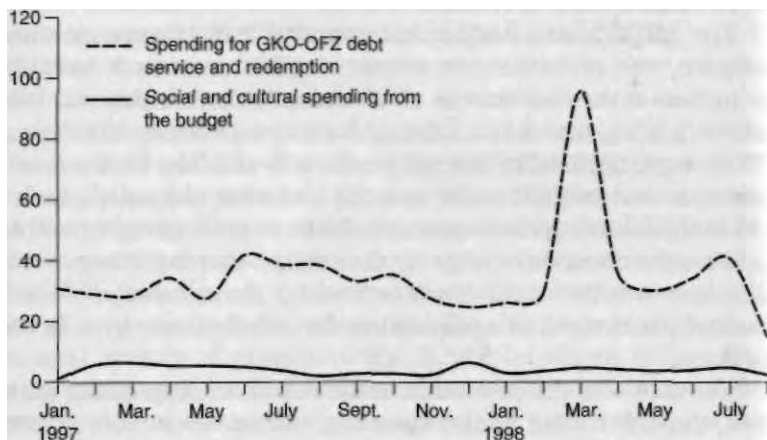
A similar situation came about in early 1998, when the Government, instead of adhering to the Law on the Budget, established for itself secondary limits on fulfilling its budgetary obligations, in order to find possibilities to make timely payment of the astronomical interest due on its bonds.

Cycle 5—1995-1998. The state budget, the population's savings, and the monetary resources of the sphere of production are sucked into the state debt pyramid, bankrupting the state financial system. The redistribution of federal budget outlays in favor of making interest payments on the state debt clearly betrayed the true goals of the economic policy that was carried out. Here the connection between the Government's anti-inflation policy and the superhigh incomes of the financial oligarchy is most evident.

FIGURE 20

Federal spending for GKO-OFZ debt service and social spending

(billions of rubles)

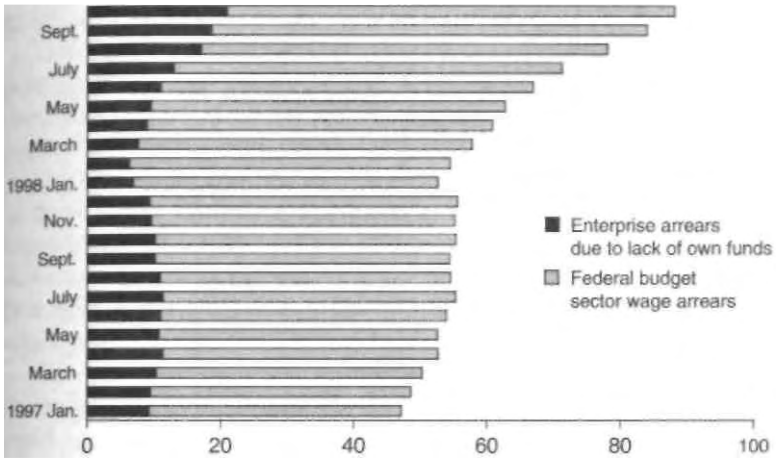


When the financial pyramids collapsed, the high profitability of speculative operations that had developed during the period of their buildup was artificially restored by the Government, by construction of its own financial pyramid of short-term government bonds (GKO), issued at high rates of return for purposes of financing the budget deficit. The construction of this new financial pyramid simultaneously addressed the problems of providing a reliable source of superhigh income for the ruling oligarchy and of tying up available monetary resources, neutralizing their effect on the increase of prices.

Of all the various possible means to suppress inflation, the ruling oligarchy chose the one that enabled it to derive superhigh revenues, guaranteed by the State. The superprofits from speculation in government securities, which reached 100% per annum and higher, made a particularly sharp contrast to the months-long delays in disbursement of wages and social payments, which resulted from the policy of restricting aggregate demand (Figs. 20, 21).

It should be noted that the rate of return on government bonds

FIGURE 21
Wage arrears, 1997-1998
 (billions of rubles)



issued by the Russian Government exceeded by several times the rates of return on this type of security, generally accepted in world practice (Table 3).

The subsequent experience of the abrupt fall of GKO yields during 1997 showed that there was no objective reason for this excessive elevation of their rate of return. There was adequate demand for them at real yields three to four times less than what became the norm in 1995-1996. But for some reason, in defiance of expert opinion and to the detriment of the interests of the Treasury, yields on government bonds were established at a high level that had no precedent in world practice. This promoted the already powerful outflow of capital from the sphere of production into speculation, while it completely blocked investment. Savings were almost completely transformed into GKO.

Against the backdrop of a catastrophic contraction of production and the impoverishment of the majority of the population, the Russian economy's speculative sector became a real "land of Eldorado," with the world's highest rate of return on financial speculation,

Table 3 Comparison of yields on government bonds, by country*
(percent per annum)

Country	Long-term bonds	Short-term bonds	Money market int. rates****	Central Bank interest rates
Russia, Jan. 1997		31.8	24-36	28
Russia, July-Aug., 1998	8-14 (Eurobonds, in Sept. 1998, up to 20)** (on secondary market, up to 60)	56.2-113.8 (on secondary market, 57-320.9)***	32.3-118.3	60-80
USA	5.0-6.55	5.07	5.52	5.0
Germany	5.40	3.20	3.09	2.5
France	5.50	3.33	3.19	
Japan	2.12		0.49-0.69	
Great Britain	6.96	6.60	6.81	

* Country data are for 1997-1998.

** Domestic Foreign-Currency Loan Bonds (OVVZ, or MinFins), Eurobonds, and restructured London Club debts.

*** Average discount rate for all GKO issues.

****Short-term interbank lending rates

For comparison, short-term government bond annual yields in July 1997 were 12% in Azerbaijan, 16.60% in Moldova, and 16.96% in the Kyrgyz Republic.

where it was possible to obtain hundred-percent profits, or even thousand-percent if things went well, without risking anything. A "miracle field" materialized in our country, which lawfully enough began to be viewed in the circles of the world financial elite as a "land of fools," who were giving away their wealth and their future to all comers.*

Despite the astronomical GKO yields, the influx of private monies was insufficient to support them; the Central Bank had to act as the main purchaser of GKO (both directly, and through Sberbank and other commercial banks, affiliated with the Central Bank), supporting their liquidity and superhigh rate of return. The share of the Central Bank and Sberbank in banking-sector government bond placements reached two-thirds in 1997, which indicates the economic absurdity of this technique of financing the budget deficit. Just as in the past, the main source, besides the population's savings, was cash issues by the Central Bank.

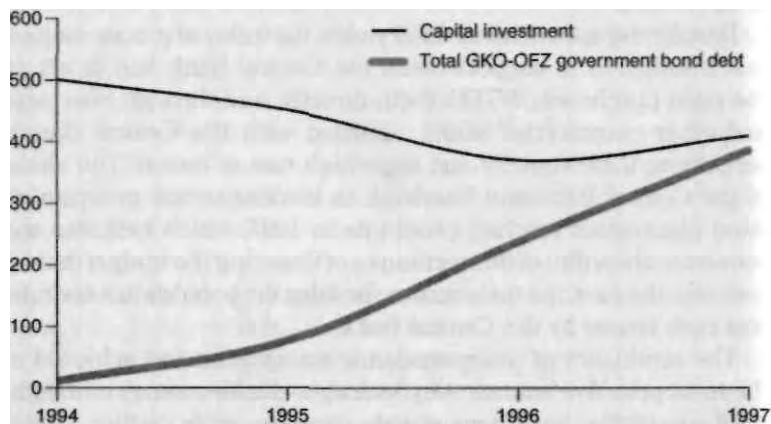
The semblance of macroeconomic stabilization was achieved in the most primitive manner—by locking available monies into high-yield speculative operations at state expense, while casting a blind eye on the ruinous consequences for the sphere of production and investment. In medical language, the national economy "got hooked," with consequences analogous to those experienced by the human body when morphine injections are administered to treat pain.

By setting GKO yields and Lombard credit rates, guaranteed by the former, at levels that were superhigh by world standards, the Government and the Central Bank temporarily attracted the huge sum of capital that had fled the sphere of production as a consequence of the economic policy being carried out, and prevented it from flooding the market. By doing this, they maintained the appearance of stabilizing the exchange rate and commodities prices. This was done by fixing the exchange rate of the ruble, in a setting where imported goods dominated retail trade in the markets of major cities, which determine price behavior in the country; the effective freezing of aggregate demand through the sequestration

*In Aleksei N. Tolstoy's Russian version of the Pinocchio story, a cunning fox and a cat lead the little wooden boy to the Land of Fools, where money grows on trees in a place called the Miracle Field.—Translator's note.

FIGURE 22
GKO-OFZ domestic government debt and capital investment

(billions of rubles)



of budget outlays and the deterioration of the financial situation in the sphere of production, both of which reduced wages actually paid; and the suppression of investment.

The natural results of this policy were a continued outflow of capital from the sphere of production, a further reduction of investment and production, aggravation of the payments crisis in the real sector, a deterioration of the financial situation of goods-producing enterprises, and an increased reduction of wages actually paid, while owners' income rapidly rose. The graph (Fig. 22) shows the outflow of capital from the sphere of production, into GKO-OFZ speculation.* A new result was that the State was sucked into a debt crisis and the budget crisis became chronic. By mid-1997, the economy was trapped in a debt crisis, where debt service was persistently much higher than the possibilities of the budget's tax revenue base.

*OFZ, the Russian acronym for Federal Loan Bonds, were issues with maturities of greater than one year, while the GKO, Government Short-term Bonds, were the shortest-term government bonds.—Translator's note.

In and of itself, the chosen method of balancing the budget by rapidly building up what was already one of the largest state debts in the world—done in the setting of privatization of a large portion of state assets virtually for free and the State's rejection of many sources of revenue (customs duties on the export of unprocessed raw materials, other forms of collecting natural rent as revenue for the State, a state monopoly in the alcohol trade, and state sector profits)—bespeaks the real motives for the stabilization policy that was carried out. When it placed government bonds at superhigh interest rates and cut budget spending for the sake of covering interest payments, the ruling oligarchy was exhibiting the classic behavior of court favorites, who pursue their short-term goals of personal enrichment and staying in power, at the cost of bankrupting the country and future generations.

This policy, however, could not last long. Not only did it preclude economic growth, but it also made it impossible to escape from the debt crisis, no matter how much budget spending might be cut. The financial pyramid of GKO, constructed by the financial authorities since 1997, qualitatively exceeded the possibilities of the budget to sustain it. Monthly spending to redeem and service the domestic debt regularly exceeded (by a factor of 1.5-2) the federal budget's total tax receipts (Fig. 23).

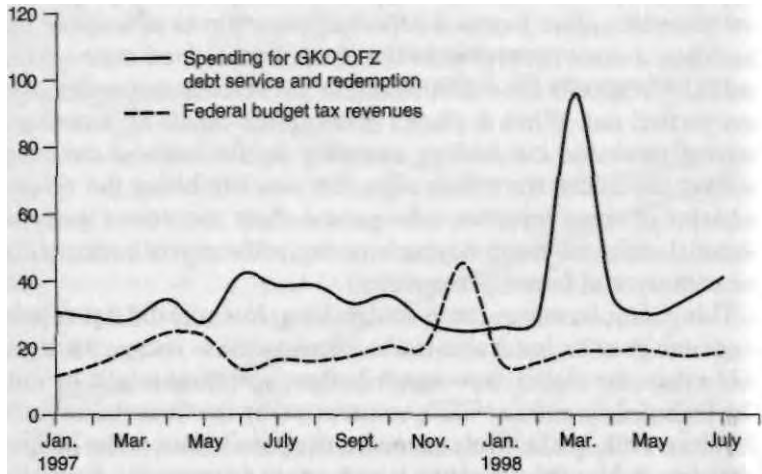
In this situation, the policy of sequestration of budget spending in order to reallocate funds to servicing the state debt, which was in its second year of implementation, became pointless. The growth of federal budget spending for these purposes to one-third of total spending failed to halt the growth of the state debt pyramid, which increased by over 100 billion rubles more during 1998 before collapsing. To paraphrase the aphorism: This was not only a crime, it was ridiculous! It made no sense to pay financial speculators unheard-of superprofits, at the cost of skimping on child-welfare subsidies and salaries to public-sector employees, since the margins that could be gained by such austerity measures were far less than the avalanche of debt obligations.

Thus, although the causes and consequences of the macroeconomic policy were fairly well obscured by scientific-sounding demagoguery, the Government's actions under conditions of budget crisis left no doubt as to the real policy priorities, as opposed to what was

FIGURE 23

Budget revenues and spending for debt service

(billions of rubles)



proclaimed in public. The illegal sequestration of federal budget spending in 1997 exposed the real priorities of the Government's budget policy with some precision.

Budget cuts were adopted at the following levels. Funding for supplies to northern regions, the coal industry, and defense procurement were cut by 30%. All other unprotected categories of spending were cut by 55%. Legally mandated budget spending for the national defense was financed at a level of only 66.9% in 1997, including a level of 64.2% of mandated spending for the Armed Forces' food supply, a protected item. Basic research and spending to support scientific and technological progress were financed at 61.5% of the budgeted amounts; industry, energy, and construction at 57.9% (only 15.5% of the budgeted level of spending on defense industry conversion was financed); agriculture and fisheries at 44.5%; education at 76.3%, with preschool programs at 60.1%; culture and art at 38.1% [69]. Spending for debt service, however, was not subject to sequestration, so the state debt turned out to be the highest priority. Funds for this purpose were not only not sequestered, but they constantly

exceeded the ceilings for budget spending on debt service. The result was that over one-quarter of all budget spending in 1997 went to provide superprofits to the financial speculators who had invested in the state debt pyramid. This was the highest item of budget spending.

The 1998 budget confirmed this tendency. While planned social spending was cut by 8 billion rubles from the previous year's level, the budget provided for a 33 billion ruble increase in spending to service the state debt. It not only set that level of spending to service the state debt (one and a half times greater than spending for the national defense), but also gave the Government the right to sequester a significant part of the spending on other items for the purpose of redistributing budget funds for the payment of the financial speculators' superprofits. The budget's planned expenditures for education, health care, culture, the national defense, science, and technological progress were to become optional, if there was not enough money to maintain the superprofits of the financial speculators.

As the budget was implemented during the first nine months of 1998, an average 48.3% of the assigned annual funding level had been disbursed. Seventy and one-half percent of budget spending to service the state debt had been disbursed, while spending on industry, energy, and construction was at 23% of the budgeted level for the year, agriculture—22.5%, financing of state investment—8.9%, defense industry conversion—4%. There was practically no liquidation of debts owed to defense industry enterprises, while current payments were at 10-15% of the approved levels.

Adaptation to the budget crisis by means of arbitrary cuts in all spending, with the exception of the constantly growing expenditures on servicing the state debt, led to a stabilization of non-interest federal budget spending at the extremely low level of around 10% of GDP, while budget revenues were at 11.9% of GDP, and tax revenues at 9.1% of GDP.

The acute budget crisis effectively became chronic; the volume of federal budget spending decreased by a factor of five in a six-year period, falling an order of magnitude below the Soviet Union's last budgets. For several years in a row, the budgeted level of spending has been one-third lower than the minimum level for maintaining highest priority social spending and the national de-

fense. Meanwhile, the budget's additional burden of state debt service has increased each year. Such a level of budget financing makes inevitable the destruction of the country's defense capacity and the national security, as well as the takedown of the social protection system and the degradation of the State and the population.

The obvious distortion of budget spending in favor of paying superhigh interest on government bonds is explained less by objective necessity than by the direct commercial interests of influential financial organizations, which have grown accustomed to using the state budget as a primary source of superhigh revenues. Ultimately, as shown above, the Central Bank became the main purchaser of bonds issued by the Government. It came to spend for these purposes a good portion of the cash that was printed. Contrary to past practice, however, under which revenues from cash issues had been given to the Treasury (in order to finance the budget deficit), the revolutionaries decided it was more suitable to redistribute them for the benefit of private parties, as interest payments on government bonds. Revenue benefits for the Central Bank itself were included, that institution having been effectively commercialized by its management in 1995-1997. The leadership of the Central Bank reallocated the revenues of this important state monopoly in its own interests.

This was an unethical line of policy, not to mention the legal and political aspects of the Government's differentiated attitude toward its obligations to financial speculators (which have been executed in full and on time) and to the population and the sphere of production (which have been consistently either aborted, or never implemented at all). This overt discrimination against public sector employees, science, the Armed Forces, and society as a whole, ought to be stopped.

The August 17, 1998 collapse of the GKO financial pyramid, accompanied by the Central Bank's decision to freeze currency exchange operations of a capital nature and devalue the ruble, marked the effective financial bankruptcy of the State, which was the lawful result of the macroeconomic and financial policies carried out in recent years.

What was surprising, was the stubborn persistence of the Government and Central Bank leaders from 1994 through the first half of 1998 and the officials in those agencies whose special responsibility

was servicing the state debt, in denying the threat that the GKO-OFZ financial pyramid would collapse, and even refusing to acknowledge that the "pyramid" principle was operating in the servicing of the state debt (that is, debt obligations were paid off with new loans), which was obvious to everyone. Even a few days before the crash, the leaders of the Government and the Central Bank were still rejecting as unacceptable all proposals to restructure the state debt, and were insisting that the policy of a further buildup of debt obligations was correct.

As of July 1, 1998, the total stock of domestic state debt in the form of short-term bonds was 436 billion rubles. According to the available data, the state budget's net earnings from the placement of these bonds (revenue from the bond issues, minus spending to service and redeem the debt) did not exceed 30 billion rubles. Consequently, net losses to the State from the construction of the GKO-OFZ financial pyramid were over 400 billion rubles.

Prompt implementation of proposals from scientists and economists to restructure the GKO-OFZ financial pyramid in 1996 would have reduced this damage to 150 billion rubles. The sequestration of 109 billion rubles (expressed in redenominated rubles*) of non-interest federal budget spending in 1997 could have been avoided. A draft Law on Emergency Fiscal, Institutional, and Legislative Measures to Overcome the Budget Crisis was adopted by the State Duma in the first reading in February 1998,** but it was blocked in the second reading by the categorical protests of the Government and the Central Bank. It would have made it possible to reduce the damage to 300 billion rubles, sparing 63 billion rubles in non-interest federal budget spending from sequestration during 1998. Moreover, timely adoption of a decision to restructure the GKO-OFZ financial

*The ruble was redenominated on January 1, 1998. One new ruble is equivalent to one thousand old rubles. —Translator's note.

**It contained the following article: "The Government is mandated to restructure, before March 1, 1998, the domestic debt as of September 30, 1997 (including Government Short-Term Bonds (GKO) owned by the Bank of Russia and commercial banks with majority State ownership, as well as the indexation of the population's deposits in Sberbank, and credits against goods, with conversion of these government bonds into government coupon bonds with a minimum 10-year period of repayment and a guaranteed 4% real annual yield (above the rate of inflation)." —Author's note.

pyramid would have held to a minimum the negative foreign consequences of the domestic debt bankruptcy, reducing the damage to the country's credit rating and prestige.

The belated and confused refusal to service the GKO-OFZ pyramid any further meant acknowledgment of the pointlessness of the two budget sequestrations of 1997-1998 and the associated heavy losses in the areas of social policy and the national defense, which were sacrificed for the sake of channelling money into the payment of interest to speculators, in order to maintain the pyramid and the appearance of stabilization.

Just as needlessly were billions of dollars of the country's currency reserves, including the last \$4.8 billion IMF loan, wasted on supporting an artificially high ruble exchange rate, in order to maintain the appearance of financial stabilization. Until the very last moment, the Government and the Central Bank were spending rapidly melting budget funds and currency reserves on servicing financial speculators, providing them with most favorable rules for the repatriation of capital and profits.

As long as the financial pyramid was maintained in a state of steady growth, the population's savings that were sucked into it yielded not a bad return. As economists had predicted, however, these savings were instantly frozen at the moment of its collapse, and were devalued in part. The experience of the Government's de facto refusal to fulfill its obligations to make good the already once devalued deposits of citizens in Sberbank left little hope, that the ruling oligarchy would take measures after the collapse of the financial pyramid of government bonds, to protect the savings of the population that had been sucked into that pyramid, and not move to preserve their own capital, invested in state debt, at the cost of yet another devaluation of citizens' savings.

So it happened. Turning up bankrupt, our monetary authorities forgot about the nation's credit reputation, cancelling the effect of the tens of billions of dollars, spent to secure a good rating, and dashed off headlong to save the oligarchs. The Central Bank decided on a 90-day moratorium on Russian commercial bank operations to repay foreign credits, and a devaluation of the ruble, breaking the official promises they had continuously sworn during the preceding months.

The country's chief banker, who one month before the crash

had called for spitting in the face of anybody who mentioned a devaluation of the ruble, suddenly "outspat" all his predecessors in financial megamachinations: Following the Government's refusal to honor its debts, he not only devalued the ruble, which automatically reduced these debts by 20%, but then ordered all Russian commercial banks to suspend payments on their debts to foreign partners.

By their decisions, the Central Bank and the Government destroyed the credit rating of Russia and of every Russian bank for a long time to come. Most of them were victimized for the sake of those that could not or did not want to make payments, who lobbied the Central Bank leadership to adopt this decision, in exchange for political support. There was no other explanation for this measure; by itself, it did not solve the problem of capital flight, which could easily find other channels. Because it was short-term, the moratorium could not rescue the balance of payments, the deficit of which was only increased by this measure, because of the loss of confidence in the Russian banking system. These decisions provoked a sharp increase of foreign banks' demands for repayment of loans made to Russian partners or a substantial increase of the collateral, developments that threatened to bankrupt many perfectly solvent banks, which wouldn't dream of refusing to meet their obligations.

In the period immediately after the collapse of the financial system on August 17, 1998, the Central Bank met the financial oligarchy's demand to focus cash issues on the task of saving privileged banks, rather than taking long overdue measures to change credit and monetary policy in the direction of an upswing of investment and financial improvement in the sphere of production. The next step in this direction was the Central Bank's proposal to guarantee the population's bank deposits, effectively transferring them to Sberbank. These gifts to the proprietors of privileged banks, at the expense of the budget, brought about no essential change in the situation. Organizations prioritized by the oligarchs were saved at the expense of others. Another step in that direction was the Central Bank's change in the collateral requirements for refinancing credits extended to major commercial banks, which were now told to pledge controlling blocks of their stock shares as collateral.

The decisions taken in the area of currency regulation suffered from analogous shortcomings. The crisis might have occasioned decisive actions, taking the crisis situation as an opportunity to

correct a number of serious imbalances in the economy, which were impeding economic growth. They could simultaneously have brought about macroeconomic stabilization at a new price level, while creating incentives for a revival of production. Centralization of currency reserves, for example, implemented in tandem with the dedollarization of the banking system and an increase in the ruble supply, would have promoted the return to a money economy and the reduction of interest rates. A sudden devaluation of the ruble to the level of its real purchasing power (approximately by one-third), together with a temporary price freeze, would have created a serious reserve of stability for the financial system, while opening up possibilities to revive production with new price relationships. The refusal to service the GKO-OFZ financial pyramid ought to have been supplemented with alternative channels for increasing the money supply in the sphere of production, such as linkage of the liquidation of government bond debt with increased investment in production.

Instead, the Central Bank devalued the ruble a little bit and froze payments abroad a little bit, which served to provoke intense pressure on the ruble and an inevitable (three months later) wave of capital flight, wiping out the hard-won trust of foreign investors and setting the stage for an inevitable further devaluation of the ruble, intensification of inflation, and deepening of the crisis. Following this will come more broken obligations, further deterioration of Russia's position in the world financial market and the shutdown or irreversible colonization of the country.

Like the Provisional Government formed by the people who overthrew the Tsar, balancing between the interests of the West and those of domestic big capital, the provisional government of "young reformers," continuing the policy of their predecessors, sought to balance between the demands of the IMF and those of the oligarchs. On demand from the former, they carried out budget sequestrations, contraction of the money supply, artificial elevation of the ruble's exchange rate, and dismantling of mechanisms of protection in foreign trade. At the request of the latter, state property was privatized, the financial pyramid of government bonds was constructed, the moratorium was imposed on the payment of debts to foreign creditors, and schemes were introduced to grant preferential credits to their banks. Just as in 1917, the interests of the people

and the country were thrown overboard, in compromises between the foreign and domestic creditors and protectors of the individuals entrusted with state power. Just as then, this brings about Russia's accelerating slide into chaos, leaving only the most radical and least effective policy options for saving the country.

A year before the August events, there was still a possibility to avoid the debt crisis, through appropriate changes in macroeconomic policy; six months before August, to exit from the crisis with minimal losses; two months before, to adopt just the "modest" system of anti-crisis measures, proposed by the Federation Council [46], which included no actions to be forced upon economic entities; today, there is no way but to shift to a mobilization policy.

If social and national security is to be preserved, the budget crisis must be overcome, above all by reestablishing reliable sources of budget revenue. Instead of that, the Government simply reduced social spending, which led to an even greater impoverishment of the population. Throughout, it was clear to unbiased economists that the cause of the budget crisis was not overspending. The basic and immediate cause of the budget crisis—the sharp deterioration of the financial situation of enterprises in the sphere of production (the percentage of loss-making companies in the sectors of the sphere of production reached 60.4% in 1997, compared with 30% in 1995) and the shrinkage of the taxable base, as a result of the steep contraction of profits—was a direct consequence of the Government's macroeconomic policy. Another important cause of the budget crisis was the ruling oligarchy's appropriation of major sources of rental income, which by law and by nature should have belonged to the state: revenues from the export of natural gas, crude oil, and other natural resources, from alcohol imports and trade, from cash issues, etc. Direct stealing from the till in the form of tax breaks granted by government leaders to "their" commercial organizations also played no small part. Data from the Prosecutor General's Scientific Research Institute for Problems of Strengthening Law and Order indicate that lost budget revenue in 1996-1997, attributable to the granting of tax preferences (exemptions), may be estimated at between 100 and 180 billion (redenominated) rubles each year, which is more than the budget deficit [26].

Without denying the existence of possibilities to increase budget revenue, the Government failed to take obvious measures to bring

back under state control sources of income that belonged to it by right: natural rent, the Central Bank's profits, revenue from the sale of alcoholic beverages, etc.

The Government likewise had no desire to reduce the incredibly overblown, unproductive spending to service the state debt. Although a significant portion of government bonds was in the possession of an institution of the State, the Central Bank, and could readily have been restructured, the Government preferred to pay the Central Bank its superprofits, which were subsequently converted into astronomical wage payments and the acquisition of real estate by the employees of that state agency.

The changes in the structure of federal budget spending during recent years reveal with great clarity what interests the Government was serving in practice, camouflaging its actions with talk about putting things in order and the need to "live within our means." Of all the possible measures for adapting to the budget crisis, the Government chose the simplest, which was also the most ruinous for the population, and defended first and foremost the ruling oligarchy's sources of superhigh incomes. It was more important for the Government to preserve the superprofits of the oligarchical clans that controlled a significant portion of the banks and raw materials monopolies and the incomes of the alcohol mafia and speculators in government bonds, than to provide minimal social protection, save children from hunger and degradation, defend the health of the population, and educate children. The budgetary and macroeconomic policies, carried out in 1993-1998, brought the ruling oligarchy huge profits, but for the majority of the population they meant a sharp reduction of current incomes and devaluation of their savings, while goods-producing enterprises experienced the shutdown of production, a payments crisis, and enormous losses.

4 Ideology

Above, we have looked at the implemented economic policy from the standpoint of its consequences for the popular welfare, showing the direct connection between the sharp deterioration of the standard of living and the versions of economic reform that were chosen. It goes without saying, that this is not the entire story of this economic policy. A better understanding of the reasons for the choice, from among the many options for economic reform, of the one most burdensome for the population and destructive for the country's productive forces, requires some analysis of its underlying ideological assumptions.

The choice of a strategy for transition to the market was made at the end of 1991, in favor of the concept of "shock therapy," imposed by certain circles from the West. This was a radical version of the extremely liberal approach to economic policy, known in the specialized literature as "the Washington Consensus." This choice was made in defiance of the opinion of the country's scientific community and despite the resistance of the Parliament and the state apparatus. The new Russian authorities used the necessity of implementing this choice, to justify to the world their crimes against the State and society.

This background prompts us to be diligent in analyzing the ideology of the reforms that were carried out. The "shock therapy" strategy, systematically implemented in Russia and other former Council for Mutual Economic Assistance (CMEA) member countries, is a version of the so-called Washington Consensus concept, developed by the International Monetary Fund for backward third world countries. It is distinguished by an extreme primitivization of economic policy, which is reduced to the three postulates: deregulation, privatization, and stabilization through strict formal planning

of the monetary base. Under this concept, there is maximum restriction of the role of the State as an economic actor, and its control over the dynamics of the money supply is limited. And although the parameters of the latter are usually set from "on high," and are systematically lowered for the purpose of combatting inflation, everything is sacrificed for their sake: social spending slashed, the financing of science stopped, state investment programs shut down, state purchases not financed, wages not paid on time, and so forth.

In the beginning, the Washington Consensus principles were developed to establish control over economic policy-making in underdeveloped nations, in order to prevent the squandering of credits extended from abroad and to guarantee unhindered freedom of action for international capital on their territory. This explains the astounding primitivism of the concept, whereby all questions of macroeconomic policy are reduced to the minimization of state regulation of the economy, the restriction of the State's role to dealing with questions of maintaining law and order and defending property rights, the deregulation of prices, domestic and foreign trade, and the elimination of the State from processes of economic reproduction and investment. The latter is accomplished by tying the national currency to the dollar and reducing credit and monetary policy to formal planning of the money supply as a function of the growth of foreign currency reserves.

From the standpoint of the IMF's interests, this policy had nothing to do with ensuring social welfare and economic growth. Its purpose was rather to dismantle the national sovereignty of the borrower countries for the benefit of international capital, enforcing strict control over the actions of their governments and ensuring the correspondence of their policies to the requirements of foreign "investors." In content, the Washington Consensus concept is nothing other than the machinery for such control. This explains the choice of economic policy planning methods that are primitive, but very convenient for purposes of external control. By setting strict targets for the growth of the money supply and the deregulation of prices and foreign trade, the IMF blocks the freedom of action on all other economic policy questions on the part of the government, which thus becomes subordinate to the Fund. This policy does not lead to economic growth, but it ensures governability, transparency, and predictability of the actions (or, more precisely,

inaction) of the State, which is important for international finance and trade capital with an interest in controlling the markets of those countries.

Under pressure from foreign creditors, the Russian leadership adopted the Washington Consensus in its most primitive form—the "shock therapy" strategy. The International Monetary Fund was given the role of guide, in shaping the economic policy of the State. From the shelling of the Supreme Soviet and the coup d'etat at the end of 1993 until the autumn of 1998, Russia was effectively under a regime of outside management of state economic policy, the basic parameters of which were drafted by IMF experts and subsequently formally endorsed by the puppet Government and the Central Bank in the form of the relevant declarations on economic policy.

Insofar as the Washington Consensus concept had repeatedly been criticized by authoritative Russian scientists, as it continues to be, as scientifically unsound and extraordinarily destructive for the productive forces of the country, the key question for its implementation was the selection of appropriate leading personnel for key posts in the Government and the Central Bank—people "untarnished" by a patriotic worldview, not overly encumbered with an education in economics, inclined to money-grubbing and corruption, and incapable or undesirous of conducting an effective policy, oriented toward the national interests. The relevant agencies of the leading members of the Group of Seven nations* tend to such matters, prompting and correcting the Russian President, whose power is reduced to the appointment of persons selected in this

*For instance, the careers of all the leaders of the State Property Committee, which carried out the uncontrolled privatization of state property, were connected in one way or another with the active influence of foreign special services. They actively supported "their" leaders (suffice it to recall, that Mr. Chubais' most important appointments coincided chronologically with American-Russian presidential summits) and energetically pushed for the removal of leaders they did not control (V. Polevanov, for example, worked as chairman of that committee for less than half a year, after having kicked certain "experts," who were in the employ of foreign intelligence agencies, out of the State Property Committee premises). Many "unsinkable" officials in the Government and the Presidential Administration, who have been fired from several positions for incompetence, are obliged to foreign protectors and "friends" of the Russian President, for their amazing ability to survive.—Author's note.

fashion, and signing directives prepared by them under guidance from the IMF and foreign experts.

Having already mentioned the social consequences of the Washington Consensus policy, we shall detail below its destructive economic consequences, as well as give a detailed characterization of the basic elements of an alternative economic strategy, oriented towards economic growth. Here, it is merely important to state that there were no objective grounds for conducting the Washington Consensus policy under IMF guidance in Russia. It was a question of political choice, of knowing how to direct the country's Government from the outside, and of the corresponding selection of personnel.

As specialists had repeatedly warned, the main results of the Washington Consensus policy in Russia were disintegration of the economy, steep deterioration of the population's welfare, reduction of the efficiency and competitiveness of production, as well as its structural degradation, and profound destruction of the scientific and production potential of the country. Russia has dropped to among the second ten countries in the world in size of GDP. Ahead of Russia are not only the United States, China, Japan, Germany, France, Great Britain, Italy, and Canada, but also India, Brazil, and Indonesia. Although Russia possesses a highly skilled labor force and significant scientific and technological potential, as well as enormous national resources, the economic policy that was carried out has nonetheless made it a poor country, ranking between Lebanon and the Philippines in GDP per capita (Fig. 24).

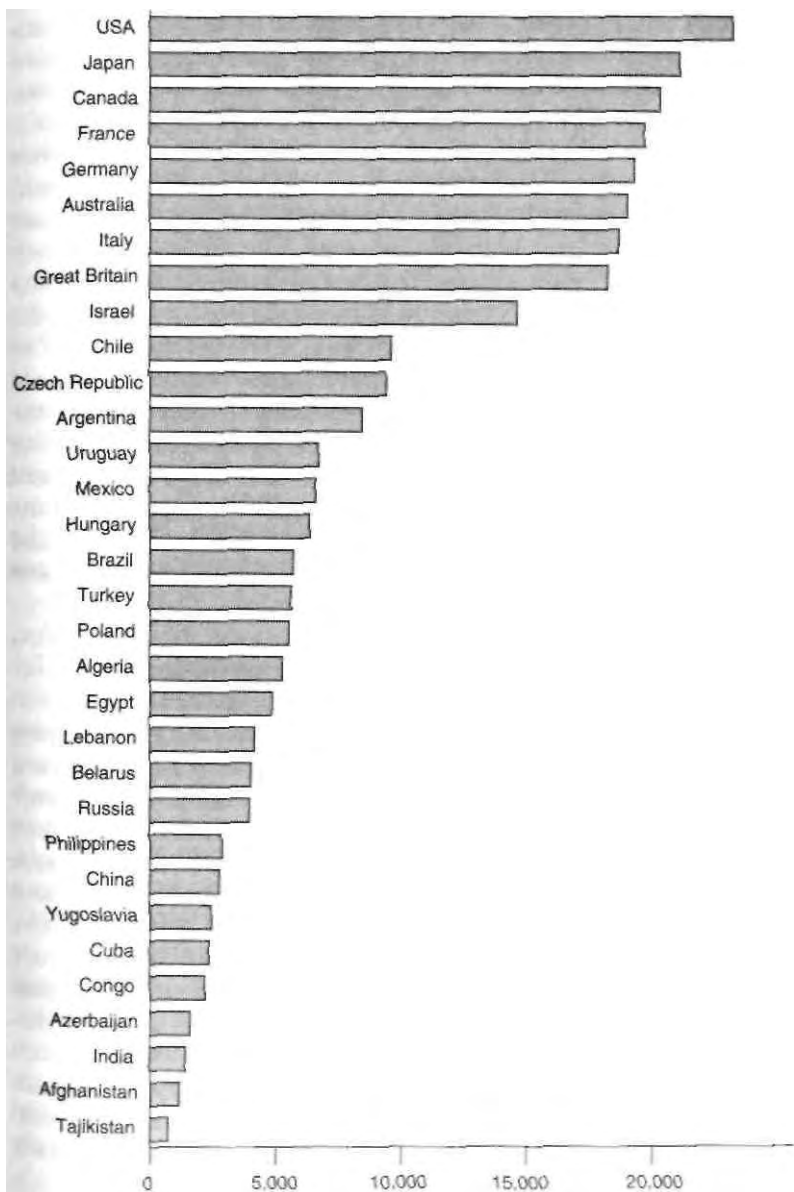
Contrary to numerous declarations and promises from the purveyors of the Washington Consensus policy in Russia, its consistent implementation and the achievement of its main goals—the suppression of inflation and a budget without cash issues—did not lead to an economic upswing. Nor could they, because the economic system plunged into chaos, as the basic reproduction contours and economic ties, which comprised it, were thoroughly destroyed.

The disregard for the structural specificity of the Russian economy, in hopes that the mechanisms of market self-organization would function automatically, provoked processes of economic disintegration and the increase of chaos. Attempts to apply methods of macroeconomic stabilization that are traditional in a state of market equilibrium, such as restriction of the money supply, could not yield an adequate result under conditions of great disequilibrium. Given the Russian economy's typical imbalances, the applica-

FIGURE 24

per capita Gross Domestic Product in selected countries

(U.S. dollars)



tion of these methods inevitably caused its breakup into autonomously functioning sectors, each striving for its own equilibrium state. Each such new equilibrium state (more precisely, the totality of equilibrium states) differs from the previous one by a sharp decline of economic activity and devaluation of a significant part of the production and intellectual potential, which has become loss-making in the new system of economic valuations and relations.

The final section of this book presents a more detailed analysis of the mechanism, by which the country's economic system self-destructed as a result of economic reform's being carried out on the basis of the "shock therapy" concept. The arguments outlined above, however, suffice to establish the cause and effect relationship between the ongoing degeneration of the Russian people and the social and economic policy implemented in the country, as well as the Washington Consensus ideology that guided and was used to justify it. The former is the empirically and theoretically demonstrated consequence of the latter. The social and economic policy carried out by the State always embodies many possible options, selection from among which decides what the consequences of the policy will be. The social situation in our country resulted from the deliberate choice of a certain economic policy; it was the expected and repeatedly forecast result of that policy.

From the standpoint of common sense and scientific knowledge, it is inexplicable, why, in the adoption of decisions that would decide the fate of the country and of hundreds of millions of people, preference was given to clearly incompetent methods, based on primitive and unrealistic models, while totally ignoring our own experience, as well as the world's. Something of this sort might be understandable in some underdeveloped nation, lacking a scientific community or literate management personnel of its own, but not for Russia, with its advanced scientific potential and personnel, and its own rich historical experience and world-famous schools of science. Equally illogical was the almost complete dismissal of the numerous proposals on economic policy and the conduct of economic reform, offered by the Academy of Sciences and the business community.

This is not how decisions are taken in any developed country. Precise knowledge and real laws are employed in the development of state economic policies, not ideological dogmas. The political basis for economic policy, in a modern market economy, is normally

a consensus among business circles, the scientific community, representatives of labor, and the Government, following the State's main lines of social and economic policy, which are then implemented through an appropriate system of measures. The theoretical basis for this approach derives from a diverse armamentarium for the analysis and modelling of the actual linkages within the economic system, a search for growth points for the competitiveness of the national economy, and incentives for the main factors of contemporary economic growth—scientific and technological progress, investment in "human capital," support for investment in general, etc.

Russia had all the necessary ingredients for drawing up an intelligent economic policy: an advanced scientific community, which had the required knowledge, experienced specialists in the management apparatus, who were familiar with both domestic and foreign experience, literate entrepreneurs, and developed traditions of social concord. Information was also available about the destructive consequences of applying the Washington Consensus concept in other countries, which had been turned into reservoirs of cheap raw materials and labor power, like colonial dependencies, for transnational capital. All this was openly and cynically ignored during the adoption of decisions on a strategy for reform of the Russian economy.

Perhaps the Russian President was deceived, because of his incompetence in questions of state governance and social and economic policy. But the people around him were not naives, who thoughtlessly trusted Western experts as teachers from "the school of democracy and freedom." Their motives for the witting choice of an economic doctrine that would be so destructive for the country can hardly be ascribed to their ideological devotion to the principles of democracy and market reform. The shelling of Parliament by the partisans of democracy and the formation of an oligarchical regime by the advocates of market reform are ideological absurdities on a par with a genuine devout believer's becoming a leader of a satanic cult. It was not, therefore, the ideas of democratic transformation and market reform that guided the acts of the new anti-Russian revolutionaries.

Analysis of the content of the "shock therapy" concept and the circumstances under which the head of the Russian State adopted

it as his own, shows plainly that it was imposed from the outside in the interests of outsiders. Those interests, however, coincided with the interests of the Russian oligarchy that was coming into being, which was eager for superhigh revenues and strove to obtain wealth and international recognition with which to consolidate privileged positions of power. The main obstacle in its path was the State as a system of institutions, embodying the public and national interests. The Washington Consensus doctrine provided wonderful ideological grounds for the destruction of this obstacle. Replacing the full-fledged institutions of state power with the surrogates of a colonial administration, the newly formed oligarchy privatized the functions of the State and control over the country's national wealth. It relinquished national sovereignty, in exchange for protectorate status under leading foreign powers.

Another attractive side of the "shock therapy" policy, for the newborn oligarchy, was the complete abolishment of the authorities' responsibility to provide for the welfare of the citizens and for economic development. The market was supposed to deliver all of that automatically. For the ruling elite, which had transformed itself into an oligarchy, the ideology of dismantling state control and regulation created an opportunity to derive superprofits from the privatization of the main regulatory functions of the State.

Beginning in the autumn of 1993, after the violent crushing of the Parliament and the total seizure of state power by oligarchical clans, these clans implemented as their main priorities, cloaked in the Washington Consensus doctrine: the mass privatization of state property, which by the end of 1995 had degenerated into the secret partition of the most valuable objects of state property among several ruling clans; the manipulation of state financial resources in order to derive revenues from their exploitation; the issue of various exemptions and privileges to commercial organizations tied to them; and the dismantling of the most effective instruments of state regulation of the economy.

There was a coincidence of interests between the newly-formed oligarchy in Russia, which sought its own enrichment, and the international organizations that were shaping the economic policy of the Russian Government in accord with the interests of international capital. The former willingly assumed the function of purveyors of a policy that was ruinous for the country, but amazingly advanta-

geous for them personally. The latter accomplished the cleansing of Russia's economic space for international capital in record time, fully achieving what they sought from the "liberal reforms." The very creation of the Russian financial oligarchy occurred through the process of seizing state property for subsequent resale to transnational corporations and international speculators, with ideological and political cover provided by the international financial organizations.

The policy being carried out was officially presented as the market transformation, liberalization, and stabilization of the economy. Although it brought no economic success for the country, which plunged into an unprecedented crisis, it proved to be amazingly successful for the ruling oligarchy, securing the redistribution of enormous national wealth in its favor.

The transformation of Russia's first "democratic" government from a "government of technocrats" into a government of "billionaires" demonstrates that "shock therapy" was by no means a disinterested policy, but served very specific economic interests. At the same time, this policy had its quite respectable ideological foundation, which functioned as a clever means to camouflage the overt plundering of the national wealth, illegal usurpation of power, suppression of human rights, and genocide against the greater part of the country's population—as progressive economic reforms and democratic transformations.

Thus the reason for the choice of the pseudoscientific Washington Consensus doctrine as the ideological basis for carrying out economic reform lies not with the truth of the doctrine or its executors' fidelity to democratic values, but with the simple fact that this doctrine was convenient for the interests of the ruling oligarchy that took shape in Russia during the years of "reform," on the one hand, and, on the other, the interests of international capital in its implementation. The symbiosis of these interests was consolidated by foreign special services' control over those sections of the Russian power structure, which were in charge of economic policy, and the selection of leading personnel for key posts in the puppet Government.

The Washington Consensus doctrine, as it declared the necessity of the State's self-removal from economic regulation and social responsibility, reducing the functions of the State to the defense of

private property rights and regulation of the money supply, served as a suitable ideological justification of the purposes for which the levers of state power were utilized in actual practice. These were the appropriation, for the benefit of influential private clans, not only of state property, but also of state regulatory functions in the areas of monetary circulation and cash issues, raw materials resource development, real estate transfers, and even law enforcement. The clans themselves became international ones, in which the interests of influential Russian circles were closely interwoven with the interests of international financial speculators and transnational corporations. In this symbiosis of mutual economic interests, the Russian participants derive benefits for themselves, while effectively serving as a bridge for the transfer to international capital of control over the national wealth. Not surprisingly, the foreign operators promptly occupied the dominant position on the stock exchange where the shares of privatized Russian enterprises were traded; the resale of Russian companies to their foreign competitors is the natural continuation of the predatory form in which privatization was carried out, for the benefit of its organizers and of swindlers. A dark shadow fell over the fond friendship between the Russian oligarchs and the bigwigs of international capital, with the financial collapse of August 17, 1998. That crash, which was the inevitable result of the policy of appropriating the state budget through the government bond pyramid, turned the partners into rivals. Just as a band of robbers starts to squabble over the loot after some successful raids, so after the collapse of the policy of destroying state finances, the main holders of government bonds began to fight over shares of this disappearing wealth. First, an almost \$5-billion credit was organized by the foreign masters of the Russian Government, in order to permit an orderly exit of preferred investors from the collapsing GKO pyramid, after which it was decided to bring it down.⁴ The Russian participants in this "swindle of the century" tried to defend themselves by means of the 90-day moratorium on repayment of debts to foreign creditors. This, however, will hardly save them from bankruptcy, since the power and influence of their foreign partners, who have suddenly turned up as rivals, is incomparably greater. The revolutionaries' October 1998 anti-crisis action program, which has three ex-ministers of economics from recent

years among its authors, revealed the hidden significance of the whole operation and pointed to the preplanned denouement.

Although there is nothing new in the ideology of this program, compared with the Washington Consensus policy implemented so far, and the expected results of its implementation would differ little from the consequences of stepping on the same rake many times over, it deserves attention because of its frankness.

For the first time in the years of "reform," this program unveils the true final goals of the economic policy that has been carried out.

These goals are so overtly formulated that they require practically no commentary. It is sufficient to enumerate them.

1. Transfer of control over the Russian banking system, and through it the entire economy, to foreign capital. For this purpose, according to the program, "it is necessary to liberalize access for major international financial institutions to the Russian banking market, removing restrictions on the type of banking service (primarily with respect to doing business with individuals) and the size of bank assets, and to involve them in the improvement of the condition of Russian banks that have obligations to the population. The format of 'nationalization, then privatization' may be used, which leads to the sale of controlling blocks of shares in Russian problem banks to foreign strategic investors for a nominal sum (1 dollar), on condition that the purchaser guarantee the population's deposits. In parallel, the markets in insurance services and non-state pension funds ought to be opened to non-residents." [68]

2. Further contraction of the real money supply and formal subordination of the ruble to the dollar: "... the exchange rate of the ruble should be pegged to the dollar at a level permitting the entire money supply to be covered by Central Bank gold and currency reserves. ..." [68]

In practice, this means the loss of Russia's sovereignty with respect to monetary policy, International Monetary Fund control over the entire financial system, including drafting of the budget, and the State's relinquishment of revenue from cash issues and renunciation of any forms of financing economic growth.

The "renunciation of cash issues," postulated in the program,

means that the real money supply, expressed in rubles, would fall by at least a factor of two below the previous level, which, it should be added, was extremely inadequate. This would cause a further sharp increase of mutual non-payments between enterprises, wage arrears, expanded circulation of foreign currency, substituting for the rubles that are in short supply in the monetary system, further deterioration of the financial condition of goods-producing enterprises, a decline of taxes collected, and a slump in production.

3. The self-liquidation of the State: "... since revenues from cash issues and state borrowing will be closed off as sources for covering budget requirements, all budget obligations will have to be reduced to a level that can be covered by tax revenues." [68]

Reasonable as it sounds on the outside, the implementation of this thesis would have meant fulfillment of the 1998 budget at a level of no more than 50%, insufficient to provide even the minimum required financing for the budget sphere: health care, culture, and education. Under this approach, people employed in this sector would have less than enough income for their physical survival.

4. Elimination of the population. The proposal by the authors of the program to renounce the indexation of wages and pensions ("indexation exclusively for the fixed incomes of the indigent" [68]), while the money supply, which contracted by one-half during September 1998, is not increased, would mean keeping the nominal income of the majority of the population unchanged, while a significant part of their savings was effectively liquidated. Given the official forecasts at that time of a two- to four-fold increase in prices between September and the end of 1998, this would have created a real threat of hunger for over half the population. The 37 million people who had income below the subsistence level before August 17, 1998 would be joined by at least 30 million more.

Our shock therapists' new radical programmatic "cure" for the economy is permeated with false estimates and forecasts. Just as in their days as ministers of economics, the program's authors do not bother with serious calculations or in-depth analysis, but arbitrarily manipulate figures to substantiate propositions that are speculative and divorced from reality.

What, for example, is the worth of their reasoning about a dou-

bling of budget revenues in the fourth quarter of 1998, through the inflationary expansion of the tax base? This could only have happened if the economy again became a money economy, providing a basis to overcome the payments crisis. But if there were a "categorical" renunciation of cash issues, this would not occur—and the burst of inflation would spill over into a corresponding increase of non-payments and debts. Instead of an increase in revenues, the budget would experience a further accumulation of arrears, which was already distinctly apparent in the decline of taxes collected in the autumn of 1998, despite the more than 150% rise of prices. Without an increase in the supply of money and a settlement of the payments crisis, tax revenue cannot increase, and the program's announced compensation to the population for losses due to inflation—"within the limits of the budget's real possibilities"—would turn out to have been the latest deception.

Even more feeble are the authors' Manilovite* arguments about an automatic resolution of the problem "of settlements and payments, without the threat of an increase in inflation," an increase in the supply of currency and "the gold and currency reserves of the Central Bank, without the introduction of mandatory sale of foreign currency earnings by exporters," a lowering of the refinancing rate, and the simultaneous increase of the monetary base and money supply against the backdrop of their declared "categorical renunciation of cash issues." [68]

It is obvious that confidence in the ruble was thoroughly undermined after the Government's August 17, 1998 decisions, the subsequent collapse of the banking system, and the freeze and devaluation of a significant part of the population's savings. Even in the absence of cash issues, it cannot rapidly be restored. In practice, a refusal to introduce requirements for the 100% sale on the domestic market of foreign currency earnings by exporters, while preserving the possibilities to acquire foreign currency freely for purposes of hoarding, makes unrealistic any stabilization of the exchange rate of the ruble, due to the continuing imbalance between the steeply growing demand for foreign currency and its contracting supply.

*The name of the landowner Manilov, a character in Nikolai Gogol's *Dead Souls*, entered the Russian language to denote a lack of grounding in reality, a lazy mind, and unwarranted complacency.—Translator's note.

The actual consequences of implementing this program, like all the previous programs of these authors, would be directly opposite to the declared goals. "A unique chance to get out of the crisis with a high level of demand for money and restoration of a money economy, and a lower level of non-payments and barter, than in the pre-crisis period," [68] will have been missed.

There is no need to criticize the numerous old passages in this "new" pseudoliberal program, respecting tax reform, a sharp reduction in state spending, the introduction of free trade in land and the privatization of real estate—all of which has been proclaimed many times and has been done by previous governments, always bringing the same failures with respect to the creation of real market mechanisms and the same successes with respect to the luxuriant flowering of corruption and embezzlement. Interestingly enough, the "new" program preserves these latter phenomena in the more refined form of issuing superhigh-yield government bonds, denominated in foreign currency: "The market should also be supplied with foreign currency-denominated 'short' (with maturities of two or three weeks) paper. After this, the issue of long-term foreign currency-denominated paper can be organized, with guarantees from the international financial community, ... for the express purpose of directing the funds, raised by means of these instruments, into servicing the state debt and replenishing gold and foreign currency reserves." [68]

The ideologists behind the construction of financial pyramids on the basis of the budget want to continue this form of appropriating the national wealth, even though it is highly inefficient for the elect speculators and destructive for the State. The collapse of their brainchild—the four hundred billion-ruble financial pyramid of GKO-OFZ, which wiped out the savings of millions of people and destroyed the national financial system—has taught them nothing. Or, rather, it has taught them legalized forms of large-scale embezzlement, and they are determined to build yet another financial pyramid, of even shorter-term bonds, denominated in foreign currency.

It is clear that this is the shortest path to default on the foreign obligations of the State. The market in Russia's foreign-currency bonds has experienced typical yields of 60% interest. It would be possible to place new bonds at such yields, under conditions of

continuing economic depression, only according to the "financial pyramid" principle—making payments on debts by means of new loans. This inexorably leads to the rapid default by the State on its foreign obligations, the threat of which is hanging over the country as a result of the policy of endless foreign borrowing and concessions to creditors, which the authors of this program have carried out in previous years.

The August 17, 1998 collapse of the macroeconomic policy that had been carried out was the lawful result of that policy, about which scientists and experts continuously warned during the preceding three years. The "new" program of the revolutionaries would have us take the same path again. Its result would be the extinction of one-third of the population and the final colonization of Russia, as the country was reduced to the role of a raw materials appendage of transnational corporations and an economic space for international capital. The program contains nothing new, except for the open declaration of the goal of cleansing the Russian financial system to make way for foreign capital. It offers no real alternative to the positive proposals, which the Russian academic community, the Federal Assembly, and patriotic political forces have been making for many years.

The promulgation of the "new" revolutionary program shed light on what a gloomy prospect the continuation of the previous macroeconomic policy would be, pursuing the ultimate goals of the colonization of the Russian economy by transnational capital and its transformation into a raw materials periphery in a new world order.

The "shock therapy" doctrine justifies the oligarchy's seizure of the levers of state power, the subordination of state power to the interests of international capital, and the fusion of organized crime with the institutions of the State, as lawful forms of the primitive accumulation of capital. The ideologues of the Washington Consensus thus inculcate a belief in the inborn venality of any state power. The latter is discredited by the state leaders themselves, who no longer even hide their corruption, using fashionable "reformist" terms to justify the predatory seizure of national wealth. Even the degeneration of a significant part of the Russian population is explained the way the annihilation of the North American Indians was in its time, as a question of their "inferiority," and the need to instill "civilized" practices and economic rationalism.

The Washington Consensus policy has no human dimension. It is employed in order to turn controlled countries into colonial reservoirs of cheap economic resources. It provides for no social responsibility, because the theoreticians of the Washington Consensus see people as nothing more than elements of the environment, subject to economic exploitation by transnational capital. The Washington Consensus doctrine, which was developed in the interests of international capital's domination and the dismantling of the policy of state economic regulation, turned out to have another use—to justify the usurpation of state power and expropriation of state property by oligarchical clans, which under the cover of radical liberal rhetoric established a criminal oligarchical dictatorship in Russia, the result of which was genocide against the greater part of the country's population.

5 Mechanisms

As we can see, each of the forces determining the adoption of decisions when "shock therapy" was selected pursued its own goals. The new Russian elite hoped to privatize the institutions and functions of state power, for purposes of personal enrichment and the enhancement of their influence. Separatists saw the weakening of the State as an opportunity to establish a regime of personal power in the constituent territories of the Federation where they governed. The world oligarchy planned to cleanse the economic space of Russia for international capital.

In the "shock therapy" policy, the feebleness and vanity of state leaders was united with the criminalization and corruption of those around them, the cupidity of the new oligarchy that was forming around the Government, and the interests of foreign capital. The latter were bolstered by the political desire of the leading countries of the West to weaken the Russian State to the greatest possible degree and establish control over it, in order to block Russia's rebirth as a superpower.

Virtually all of these covert goals were achieved, as a result of the "shock therapy" policy. At the same time, the most important officially proclaimed goals of transforming the Russian economy into a market economy and ensuring economic growth on that basis, failed. The Government created no real preconditions for a transition to sustained economic growth.

In light of the Russian ruling elite's real motive of self-enrichment, it is not surprising that the Russian "democratic" leadership took the path of deceiving the public and adopting decisions in secret on the allocation of the national wealth. It gradually turned into an oligarchy, growing rich off the ruination of its own country, rather than engaging in an open dialogue with the public and the develop-

ment of a social and economic policy of national accord. Its attitude toward Russian laws was scornful, toward its obligations—cynical, toward the people—contemptuous, but always combined with servility before foreign "advisers" and "consultants," and slavish worship of foreign capital and its associated international oligarchy, which the new Russian leadership ardently wanted to join. The leaders of Russia thought nothing of letting international financial institutions run economic policy, if it meant that they could make use of national property for these purposes.

With full support from the oligarchical clans, leaders at the highest level personally deprived the Russian State of the right to determine its own independent currency printing and credit and monetary policies. They renounced any active foreign trade, industrial, or investment policies, effectively shut down scientific research and terminated incentives for scientific and technological progress, destroyed the defense industry, reduced budget policy to a mechanical procedure of cutting spending and building up the state debt, and reacted to the economic depression with nothing but inert accommodation.

Why does society accept the rules of the game, imposed by a numerically insignificant group of swindlers, who suddenly became all-powerful oligarchs, supported by international capital? How did the state apparatus and powerful state organizations come to obey these rules?

"Rules of the game" were established among the Russian elite, according to which influential businessmen for the preservation of their good position must bribe officials, evade taxes, export a nice bit of capital abroad, appeal to those in power for protection, and plot with them to seize valuable items of state property. In turn, it was important for a high-ranking official to "belong" to the leadership of some major financial entities—to be a member of one of the ruling oligarchical clans. Support from the political leaders of major Western countries was also of considerable importance.

It took the creation of mechanisms for the complete alienation of the population from power, in order for the policy of self-destruction of the State, appropriation of the national wealth, and the dismantling of national sovereignty to be implemented. The evaluation of their activity by the population and the representative branch of power was of no importance whatsoever to the top leaders of the

Russian Government in this period. The evaluation of experts and colleagues meant almost nothing, and even the President's attitude was not of great concern to them. Insofar as they were hired and fired by the oligarchical clans that controlled the President's immediate milieu, and received their main remuneration from the clans, it was to the clans that they reported on work accomplished. Evaluations by the IMF and the relevant services from Group of Seven countries were also of great importance, for the activity of the leadership of agencies dealing with macroeconomic policy. They strongly influenced personnel appointments in the Russian Government, through the political leaders of their countries.

In a paradoxical way, the people of Russia were even more alienated from power after the implementation of "democratic reforms," than they had been before. The Government's cynical attitude toward its constitutional obligations, disregard of social guarantees, complete irresponsibility in the conduct of economic policy, and manipulation of election results, bred a lack of confidence in the authorities, as well as apathy and protests.

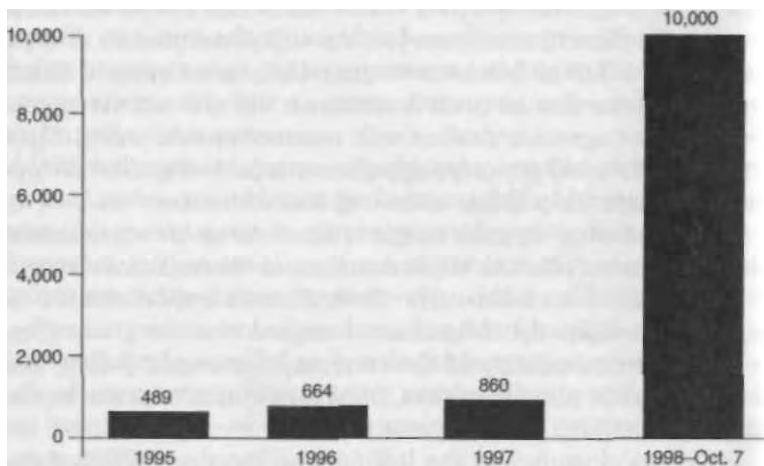
Sociological studies by the Institute for Social and Political Research of the Russian Academy of Sciences show that the majority of Russian citizens are critical of the new political realities. More than 40% of citizens advocate radical change in the existing political system (which can be considered an indicator of the degree to which the current power system is seen as illegitimate). There is not a single government institution or social institution in society (including the Army and the Church), that the majority of citizens would trust. The number of Russians, who trust the President, the Government, or the Parliament, does not exceed 15% of the population. The number of people who don't trust anybody is growing. Between 25% and 45% of Russian citizens believe that the ruling authorities do not express or defend the interests of the people. The new system of law is rejected by the public; the majority of citizens believes that laws are adopted in the interest of corporate or criminal circles, not the public. Legal nihilism is on the rise. The indicators of alienation from power, used in international research, show that over 60% of Russians are convinced that "the ruling authorities don't care about ordinary people," and that "the rich get richer and the poor get poorer." The opposite point of view (for example, that "the ruling authorities care about ordinary people's

lives") is shared by less than 5% of Russians. A majority of citizens

FIGURE 25

Strike participation

(thousands of people)



has seen no changes for the better in the course of the reforms and rejects the reform policy and the results of privatization. The stereotype of "an anti-people political system" has become established in the public mind. In recent years, the number of people who think that the Russian ruling authorities may no longer count on the people's patience during the implementation of economic reforms has increased from 52% to 56%. This indicates that the social base for the economic policy that has been carried out has no tendency to expand (Fig. 25) [41,71,72].

The question arises of how the ruling oligarchy has managed to hold on to power during a prolonged period of implementing a policy, which contradicts the interests of the country and the overwhelming majority of the population. What political mechanisms make possible the implementation of a policy hostile to the population, while maintaining the apparent functioning of democratic institutions?

It was shown in the preceding section that the main active party in the current revolutionary reforms, which have come about as

genocide against the population of Russia, was a natural symbiosis of radical anti-Russian extremists, who dream of the annihilation of any independent Russian statehood whatsoever; forces supporting them from the outside, which traditionally have sought to weaken Russia; criminal elements, battling to acquire the national wealth under conditions where the law enforcement system was disorganized; and commercial organizations with close ties to the ruling authorities, which utilized their people within the institutions of state power to create conditions for the extraction of superprofits by means of an effective privatization of state functions. The result of this fusion was the formation of an oligarchical political system, in which power was usurped by an extremely small cosmopolite group, hostile to the national interests of Russia, which has grown rich on the forcible division of the national wealth and by mediating the sale of parts of it abroad.

This group has attempted to defend its position by transforming the Russian State into a colonial administration, maintained by foreign credits that are granted in exchange for the surrender to transnational capital of control over the national economy. In order to hold on to its power, this group does not shrink from employing punitive police actions against the population or utilizing the assistance of foreign special services. It carries out a policy of corrupting and frightening the population through the mass media.

The comprador oligarchical elite, formed during these years, became the main political agency in the country. Effectively controlling the key national institutions of state power and leading elements of the opposition political organizations, it enjoyed virtually unlimited power to dispose of state property and finances, as it strives for further enrichment by the easiest possible route. The supports and mechanisms of its ruling position have consisted of the following components.

First The appropriation of state property, in circumvention of all norms of law and morality but legalized by the decisions of "their people" within the power structures. The largest-scale acts of privatization of national property were committed in the manner of a secret deal among interested persons, then formalized by "their people" as government resolutions and presidential decrees.⁵ That was how the most valuable facilities of basic industry, infrastructure, television, and the financial system were appropriated, which were

also the most important for national security. Behind virtually every decision on the privatization of a major item of state property, a deal can be traced between the interested commercial organizations, which drew up the scheme of the privatization, and the responsible leaders of the relevant government agencies, who carried it out.

Second. The manipulation of state finances, "sucking off" budget funds into "their" commercial banks, and pumping the State's cash issues and foreign currency resources through their channels, were the favorite business practices of the ruling oligarchy. Even the budget crisis, provoked by the monetary policy that was being carried out, became a source of superhigh revenues for businessmen with "good connections," operating in areas adjacent to the budget. The legislative ban on the use of direct credits from the Central Bank for purposes of financing the budget deficit was exploited in order to privatize the issuance of money, which assumed the form of paper credits and mutual offsets, effected by commercial banks on commission from the Ministry of Finance. As a result, from 20% to 60% of budget allocations for many authorized items of spending were appropriated by these "court" commercial middlemen.

Immediately after the coup d'etat and the shelling of the parliamentary opposition in the autumn of 1993, the oligarchical clans that were grouped around the Government organized open embezzlement by means of illegal tax and customs payments breaks for their firms. One of first acts of the victorious oligarchy was the issuance of a series of presidential decrees, granting illegal privileges to their commercial organizations. The Accounting Chamber's audit of just one such organization, the National Sports Foundation, showed that more than 20 trillion rubles was stolen from the federal budget by these means between the end of 1993 and the beginning of 1995. Even after the passage of a law in early 1995, initiated by the State Duma, directly outlawing privileges of this type, interested government officials went right ahead and paid over 40 trillion rubles in "compensation" to those embezzlers who had suffered losses due to the abolition of illegal privileges.

Third. The manipulation of public opinion by means of establishing control over the main mass media and instituting de facto censorship in the so-called "mass media concerns." Disinformation, intimi-

dition, stultification, and demoralization of the population have become the main techniques used on national television, which has come under control of the oligarchy and organized crime.

Typical of the television channels controlled by the oligarchy are shameless russophobia, aimed to destroy the traditional values and self-conception of the Russian people, as well as fawning on the West, and undisguised sympathy for the enemies of Russia, which is overtly manifested in a great number of informational reports—from relishing Russian airplane crashes to making Chechen bandits out to be heroes.

The denigration of the Russian self-conception on the leading television channels, day after day for hours on end, has a certain result—people slip into apathy and silently submit to the policy of colonization, quietly getting drunk and cursing the regime.

Fourth. Control over the information reaching the President. There is a multilevel system of filtration and work-up of information, which prevents the President from really being able to evaluate processes that are taking place. By effectively controlling those closest to the President, the ruling oligarchy has privatized state power itself, using it against their rivals and for the purpose of seizing the national wealth. It is no accident that people, who have incurred objections from the ruling oligarchy, are sent on a fast track out of the institutions of power, by presidential decisions drawn up in those close circles.

Fifth. The creation of private armed units in the form of various guard organizations, the swelling of the numbers of Internal Affairs troops in order to strengthen the punitive police apparatus, systematic intimidation and blackmail against the leadership of the Armed Forces, the provocation of corruption among the senior officer corps, and the demoralization of servicemen and their discreditation in the eyes of the public.

A patriotic-minded, highly professional Army, on guard to protect the national interests, presents a threat to the ruling comprador oligarchy. Therefore, every possible means is used to break it down—from underfinancing and countless pointless reorganizations, to direct destruction in military adventures and discreditation through mass media campaigns against the Armed Forces. It is not a rare occurrence for destabilized officers, degraded by poverty and the pointlessness of their difficult life in the service, to commit

suicide, having lost faith in the Fatherland they defend, and failing to understand the reasons for the self-destruction of the State.

In parallel with the decay of the Army, private armed forces are built up by the ruling oligarchy for its own defense and to continue its policy "by other means." Daily reports on the murders of businessmen, state officials, and politicians, as well as acts of terror, show that there is a real war going on, launched by the oligarchy and organized crime, which has closed ranks with the oligarchy, for the purpose of appropriating the national wealth.

Sixth. Consistent political, moral, and technical support from abroad, for the policy that has been carried out.

The external factor in the shaping of the economic policy carried out in Russia has already been mentioned. What was said above does not exhaust the "role of foreign forces." The most successful clans of the ruling oligarchy are closely interwoven with influential organizations of international capital. The oligarchy that has effectively ruled Russia is more foreign-oriented than nationally oriented in its interests. That is a function of its role as a "bridge" for conveying Russian national wealth into the hands of international capital, its mode of savings by means of capital export, its system of values calling for unconditional support of the policy of self-destruction of the Russian State, and its very way of life—feathering "family nests" abroad, bringing up and educating the children abroad, and seeking to join prestigious foreign clubs. That is the explanation for the ease, with which the ruling oligarchy in effect hands the function of defining economic policy to international financial organizations, and for Russia's renunciation of sovereignty with respect to setting key directions of domestic and foreign policy.

Seventh. Manipulation of the opposition, which the ruling oligarchy accomplishes through political leaders under its control. Researching the policy implemented in Russia, it has to be recognized that the opposition, from all parts of the political spectrum, has played a certain role in stabilizing the current oligarchical regime.

Lacking serious social support and hated by the overwhelming majority of the population, the ruling oligarchy could only have stayed in power so long, thanks to the de facto incorporation into its ranks of the leaders of prominent opposition parties and public organizations. They are assigned the important role of "political breakwaters," whose job is to keep social protest movements under

control, channelling them into parliamentary debates, public rallies, and ineffective public protest actions, which present no danger to the ruling oligarchy. They handle this role quite well, performing numerous political shows, fooling the impoverished population, and frightening the thinking segment of society with radical slogans, while remaining absolutely no threat to the ruling regime.

The furious anti-government rhetoric of many leaders of the opposition electorate, speaking in public squares or from a rostrum, meshes in an amazing way with their inability and lack of desire to have any effect on meaningful political decisions or to fight for real influence on what policy is implemented. Meanwhile the comprador oligarchy behind the Government, until the autumn of 1998, continued to conduct its policy of appropriating the national wealth and exporting it abroad, laughing at the empty scandals and accusatory speeches in Parliament.

"Opposition" politics of this sort enables the ruling oligarchy to control the situation in the country with a sure hand, to keep the political initiative, to replace leading personnel in the organs of state power in a timely fashion and in their interests, and to carry out the lucrative policy of appropriating the national wealth, despite the periodic flare-up of social tension and protests from the population. The damping action by certain influential opposition leaders against public protest makes it possible for the ruling oligarchy to hold on to power, channelling mass discontent and the objections of the overwhelming majority of the population against the anti-national policy, into harmless forms of "letting off steam." Without this it would scarcely have been possible to preserve the ruling regime's stability, when nearly three-quarters of the population mistrusts the leaders of the country, one-half of the population is inclined to favor change in the political system, and one-third is ready to take direct part in social protest movements.

This factor largely explains the ruling oligarchy's otherwise unbelievable victory in the 1996 elections, when it succeeded in securing victory for a candidate, who had lost the trust and sympathy of the majority of the population. The top leaders of the opposition did not want to unite their forces, failed to take on the difficult and dangerous work of monitoring the ballot count, and preferred to play the role assigned them in the electoral politics show by the ruling oligarchy, waging no serious fight for power.

Eighth. Political terror, as the murder of General Rokhlin showed, remains a means to protect the ruling oligarchy's power. Employed on a large scale during the coup d'etat of October 1993, political terror remains an effective means of intimidation of the opposition. Constant threats of a forcible dissolution of the State Duma, rumors about repression being prepared, and the "pumping" of money into the presidential guard organization, as well as its enlargement, create a certain kind of backdrop for the political situation, constantly reminding people that the regime is ready to resort to any measures, in order to confine the opposition within the bounds of political theater.

It takes more money to maintain the above-enumerated elements "in working order," than would seem conceivably to be available in this beggared country. Russia, however, yields nothing to the major democratic countries when it comes to the expenses of holding presidential and parliamentary electoral campaigns, or gubernatorial elections. Billions of dollars a year are spent just on electoral campaigns, which are the tip of the iceberg of the mechanisms for the reproduction of power. Public policy as a whole and the shaping of public opinion through the mass media require tens of billions of dollars of spending each year. Spending on maintenance of the security services, operational and analytical work, bribery of influentials from the "close entourage" of the President, and other components of covert political action, cost a no smaller sum. All of these monies are disbursed under the counter, without showing up in official accounts. The question arises of whence and by what mechanisms the funds derive.

The basic reproductive mechanism of the ruling oligarchy's position is the system of appropriating state property and funds through legally organized channels. The first such channel was "voucher" privatization, which allowed the well-informed organizers of the process and their cohorts to appropriate the most valuable items of public property. The second, wider channel was the appropriation of funds from state enterprises and organizations through the banking system, which was organized by means of an artificially created deficit of such funds. By exploiting the spread between the interest rates paid on enterprises' funds in their clearing accounts and the profitability of speculative operations in the financial markets, com-

mercial banks redistributed as much as 14% of GDP in their own favor. The "cycling" of budget funds through privileged banks has been and remains a-third traditional channel. Finally, the fourth and widest channel for legalized embezzlement was the GKO-OFZ pyramid, through which commercial organizations withdrew 300 billion rubles from the federal budget, while obligations to pay another 420 billion rubles were assumed. Against a backdrop of horrific destruction of scientific and production capacities, the Russian government bond market became the most profitable in the world, not to mention other possibilities for superhigh-yield operations, created by the monetary authorities in the course of deregulating the Russian economy. The gold rush of financial speculation literally infected members of the Russian establishment, causing them to turn a blind eye to the blatant ruination of state finances and the chimerical nature of the stabilization that was achieved.

As shown above, organizing the stream of superhigh revenues from the federal budget into the hands of financial speculators was the top priority of the Government's budget policy. In raising the share of state debt service to one-third of total budget spending by mid-1998, the ruling oligarchy essentially reduced the functions of the State to beating taxes out of the sphere of production and the population, in order to extract superprofits through the government bond pyramid. The redistribution of the current and future financial resources of Russian taxpayers into the pockets of financial speculators has been stunning in its scope.

The self-destructive nature of the financial policy carried out in the interests of the ruling oligarchy, to the detriment of the interests of domestic goods-producers and the overwhelming majority of the population, becomes obvious upon analysis of the Central Bank's actions to support the state debt pyramid, taken together with its policy on the utilization of currency reserves. The mechanism consisted of three operations.

1. The Ministry of Finance sells government bonds with 30-100% yields, depending on the market conjuncture.
2. Foreign speculators purchase rubles with which to obtain GKO, selling dollars to the Central Bank.
3. The Central Bank, issuing rubles with which to acquire dollars, then invests the just-purchased foreign currency in for-

eign government bonds and short-term certificates of deposit in foreign banks, which have an annual yield of 5-7%. A stable exchange rate for the ruble, free convertibility of rubles into foreign currency, and free export of capital abroad are guaranteed.

Look at the bottom line of circulating huge sums of money by this procedure. The net loss to the Russian State, at various times during the construction of the financial pyramid, was an annual 10-95% per dollar purchased. Taking into account that the volume of GKO held by non-residents was approximately \$20 billion in 1997, it is not difficult to calculate that, at an average 25% return on government bonds, the net losses to the Russian financial system in 1997 were around \$4 billion on operations with foreigners alone. Almost all of this money was taken abroad during the financial crisis in the autumn of that year.

It is no surprise that the world community of financial speculators ecstatically kept this mad flywheel going, by which the voluntary self-destruction of Russia's national wealth was accomplished. While the IMF handed over a couple of billion dollars a year to support the Russian budget, Russia, which was being beggared in broad daylight, became a source of superprofits for the financial speculators of the entire world. Here it was possible to "earn" 50% profits at no risk on GKO operations, then invest this money in a closed cash auction of shares in some major enterprise, being sold at between one-tenth and one-hundredth of its actual value, then spend a little money on its "capitalization" audit, for show, and then resell it at a five to ten times higher price.

But, just as physicists are certain that perpetual-motion machines do not exist, economists are quite sure that it is impossible to create wealth out of nothing. Ultimately, the Russian people pay for the speculative superprofits on Russian bonds, guaranteed by the state budget and property. They pay not only with the disappearance of state property for nothing, but also the undermining of the budget system, the accumulation of state debt, and the burden of payments on future generations.

The financial policy carried out in Russia was an important instrument for the redistribution of the national income in favor of the ruling oligarchy and associated foreign financial speculators. The

source of superhigh revenues for the financial speculators were the financial resources of the sphere of production and the incomes and savings of the population, while the consequences of the financial policy that was carried out meant genocide for the majority of the population, employed in the sphere of production or the public sector. Thus, as usual, the costs of carrying out a policy of genocide were borne by its victims.

6 Hostages

As has been shown, the victim of the economic policy that was carried out in Russia was the overwhelming majority of the population, which was deprived of savings, the right to share in the national property, a stable social situation, and decent conditions of life. People may also be found among leading circles, however, who were, if not victims, then at least hostages of the genocide policy. First and foremost, they are the leaders of the constituent territories of the Federation, the directors of goods-producing enterprises, the officers of the Armed Forces, the creative intelligentsia, and the clergy. These categories of the national elite have in common their responsibility before large collectives of people, for being powerless to ameliorate their circumstances and to change the situation in the country.

The leaders of the constituent territories of the Federation are in perhaps the most difficult situation. Although they directly encounter the growing discontent of the population, which has been cast upon the mercies of fate, and they are face to face with the consequences of the economic policy that has been carried out, they can do almost nothing within the existing structure of state power to affect the content of policy. Periodic famine in regions of the North, Siberia, the Far East, and even the European non-black earth zone, chronically underheated residences in most of the cities in these regions during the winter, widespread non-payment of wages, mass unemployment, rising levels of sickness and impoverishment of the population, and the degradation of education and culture, are the direct result of the economic policy of the federal authorities. It is impossible to change this policy or mitigate its consequences at the local level, due to the excessive concentration of financial, political, information, and other management levers in the Center.

Under these conditions, the leaders of the constituent territories of the Federation are forced to play by the rules imposed by the oligarchy. The main rules are as follows:

Rule 1. If you want to receive transfers and subventions due from the federal budget, fork over a share. There are diverse forms of such "sharing," from accepting specific middlemen to arrange mutual offsets between budgets and to transfer funds, to giving up a cut of the authorized appropriations. This principle was legalized as the substitution for budget appropriations of paper credits from the appointed commercial intermediaries, whereby the Ministry of Finance provides guarantees, while the constituent territories of the Federation are "relieved" of a good-sized amount of the budget transfers due them, to pay the banks they were sent to by the Ministry of Finance officials, for interest and bills discounting.

Instead of providing for the timely transfer of budget appropriations, using Central Bank credits to cover cash interruptions in budget revenues and expenditures, the monetary authorities artificially maintained a liquidity crisis, which developed into budget and debt crises, thereby forcing the constituent territories of the Federation to accept the promissory notes of middlemen appointed from above. In this way, the persons in charge of state funds provided "earnings" to their commercial partners, appropriating for themselves a significant portion of the budget debt. For a number of items, disbursements of federal budget funds to such "middlemen" have been as high as one-half of the budget appropriations.

Moreover, the more pressing the need for timely disbursement of budget appropriations, the more difficult it has been to obtain them normally. It is no accident that the spending category where bank credits have played the biggest role in financing budget spending has traditionally been the shipment of supplies to the North; the constituent territories of the Federation are forced to accept the exorbitant terms of the Finance Ministry's intermediaries, under threat of the total devaluation of their budget support when the northern shipping season ends.

Rule 2. Don't cross the federal higher-ups. Critics of policy are swiftly punished by the federal authorities. Those who praise it are rewarded. There are plenty of examples: from the direct cut-off of transfers, to attempts to remove people from office. In gross violation of budget legislation, the Government has followed the practice

of arbitrarily transferring funds to needy regions, depending on the political loyalty of their leaders and whether or not they carry out the demands of the ruling clique.*

A good example of this policy is how the Moscow oligarchy attempted to deal with the governor of Primorye, the Maritime Territory on the Pacific Ocean, who didn't suit them, by using the Ministry of Finance to aggravate social tension in the territory, cutting off the disbursement of transfers that were due under the law. Typically, a high-ranking Moscow emissary offered the ingenuous explanation in Vladivostok that the governor was to blame for Primorye's lack of good conditions for foreign investors.

The ruling oligarchy uses carrot and stick methods to manipulate state property and other items of the national wealth on Russian territory. While condemning millions of people to hunger and cold, federal officials exhibit limitless cynicism in their methods of pressuring regional leaders. Only the biggest and most powerful constituent territories of the Federation, which are few, are able to resist the tyranny of the federal authorities. Today, after the implemented economic policy has ruined the economies of most regions, there are probably only three or four constituent territories of the Federation that have an adequate revenue base for their budgets, while for one-third of the constituent territories of the Federation the share of federal transfers in their budgeted revenues is greater than 30%.

Rule 3. It is the business of the drowning to save the drowning. The indifference of federal agencies to mass work stoppages, hunger strikes, and the suicides of desperate people, makes local leaders seriously wonder about the point of even having federal authorities. The Center's posture of compensating for its own failings by granting the regional jurisdictions broad autonomy and independence in dealing with problems of survival, is fraught with a serious threat of the further disintegration of the country.

In assembling almost one-half of their budget revenues out of local monetary surrogates, the regional authorities in effect are creating their own quasimonetary systems, which leads to the disin-

*This practice became especially popular when financial policy was being run by Chubais: The gap by which some constituent territories of the Federation baselessly surpassed others, with respect to implementation

tegration of the country's economic space. This process is compounded by the growing differentiation among the constituent territories of the Federation, with respect to levels of revenue and economic activity, which is as high as fivefold per capita. Moreover, the poor regions are becoming poorer, and are locked into a non-money economy.

In the wake of the rapidly increasing differentiation among the social and economic situations in the regions, a differentiation of their legal and political systems has begun. As the constituent territories of the Federation grow accustomed to doing without a federal budget, a national currency, a national market, or regular transportation links with the Center, the country's common economic, legal, and political space is destroyed.

The situation of workers at goods-producing enterprises is hopeless. It was shown above, how the operating conditions of these enterprises radically deteriorated for reasons beyond their control, and the competitiveness of their output fell many times over. The policy on the ruble's exchange rate and changes in the price structure alone, lowered the competitiveness of domestic goods-producers more than eightfold in 1992-1996. Any national economic system would be hard put to survive such a severe worsening of its external conditions.

Even five- or ten-percent fluctuations of currency exchange rates on the international markets provoke acute disputes and "trade wars," because they have serious consequences for the relative competitiveness of the economic systems involved. The foreign operating conditions for our enterprises became many times worse, while there were extremely limited possibilities for enterprises to adapt to the deterioration. Simultaneously with the steep decline in the competitiveness of Russian products, as a result of credit and monetary policy, conditions for attracting credit resources or investing in the development of production substantially worsened. As a result, no more than one-third of our goods-producing enterprises can anticipate any favorable prospects at all.

The sorry lot of Armed Forces officers, who don't know how they will feed and arm their men, of teachers, who share their last

of the plan for budget transfers, was several-fold during the first half of 1997. —Author's note.

piece of bread with their pupils, fainting from hunger, of culture workers, who have been edged out of the mass media, clubs, and cultural centers by obscenities and decadence, must be added to the list.

The clergy, who understand better than others the depth of the catastrophe that has struck Russia, and who are obliged to attend to the spiritual salvation of people, have practically no effective means of influence in society. The ruling oligarchy's cosmopolitanism and russophobia are perhaps the most manifest, in the anti-Orthodox direction of cultural and religious policy in the mass media. The ruling oligarchy attempts to assign to the Orthodox Church and other traditional Russian confessions the role of cultural exotica, and facilitates the propagation of foreign sects in Russia, corrupting and demoralizing the population.

In the final analysis, virtually the entire population of the country has been held hostage to the policy carried out in Russia by the ruling oligarchy. The population is viewed by Russia's new masters as nothing but an annoying inconvenience, which impedes their overt exploitation of the state power they have seized, for purposes of enrichment. The facts adduced above, and their causes, show convincingly that, under the guise of radical reforms in 1992-1998, genocide against the overwhelming majority of the population was unleashed on the territory of Russia. In its implementation, certain institutions of state power were used by the ruling oligarchy for its own interests.

* * *

It is quite possible, that the oligarchy that has been ruling our country is carrying out this policy, without being aware of its consequences for the majority of the population. It is even very likely, that they did not desire such consequences; as one Russian prime minister responsible for this policy put it, "We wanted something better, but it came out the same as always." Probably, they simply did not consider the consequences of their actions for the people and the country, being mainly concerned with providing for their personal prosperity and their entry into "the world elite." From the standpoint of Russia's national interests, however, that does not change the objective essence of the implemented policy as a policy

of genocide against the Russian people, regardless of its subjective motivation.

It is not terribly important to us, what were the motives of the group headed by the "heroes," who are so well known to every television viewer—whether vanity, thirst for material gain, or russia-phobia camouflaged as anticommunism. Trotsky, the ideologue who dreamed of making the Russians into a nation of "white slaves" and orchestrated the repression under War Communism, also thought he was a savior of mankind, in his own way. He was using the Russian people as construction material for his political-economic Utopia, just as Hitler and Napoleon tried to "make them happy," in their ways. The results of all these attempts at radical social engineering were more or less alike.

Napoleon's invasion, the fascist aggression of the Hitlerites, the fratricidal Civil War, and "shock therapy," led to approximately similar results: the destruction of up to one-third of the national wealth and huge losses of population. The enemies of Russia, who tore their way into power in the country in the 1990s, have surpassed their predecessors, managing to break up the country and to reduce its production potential more than twofold. According to some estimates, the number of human victims of the policy carried out in Russia in recent years is three times higher than the number of victims of the prior social experiment—the Revolution and Civil War of 1917-1920. Material damage from this policy is more than double the damage inflicted on the USSR by the Hitlerite invasion of 1941-1945 [4].

As we have seen, the social and economic parameters of the impact of recent years' pseudoreforms little differ from those of the cataclysms mentioned above. Even in the number of unsupervised children and the scale of impoverishment of the population, the contemporary experiment resembles the consequences of the Civil War and the Great Patriotic War. The difference is that the latter ended in victory, while the former was a grave internal illness, accompanied by fatal poisoning of the social organism, after which it was guaranteed a prolonged period of disability. This also applies to the present time of troubles.

The end result, or the price, of the latest Russian revolution looks as follows. An enormous amount of capital—around 2 trillion redenominated rubles (or, at the August 17, 1998 exchange rate,

over U.S.\$300 billion), a total that approaches the annual size of GDP—has flowed out of the sphere of production and from citizens' savings during these years, into the sphere of speculation and, in large part, abroad. As much as 400 billion rubles of these funds was concentrated in the collapsed government bond pyramid, 80 billion rubles is in the shares of privatized enterprises, up to 210 billion rubles is in the capital of commercial banks, approximately 1 trillion was exported abroad, and huge sums were invested in real estate acquisitions by successful businessmen. The result of this credit and monetary policy for the sphere of production was the ruin of half the enterprises, which have become loss-makers, the liquidation of working capital, a reduction of investment by a factor of five, and decline in production by one-half.

For citizens, this policy resulted in the devaluation of their savings in the Russian Sberbank, of a magnitude comparable with the annual federal budget in 1992, followed by the loss of over 20 trillion (20 billion redenominated) rubles in various financial pyramids. Finally, came another large-scale loss of savings in banks, which went bankrupt as a result of the financial collapse of August 17, 1998. The majority of citizens also experienced a steep (by one-half, on average) reduction of real wages, while every tenth person lost the opportunity to work.

The words attributed to A. Dulles, one of the ideologists of the Cold War and founders of the CIA, come to mind: "By sowing chaos in the Soviet Union, we shall imperceptibly replace their values with false ones and make them believe in those false values. We shall find like-minded persons, our allies and our helpers, inside Russia itself. Episode by episode, a tragedy huge in scope will be played out—the ruin of the most unruly people on the earth, and the final, irreversible extinction of their self-consciousness. From literature and culture, for example, we shall gradually remove the essential social content. We shall wean the artists, beating out of them their desire to depict or explore the processes, which occur in the depths of the masses of people. Literature, film, the theater—all will portray and glorify the basest human feelings. We shall support and raise up in every way possible so-called artists, who will spread and drum into people's minds the cult of sex, violence, sadism, treachery—in a word, every sort of immorality. We shall foment chaos and confusion in the governance of the State. We shall imperceptibly,

but actively and constantly, promote the petty tyranny of officials, bribe-taking, and unprincipled behavior. Honor and decency will be ridiculed and considered merely a useless vestige of the past. Caddishness and impudence, lies and deceit, drunkenness and drug addiction, bestial fear of one another, treachery, nationalism, hostility among peoples, and above all hatred of the Russian people—all this we shall adroitly and imperceptibly cultivate, and it will flourish most luxuriantly. And only a very few people will guess or even understand what is going on. But we shall place such people in a helpless position, making them a laughingstock, and find a way to slander them and declare them to be the dregs of society. We shall debase and destroy the basis of morality. We shall always rely chiefly on the youth. We shall demoralize, corrupt, and rot them." (Quoted in [28, pp. 205-6].)

These words could serve as an epigraph to the biography of the leaders of the 1992-1998 Russian revolution, the organizers and purveyors of a policy of genocide against the peoples of Russia. A. Zinovyev put it in these gloomy terms: "It would be difficult to find in the history of mankind another instance, in which a part of the population annihilated its own people with such zeal, skill, and success, for the sake of selfish, and frequently illusory, interests" [28, p. 126].

Given the determining role of foreign influence in the choice of strategy for the economic reforms carried out in Russia, discovery of their real nature requires an analysis of the global tendencies, which shaped the posture of leading Western countries and international organizations towards Russia.

That is the subject of the next part of this book.

Notes for Part I

1. The characterization of the population of Russia as "white Negroes" is attributed to L.D. Trotsky (Bronstein) in A.S. Simanovich, *Vospominaniia sekretaria Grigoriia Rasputina* [The Reminiscences of Grigori Rasputin's Secretary], Paris: 1922. Cited in V. Khatyshkin, "Rabochii skot dlia evropeiskogo podvor'ia" ["Working Cattle for the Courts of Europe"], *Molodaia Gvardiia*. Moscow: 1991, No 8, p. 55.

2. Today it is no longer a secret, that the influential circles, guiding the policy of our military adversary—Germany, as well as of our allies—England and France, were able to unite their efforts for the destruction of the Russian Empire. Nor did the 'neutral' United States stand aside. It is not difficult to see that the coordination of the actions of such diverse factors could not have occurred without some centralized leadership, which was directing world events.

The main routes into Russia of foreign financing for the revolutionary movement, from interested countries, have been studied rather thoroughly. Alexander Parvus, a Russian citizen from Odessa, who had taken part in the 1905 Revolution, was a member of the RSDRP [Russian Social Democratic Workers Party], and had fled abroad with Trotsky, was in the business of supplies to the Turkish Government and various financial schemes. After Turkey joined the Central Powers, he made contact with the German Embassy. In January 1915, Parvus was received in Berlin, by Count Mirbach's future collaborator, Hitzler. Soon Parvus, German money in hand, left Turkey and travelled to Copenhagen. His connection with Lenin, Zinovyev, Bukharin, and the rest of the Bolsheviks was established with the help of another Russian citizen, the Estonian Keskula, who was also receiving large sums of money from the Germans for propaganda on behalf of the Russian Revolution.

"In February 1916, there was a conference of leading bankers in the USA, at which Jacob Schiff, his son-in-law and companion Felix Warburg (brother of the Hamburg Warburg), Otto Kahn, Mortimer Schiff (Jacob's son), Jerome Hanauer, Daniel Guggenheim, and M. Breitung divided up among themselves the tasks and expenditures for organizing a coup in Russia. Also in February 1916, the 'conference of the 62' was convened, of whom 50 were 'veterans' of the 1905 Revolution (financed by Schiff through the same Parvus and Trotsky). The revolutionary agents were to be infiltrated into Russia, in the course of American shipments of weapons and provisions, and then to function in contact with all the revolutionary parties—from the Octobrists to the SRs and the Bolsheviks. Dr. A. Simons, who visited Russia during the first phase of the Revolution as the representative of an American church, later told Senator Nelson, that there were hundreds of agitators from New York's Lower East Side in Trotsky's suite, and that 250 proteges of the bloodthirsty Zinovyev had arrived from the Lower East Side to Petrograd. There is no question, but that most of them later became Chekists and other responsible 'political workers.'

"In England, the organizer of subversion against an ally was the influential Freemason Lord Milner, who was the London banker Rothschild's representative and a member of the War Cabinet in Lloyd George's government. Lloyd George's happy exclamation, upon hearing about the February coup in Petrograd, is well known: 'The main goal has been achieved' (cited in J. Reed, *Spor o Sione* [The Debate about Zion]. Translated from English. Johannesburg, 1986, p. 285). Milner's agents in Russia were Ambassador George Buchanan and Russian Foreign Minister Sazonov. The liaison with the Russian plotters was handled by Bernard Pares, who worked at the Embassy, and Times correspondent Harold Williams, who was married to the Russian woman Ariadne Tyrkova (a member of the Central Committee of the Kadet Party). Both of these Englishmen took part in all the congresses and meetings of the opposition, even the most secret ones. In an obituary for Sazonov in 1928, Pares wrote about the relations between the minister and the ambassador: 'They met almost daily, and there was no ambassador better informed about the details of Russian domestic politics.' The dismissal of Sazonov in 1916 spurred on the plotters.

"The plotters would meet at the Embassies of England and of

France. According to Masonic sources, English Ambassador Buchanan held a meeting in January 1917, at which Gen. Ruzsky was present. There was a discussion of the plan for a palace coup, and even the selection of a day—Feb. 22, 1917 (O.A. Platonov, *Ternovy venets Rossii. Istoriia masonstva. 1731-1995* [Russia's Crown of Thorns. A History of Masonry. 1731-1995]. Moscow: Rodnik, 1995, p. 213).

"The efforts of all the enemies of Russia were closely coordinated, and the associated expenditures were divided up equally. Germany's spending on preparations for the Revolution (and, afterwards, on support for the Bolshevik Party into 1918) was recorded with German precision in the archive at Wilhelmstrasse: 40,480,997 gold marks and 25 pfennigs, which was equivalent to ten million U.S. dollars. The banker Jacob Schiff, by his own boast, 'invested' a total of \$20 million in the Russian Revolution, of which half went for the 'dress rehearsal' in 1905; thus, his contribution in 1917 was also \$10 million. Lord Milner spent 21 million gold rubles on the operation, or \$10 million.

"In February 1917, Central Russia suffered a hard freeze, with the temperature dropping to -43° C. There were breakdowns of transport, as more than 1,200 engines were taken out of service. Parvus' agents spread rumors in the capital, that bread supplies would soon run out, as a result of which housekeepers started buying five to ten pounds of bread per day, instead of their usual two or three pounds. There were supply interruptions and queues. It was not a question of real supply trouble, since the country had adequate reserves of grain and other food. When the strikes were provoked, however, it was an easy matter to assemble unemployed people at a demonstration, first under the slogan of 'Bread!', and then 'Down with the Autocracy!' British agents, 'with which Petrograd was teeming at the time,' paid 25 rubles apiece to reserve members of the Pavlovsky Regiment on Millionaya Street, to leave the barracks and mutiny against their officers.

"Milyukov, the new minister of foreign affairs in the Provisional Government, announced already at 3:00 in the afternoon on March 2, that 'the English, French, and Italian Ambassadors have recognized the people's government, which saved the country from grave destruction and reestablished confidence in the combat capabilities of the nation and the army.' The morning edition of *Birzhevyye*

vedomosti of March 5 wrote that, 'on March 1, the French and British Ambassadors officially notified Chairman of the State Duma M. V. Rodzyanko, that the Governments of France and England advocate businesslike relations with the Temporary Executive Committee of the State Duma, which expresses the true will of the people and is the sole lawful government of Russia.' If this is really so, there should exist a still classified body of documents—the diplomatic correspondence, which preceded the perfidious demarche of the official representatives of our allies, England and France, more than a full day before the Tsar signed the Act of Abdication. There are no diplomatic interests that could justify, even according to the rules of international politics, such a hasty recognition of rebels as a 'lawful government.' It was truly unprecedented in the entire history of relations among European states. It was an international plot against imperial Russia.

"On March 6, 1917, Jacob Schiff sent the following telegram to Ministry of Foreign Affairs Milyukov: 'Allow me, as an irreconcilable foe of the tyrannical autocracy, which pitilessly persecuted our brothers in faith, to congratulate the Russian people, through you, on the deed they have so brilliantly accomplished, and to wish your comrades in the new Government, and you personally, total success in the great cause, which you have begun with such patriotism.'

"The grateful Milyukov replied as follows: We join you in our hatred for the old regime, which has now been overthrown. Let us maintain our unity in the cause of implementing the new ideas of equality, freedom, and accord among the peoples taking part in the worldwide struggle against autocracy."

(Source: V.I. Bolshakov, *Po zakonam istoricheskogo vozmezdiia* [The Laws of Historical Revenge]. Moscow: Astra Sem, 1998.)

The leading role of foreign secret services in organizing the destruction of the USSR is no longer secret, either. The American researcher P. Schweitzer, in his book *Pobeda: rol' tainoi strategii administratsiia SShA v raspade Sovetskogo Soiuz a i sotsialisticheskogo lageria* [Victory: the Role of the U.S. Administration's Secret Strategy in the Breakup of the Soviet Union and the Socialist Camp], reports in detail on the deliberate work of the CIA and the U.S. administration in this direction during the 1980s. At the beginning of the 1990s, the same forces organized the training of a new wave of Russian revolutionaries at leading political science centers in the

USA These people subsequently, with support from the secret services, played a great role in organizing the Presidential elections in Russia in 1991 and 1996, and the coups of December 1991 and September 1993, as well as the implementation of political and economic "reforms" in our country (see "Na semi vetrakh, ili kuda griadesh, ochnis', Rossiia" ["Seven Winds; or, Watch Where You Are Going, Russia"], in the Vympel almanac, 1998, N^o 2).

3. Certain "wordmasters" appealed to the President to carry out a violent coup d'etat: "Our Fatherland is at a crossroads. The events of recent weeks once again require a responsible step. The resistance to the reform policy, on the part of the Supreme Soviet and the entire system of Soviets, has gone too far. The anti-Constitutional political, economic, and cultural strategy of the Supreme Soviet comprises a catastrophic budget deficit, as well as attempts to stop privatization, promote military spending, split the Government, and take control of the mass media....

"On the basis of the will of Russian citizens, expressed in the referendum, we demand early elections to the supreme legislative body, by no later than the autumn of this year.

"The creation of new agencies of government, with new principles for the interaction of the legislative and executive branches, is the only way to prevent the restoration of an anti-people, totalitarian regime."

This was signed by: Ales Adamovich, Konstantin Azadovsky, Artyom Afinogenov, Bella Akhamadullina, Aleksandr Borshchagovsky, Boris Vasilyev, Aleksandr Gelman, Grigori Gorin, Daniil Granin, Yuri Davydov, Andrei Dementyev, Mikhail Dudin, Aleksandr Ivanov, Edmund Iodkovsky, Rimma Kazakova, Yuri Karyakin, Nina Katerli, Kirill Kovaldzhii, Vladimir Kornilov, Yakov Kostyukovsky, Tatyana Kuzovleva, Academician D.S. Likhachov, Yuri Nagibin, Andrei Nuikin, Bulat Okudzhava, Valentin Oskotsky, Nikolai Panchenko, Anatoli Pristavkin, Lev Razgon, Aleksandr Rekemchuk, Robert Rozhdestvensky, Vladimir Savelyev, Vasili Selyunin, Yuri Chernichenko, Marietta Chudakova, Mikhail Ulyanov, Nikolai Shmelyov.

(Source: Moskva. Osen'-93: Khronika protivostoianiiia. Moscow: Respublika, 1994, p. 6.)

On October 5, after the monstrous shelling of the Parliament,

some well-known writers appealed to their fellow citizens for a continuation of repression against the people's elected representatives, effectively calling for civil war:

"The 'witches' or, rather, the red-brown werewolves have grown impudent because they could act with impunity. Under the eyes of the police, they have papered the walls with their poisonous leaflets, offending the population with their filth, offending the State, and its lawful leaders, and greedily telling how they will hang us all.... What is there to talk about? There has been enough talk. ... It is time to learn to act. These dimwitted scoundrels respect only force. Isn't it time for our democracy, which is young, but, as we were happy and surprised to see, quite strong, to show some force? ...

"This time we should strictly demand that the Government and the President do what they (and we) should have done a long time ago, but did not:

"1. Dissolve and ban all types of communist and nationalist parties, fronts, and associations, by Presidential Decree. ...

"4. Press and media outlets such as Den, Pravda, Sovetskaya Rossiya, Literaturnaya Rossiya, and the TV program 600 Seconds, which have instigated hatred and called for violence day after day, and which are, in our view, among the chief organizers and guilty parties in the tragedy that has occurred (as well as potential guilty parties in many future tragedies), should be shut down until trial in court.

"5. The activity of organs of Soviet power, which have refused to submit to the lawful authorities of Russia, should be halted.

"6. We should all act together, to prevent the trial of the organizers and participants in the bloody drama in Moscow from being like that shameful farce, the 'trial of the GKChP' [the State Emergency Committee, in August 1991].

"7. Declare illegitimate not only the Congress of People's Deputies and the Supreme Soviet, but all agencies created by them (including the Constitutional Court).

"History again has given us a chance to make a big step towards democracy and civilization. Let us not miss the chance again, as has happened more than once!"

Here is the list of writers, the modern followers of Trotsky, who signed this call for political terror and urged Yeltsin to institute an anti-people dictatorship, on the blood of the victims of the anti-Constitutional coup:

Ales Adamovich, Anatoli Ananyev, Artyom Afinogenov, Viktor Astafyev, Bella Akhamadullina, Grigori Baklanov, Zori Balayan, Tatyana Bek, Aleksandr Borshchagovsky, Vasil Bykov, Boris Vasilyev, Aleksandr Gelman, Daniil Granin, Yuri Davydov, Daniil Danin, Andrei Dementyev, Mikhail Dudin, Aleksandr Ivanov, Edmund Iodkovsky, Rimma Kazakova, Sergei Kaledin, Yuri Karyakin, Yakov Kostyukovsky, Tatyana Kuzovleva, Aleksandr Kushner, Yuri Levitansky, Academician D.S. Likhachov, Yuri Nagibin, Andrei Nuikin, Bulat Okudzhava, Valentin Oskotsky, Nikolai Panchenko, Grigori Pozhenyan, Anatoli Pristavkin, Lev Razgon, Aleksandr Rekemchuk, Robert Rozhdestvensky, Vladimir Savelyev, Vasili Selyunin, Yuri Chernichenko, Andrei Chernov, Marietta Chudakova, Mikhail Chulaki.

(Source: Moskva. Osen'-93: Khronika protivostoianiiia. Moscow: Respublika, 1994. p. 496.)

4. The hidden significance of the August 17, 1998 decisions will probably be shrouded in darkness for a long time to come, due to the secrecy in which they were prepared and the highly influential persons involved. Nonetheless, it is clear that of all the possible options for exiting from the debt crisis, the leaders of the Government and the Central Bank at that time chose the most destructive one.

The participants in the August 17 decisions do not hide the fact that they coordinated their actions with persons of great influence in international finance, who determine the policy of the IMF and of the USA and other G-7 countries on questions of the world financial market. Evidence indicates that the decisions on declaring the Russian financial and banking system bankrupt on August 17 were coordinated beforehand with U.S. Deputy Treasury Secretary Lawrence Summers and IMF Deputy Managing Director Stanley Fischer, as well as, with their approval, with the finance ministries of other G-7 countries. The coordination was carried out on behalf of the Russian leadership by Mr. Anatoli Chubais, who is known not only for his destructive activity in the realm of privatization, but also as a successful player on the government securities market, through the notorious company Montes Auri.

It is not surprising, that some Russian and American companies that had been active players in the Russian government loan market,

but were also close to the participants in the August 17 decisions, exited from the market without losses. It is obvious that they knew beforehand about Russia's bankruptcy declaration, which was planned in secret.

The main point, however, lies elsewhere. The collapse of the Russian financial system on August 17, 1998 was an event of global significance, abruptly weakening Russia in international competition on world financial markets. In an instant, the Russian economy was cheapened several times over. Not surprisingly, the governments of the G-7 countries welcomed the August 17 decisions, which opened a new stage in the colonization of Russia. In the wake of those decisions, the total value of Russia's entire national wealth became equal to the assets of some major international banks. The wealthiest country in the world was beggared, and moved to sell itself on world markets at ridiculous prices, hundreds of times below the real value of Russian assets.

Investigators are familiar with the technique for discovering the truth behind a crime, whereby the nature of the crime is understood by asking cut bono? In the case of the August 17 decisions, we have actions that fit perfectly into the strategy of "alloying" or, in economic jargon, "paving" countries, which is done for the purpose of their domination by international capital. The policy entails a periodic alternation of influx and outflow of international capital on the national markets of a given country. During the influx phase, the value of fictitious capital (securities) in the country increases many times over, for purely speculative reasons. There is a sharp increase of the prices of shares and other securities, creating the impression of an economic boom. At the same time, the real exchange rate of the national currency rises. Insofar as the inflation of the securities market is strictly speculative and has no real basis in the productive sector, it cannot go on indefinitely. Sooner or later, the moment arrives when the artificially constructed "financial pyramids" begin to self-destruct at a rapid rate.

As a rule, foreign capital begins to leave the country long before that moment, carrying off the superprofits earned during the "boom." Then there is a collapse of the securities market, where prices fall many times over (often tenfold and more), and the national currency is devalued. Foreign capital can then acquire assets for a song. After the steep devaluation of the national wealth, interna-

tional capital returns, buying up the country's remaining assets at giveaway prices, and the spiral of "inflating" the national economy with easy speculative money recommences. After a few such cycles, it usually happens that national capital fails to survive the withdrawal of foreign speculative capital, and is forced to accept a tertiary role in its own national economy. International capital comes to dominate the economy.

It may readily be observed that this concept of "paving" countries was carried out first in Latin America and Southeast Asia, and then, in 1998, in Russia. At first, the massive import of international finance capital brought about a triple and, in some sectors, a ten-fold increase in securities prices. Since the boom was purely speculative, supported almost exclusively by the speculative effects of building "financial pyramids," it could not last. It began to grind to a halt in the autumn of 1997, and was followed by the catastrophic collapse of August 17, 1998, when the capitalization value of Russian enterprises fell many times over and the ruble was devalued by a factor of three. The market valuation of Russian enterprises and elements of the national wealth fell to levels, tens of times lower than their real value. Excellent opportunities arose for a new spiral of "financial pyramids."

Enormous gains were derived from the artificial boom on the Russian securities markets, a substantial portion of which was taken abroad, as soon as the prospect loomed that the government bond pyramid would collapse. But the withdrawal of capital from the collapsing pyramid was organized with minimal losses for companies that were among the "initiates." As soon as the first signs appeared of an irreversible approaching crash, the firm of Goldman Sachs, which is close to the U.S. Treasury, secured the assistance of Mr. Chubais in organizing the conversion of its clients' devalued GKO-OFZ into dollar-denominated Russian government bonds worth approximately \$4 billion, which were subsequently exempted from the forced restructuring. Then, Russia was granted a stabilization credit of \$4.8 billion. In effect, this was used for purposes of pulling the capital of companies, "initiated" into the plans of the August 17 decision-makers, out from under the collapsing GKO-OFZ pyramid, after which the collapse went ahead.

This all resembles a plot among high officials on the Russian side and certain privileged creditors. It was a plot that fit into

the overall strategy of "paving" countries, which a few persons in positions of power run as their personal business.

In any event, facts are stubborn things. While the Government had consistently rejected relatively smooth options for preventing the debt crisis, continuing to deceive economic entities in the regions all the while, the choice of the most destructive of all options for GKO-OFZ restructuring, carried out by prior agreement with influential foreign representatives, becomes a question of state security.

5. "In accordance with instruction No 1239-1 GD of the State Duma of the Federal Assembly of the Russian Federation (Oct. 20, 1995) and decision No 21 of the Collegium of the Accounting Chamber of the Russian Federation (Oct. 18, 1995), the Accounting Chamber of the Russian Federation has audited the activity of federal agencies, respecting the collection of state budget revenues from the privatization of state property and income from federal property.

"The audit of auctions for the right to conclude credit and collateralized loan agreements, using assets and goods on commission that are federal property, and carried out on the basis of Decree No 889 of the President of the Russian Federation 'On the Procedure for Borrowing during 1995, Using Assets that Are Federal Property as Collateral' (August 31, 1995), established the following: . . .

"2. During the conduct of loans-for-shares auctions by the Ministry of Finance of the Russian Federation in November-December 1995, \$603,739,000 of 'temporarily liquid federal budget funds' was deposited in Russian commercial banks, which was almost equal to the total credit received by the federal budget in 1995 at loans-for-shares auctions. More than half of these funds (\$337.1 million) was deposited in three commercial banks, which won five of the loans-for-shares auctions. In violation of the established order, the Ministry of Finance on Sept. 15, 1995 deposited \$50 million in the Menatep commercial bank at a reduced interest rate. The minimum damage to the State from this deal is estimated at over \$1 million _

"4. The Russian Federation State Property Committee exceeded its authority with Directive No 1375-r of 25 September 1995, confirming a roster of companies, the shares of which were to be offered as collateral at loans-for-shares auctions.

"Russian Federation State Property Committee Directives No

1458-4 from 10 October 1995 and No 15754 from 31 October 1995, regulating loans-for-shares auctions, were not registered with the Russian Federation Ministry of Justice according to the established procedure.

These arguments provide the basis to conclude that the credit agreements of the Russian Federation, collateralized by such shares, should be deemed sham deals. Under Article 170 of the State Code of the Russian Federation, a sham deal is without any standing and may be annulled under existing law.

"5. The Commission for Loans-for-Shares Auctions permitted violations, which influenced the outcome.

"In eight out of 12 auctions, the starting price of the shares offered as collateral was overstated by an arbitrary amount. At the same time, either several participants had the same guarantor, or participants served as guarantors for each other. This confirms the existence of prior agreements between participants in the auctions.

"The Commission for Loans-for-Shares Auctions, in defiance of letters from the Central Bank of the Russian Federation and the Ministry of Finance of the Russian Federation, accepted applications to participate in the auctions, from companies that were using resources for this purpose, in excess of double the amount of their charter capital.

"In violation of the rules for the conduct of loans-for-shares auctions, earnest money for commercial firms was provided by the commercial banks acting as their guarantors.

"The Commission for Loans-for-Shares Auctions created conditions, under which such auctions could be entirely fictitious. As a result, the federal budget failed to receive a substantial portion of the credits extended to the Government of the Federation, collateralized by shares in federally owned companies."

(From the submission of Deputy Chairman of the Accounting Chamber of the Russian Federation Yu.Yu. Boldyrev to Prosecutor General of the Russian Federation Yu.I. Skuratov, 26 August 1996.)

PART II

Russia and the New World Order

1 National Economic Systems and the Internationalization of the Economy

Global economic processes today are determined by the combination of two contradictory tendencies: the subordination of the world economy to the interests of an international financial oligarchy and transnational capital, and competition among national economic systems. These tendencies are interwoven, creating in each country a unique combination of external and internal factors.

The diversity of these combinations ranges from the total colonial dependence of the majority of African countries, where transnational capital reigns without restriction, to the strong national economies of Japan, China, the USA, and Germany, where the economic policy of the State is fundamentally determined by the interests of national capital and domestic goods-producers. Between these two poles in the world today, are situated the countries of Latin America, which are attempting to create niches for the development of their own capital, under conditions of domination by transnational corporations; the members of the European Community, which have renounced national sovereignty in economic policy, in favor of European transnational capital; the Islamic countries, including Arab ones, which combine a policy of attracting foreign capital for the development of natural resources, with a firm defense of their cultural values and national interests; and, the rapidly developing nations of Southeast Asia, where national interests predominate in strategies for development and the attraction of foreign capital.

The formation of the economic model for each country is accompanied by a complex and quite intense struggle for control over the institutions of state power, between the representatives of transnational and national capital, or the world oligarchy and the national elite. They have different, often opposing interests, values, and instruments of action upon the economy. The dominant countries

in world trade and international finance, above all the USA, Great Britain, Japan, and Switzerland, are simultaneously the countries where transnational capital is based. This relationship defines a relatively high level of coordination of the interests of their national elites, and those of the world oligarchy. Underdeveloped countries are virtually deprived of internal sources for investment, and depend entirely on transnational capital, which determines the comprador nature of their national elites. The contradictions between the interests of transnational and national capital are resolved there, by putting national capital at the service of the transnational corporations, and by the incorporation of the national elite into the peripheral layers of the world oligarchy. Between these extreme types are the remaining countries, which attempt to defend their national interests in global international competition, and to utilize their competitive advantages in order to strengthen their position in the world economic system.

The national interests of each country are determined above all by the principles of preserving its independence, ensuring its people's welfare and high quality of life, and preserving its national culture and possibilities to realize its inherent spiritual values. These interests dictate corresponding priorities in international cooperation. In the economic area, an independent nation's opening of its national markets and the attraction of foreign capital, as well as international cooperation, are under national control and are accompanied, when necessary, by measures to protect the domestic market, restrictions on foreign investment in areas vital to the national interest, support for domestic goods-producers, and incentives to increase the competitiveness of the national economy. In the area of culture, the State prioritizes the national culture in information and education policy; national spiritual and intellectual values are expressly promoted and defended from suppression by the stupefying and demoralizing implantation of transnational pop culture.

The world financial oligarchy and big transnational capital, in turn, strive for total control over the world market and each national component of it, erasing the economic, cultural, and political borders among nations, subordinating to their interests the competitive advantages of each country, and creating their own information, legal, and even enforcement infrastructure. They are an imposing economic force today, if not the most powerful one, controlling over

half the turnover of world trade and finance, and the most profitable sectors of production in various countries, including the oil, mining, electronics, electric power equipment, automobile, and many other industries. Many transnational corporations surpass the economic turnover of major nations, have whole governments under their influence, and exert a decisive influence on the establishment of international law and the work of international institutions.

Five hundred transnational corporations encompass more than one-third of all manufacturing exports, three-fourths of world raw materials trade, and four-fifths of the trade in new technologies. They employ tens of millions of people and are active in virtually every country in the world. The genesis and base locations of these transnational corporations are approximately evenly divided among the United States, the European Community, and Japan. They exert decisive influence on the foreign economic policy of these countries, as well as the international organizations they control, and they use this influence in their own interest on the world market.

It is important, however, not to exaggerate the degree of consolidation within what, for convenience, may very conditionally be called the world oligarchy. This phenomenon does not fit the hackneyed models of world imperialism or a Masonic plot. It is a tendency, rather than a well-formed organizational structure. This tendency does, however, subsume the formation of certain institutions and organizational structures at the national and international levels, for purposes of shaping and realizing the interests of major international capital.

Like any other self-organizing community of interested persons and enterprises under market economy conditions, the world oligarchy acts chiefly under the influence of the coinciding objective interests of the major financial organizations, active on the world market, in the establishment and maintenance of acceptable rules of the game, and only secondarily according to some subjective impetus towards consolidation. Therefore, in the context of the present book, the term "world oligarchy" denotes a complex and rather diverse totality of major transnational banks and corporations, and comprador national banks and firms controlled by them, as well as the legal and consulting organizations that service them, the international financial organizations, the ideologists and theoreticians of a New World Order, and various official and unofficial

institutions of political influence and public opinion shaping, which develop arguments for and justify its establishment.

Despite the apparently amorphous and undefined nature of what is here called the world oligarchy, in practice its links function in an amazingly coordinated way, because of the objective coincidence of interests, as well as kinship, family, national, regional, and clan ties, established over a long period of time. They constitute a self-reproducing whole, which independently makes up its own rules of the game, its language, techniques of influence, organizational structures, and communications.

It would be a profound error to reduce this tendency to a plot of some miscreants or satanic forces. Objective economic interests are the defining factor here, organizing major international capital to implement the policy most beneficial for itself. Insofar as this capital operates on a world market scale, the policy it objectively strives to implement is global in nature, but it is also interwoven with the national policy of various countries, and with alliances of countries. This is an objective tendency, which has to be taken into account in implementing any country's national economic policy.

Relationships between transnational and national capital, and between the world oligarchy and the national elite, have taken shape differently at different times and in different countries. Transnational capital originates from an intermediary role in international trade and finance. International wars, and then world wars, have been a powerful stimulus to its development, as they sharply increase the demand for state loans and create numerous opportunities to derive superhigh incomes. Lending to combatants on all sides, the financial oligarchy always came out a winner and took part in the latest redivision of the world, receiving simultaneously indemnities from the losing side and interest payments from the victors. By financing and, to a significant degree, provoking armed conflicts, the world oligarchy gradually came to dominate the financial systems of Great Britain and France, and subsequently the United States, the other nations of Europe, and their associated colonial dependencies.

This century's world wars, which it did its large part to provoke, were a powerful spur to the growth of the world oligarchy. At the present time, while continuing to take part in local conflicts—as shown by the sources of financing and mechanisms for kindling

contemporary wars in Africa, Asia, and the Balkans—transnational capital no longer risks provoking global wars. For one thing, the arms race, which was initiated by the world oligarchy, has reached an extremely destructive level. For another, the world oligarchy's establishment of direct control over the financial systems of leading countries and the most important sectors of the world market, renders unnecessary such risky forms of deriving superhigh incomes, as stimulating state borrowing by means of kindling armed conflicts. With control over a significant part of world and national markets, the world oligarchy today is more interested in maintaining global stability, while largely defining the new world order, dominating the majority of international institutions, and directing the domestic and foreign policies of the leading countries (the Group of Seven).

The world oligarchy's main technique for exerting political influence and the pursuit of its interests is the establishment of control over the institutions of state power in various countries, dismantling them, and replacing them with international law and international institutions. The key instrumentality is to trap the relevant countries in a web of debt dependency, suborn and demoralize their national elites, and misinform the public. This is done with the help of diverse non-governmental organizations and contacts, through which desired personnel for the institutions of power are selected, official decisions are drafted, and policy is actually made. For many decades, the theories of formal democracy and radical liberalism have served as ideological packaging for this policy. Weakening and liquidating the national institutions of state power, and of political, moral, and cultural control, by the most diverse methods, from bribery of individuals invested with power to the organization of revolutions and civil wars, the world oligarchy removes obstacles to the free movement of transnational capital, and subordinates to its interests the economies of entire countries and continents.

In the postwar decades, the world oligarchy took advantage of the Cold War, which it had done much to provoke and artificially prolong, in order to develop a highly organized system for exerting its influence. Powerful financial organizations were supplemented by offshore zones, free from any state control or taxation; secret societies and lodges were supplemented by force and punitive organizations. Intense work on personnel placement in the power struc-

tures of leading nations enables the world oligarchy to direct their policy in the interests of transnational capital, and to dominate foreign affairs, as well as domestic policy, in many countries. The crushing effectiveness of this new world order system was convincingly demonstrated during the destruction of the USSR and the subsequent colonization of its territory. The most powerful system of state security in the world was paralyzed by infiltrated agents of influence and totally disoriented by professionally trained groups of provocateurs [29].

One sometimes hears that the United States and the West are interested in a strong and stable Russia. That they understand the danger of global destabilization and nuclear conflict, which might ensue from the uncontrolled collapse of this huge country. And we have readily believed that slogan, which obviously corresponds to the interests of the American people, as well as the European and other nations of the Old World and the New. But, upon encountering the patent contradictions between such friendly rhetoric and the hostile actions towards Russia by the leading members of the Group of Seven, and supposing, in our naivete and innocence, that each country exclusively carries out policies in its national interests, we go searching for the roots of the anti-Russian components of Western policy, in some conjunctural combinations of their geopolitical, economic, and other interests. In bewilderment, we ask our foreign colleagues: What is the point of your expanding NATO, why are you imposing this suicidal "shock therapy" upon us, why do you love these anti-Russian dictatorial regimes on the territory of the former Soviet Union? We try to explain to them, that these absurd actions are actually disadvantageous and dangerous for them.

Our foreign partners shrug their shoulders, and answer with embarrassment, that they don't understand it either, but they continue to push the same line, citing directives from higher up, or they dryly reply that, in the last analysis, it is the choice of the Russian authorities. But when the most objective among them begin publicly to criticize the policy of the Russian leadership as economically absurd and destructive for the country's productive forces, there is an immediate shriek from the higher authorities. That is what happened with the Nobel laureates in economics, who were advised by high-ranking American intelligence officers not to take

part with Russian scientists in a joint research project on problems of economic reform in Russia [30].

As was shown above, the interests of the world oligarchy and the national interests of any given country will not coincide. The obvious "double standard" policy of the USA and other leading Western nations is explained by the contradictory nature of these interests. Thus, contrary to the interests of the peoples and nations, the world oligarchy does not shrink from wars and global destabilization. While for the peoples of the world, war is above all a matter of human sacrifices, and for the State it means enormous material losses and threats to the national security, transnational capital has always seen war primarily as a source of superhigh revenues and easy booty. Wars, conducted for the interests of rival nations, departed into the past after Napoleon's defeat in Russia.

In our century, the First and Second World Wars, as well as the local wars in modern Asia, contradicted the national interests of the vanquished and the victors alike. Both paid with their blood, for the superprofits of the world oligarchy, which made money by financing war spending, and subsequently acquiring enterprises, which had been bankrupted by the war and excessive taxation, at giveaway prices. Therefore, in contradistinction to the interests of nations, which always correspond to stability and international relations of a friendly nature, the world oligarchy's interests lie exclusively in the realm of creating the conditions to extract superprofits and consolidate its global supremacy.

The best conditions for this are created by wars, revolutions, and economic crises, which weaken national security systems and institutions of state power, while chaos arises, economic structures are destroyed, and new opportunities open up for subordinating them to the interests of transnational capital. Therefore, the world oligarchy does not fear the breakup of Russia; it sees the risk of possible global catastrophe as compensated by the enormous, exorbitant revenues, which the decomposition of the wealthiest State in the world is already yielding. Therefore, when American politicians, for example, say that the USA is interested in a strong and prosperous Russia, they are proceeding from the standpoint of the national interests of the American people; when they conduct an actual policy toward Russia, of wrecking, dismemberment, and

destruction, they are acting in the interests of the world oligarchy, which guides their decisions. That is why they often say one thing, and do something directly opposite.

The "mystery" of the West's abiding aggressivity toward Russia is to be explained not simply by some age-old fear of us as a great power, or suspiciousness, or russophobia, by also by the internally contradictory interests of the ruling elites of those countries, whose policies combine national interests with those of the world oligarchy. National interests more or less dominate in the domestic policy of those countries, while the interests of transnational capital, which is also partially their national capital, dominate in foreign policy.

Towards not only Russia, but also other sovereign nations, the world oligarchy is invariably aggressive, and strives to destroy the institutions of state power and national sovereignty, which could impede its domination of the relevant segments of the global economic space. The crushing of the European monarchies during the end of the last century and the early years of this one, the overthrow of the Tsar in Russia during the First World War, the implementation of the Marshall Plan in Europe after the Second World War, the destruction of the USSR and establishment of foreign control over the governments of its former republics, the occupation of part of Yugoslavia, the blockades against Libya and Iraq, the isolation of Iran, the attempts at external isolation of India and China, and the financial catastrophe in Southeast Asia—this is a sequential chain of events in a single direction. Its aim is to dismantle the institutions of national statehood and replace them with economic and political coordination mechanisms, which provide freedom of action and privileged conditions for transnational capital, as well as global supremacy for the world oligarchy.

This explains the traditional russophobia of many spokesmen for the interests of the world oligarchy, who usually hold high government posts in leading countries of the West. The age-old might and independence of Russia, which was a leading superpower for a millennium and conducted its own, independent and successful policy in its national interests, have always been an object of special concern to the world oligarchy.

2 The New World Order

Contemporary ideologists of the New World Order leave Russia and most other countries no hope for composing and carrying out independent policies in their national interests. After organizing the artificial opposition of the two political systems in the Cold War, in order to dismantle the main institutions of state power in the leading Western countries and replace them with international institutions, a system of global control is being established under the diplomatic and military leadership of the United States, for the sake of the world oligarchy's supremacy. Making good on its dominant position within the institutions of state power inside the United States, the world oligarchy is trying to utilize the national resources of that country for purposes of securing its own global supremacy. This is why the ideologists of the world oligarchy want to preserve U.S. world leadership.

In order to turn the United States into a gigantic gendarme, protecting the interests of transnational capital, an imperial superiority complex is inculcated in the American people, which is fuelled by the grant of exclusive rights to take leadership and use violence in world politics. Having control over the institutions of state power in the United States, the world oligarchy uses them as instruments to protect its interests in other countries. This is demonstrated by the experience of the Cold War, which brought the world oligarchy huge profits and opportunities for organizational enhancement, but at enormous material cost to the American people and the U.S. NATO allies, as well as the human casualties of the local wars in Asia and Africa. It also is evident in the direction of the U.S. National Security Strategy, adopted by the U.S. administration for the next century, according to which the American people should become

the bulwark and means to secure the supremacy of the world oligarchy.

In particular, this document says that the USA's leading role should be used to direct integration tendencies in the world, adjusting the existing political and economic institutions and security organizations, as well as to shape new organizations, which will help create conditions for the advancement of American interests and values [31].

What are those interests and values? The same report states quite frankly, that "we recognize that the spread of democracy supports American values and enhances both our security and prosperity. Democratic governments are more likely to cooperate with each other against common threats, encourage free trade, and promote sustainable economic development. They are less likely to wage war or abuse the rights of their people. Hence, the trend toward democracy and free markets throughout the world advances American interests. The United States will support this trend by remaining actively engaged in the world." [31]

Among the various aims of U.S. national security strategy, laid out in this document, we single out those that characterize the use of U.S. diplomatic and military forces, to secure the interests of the world oligarchy and transnational capital. The document emphasizes that U.S. strategy pays special attention to the impact on current and long-term U.S. foreign policy of "problems that once seemed quite distant—such as resource depletion, rapid population growth, environmental damage, and uncontrolled refugee migration." In view of these factors, the USA has not attempted to draw a line between domestic and foreign policy, but rather to define a policy in areas such as economics and security, which advances its interests and ideals in a world, where the dividing line between domestic and foreign policy is increasingly blurred. [31]

Frank enough. The area of responsibility for U.S. national security agencies is effectively declared to be enabling the world oligarchy to exert control over the most important matters of interest to transnational capital: unimpeded access to the resources of other countries, including their natural and human resources, and to their markets, and the elimination of all national barriers to the movement and reproduction of transnational capital. Simultaneously, it is declared to be a national security matter for the United States, to

monitor the population growth, environmental pollution, and political systems of other countries. The American people must be prepared to pay for such a global control function. The document emphasizes: "Engagement abroad rightly depends on the willingness of the American people and the Congress to bear the costs of defending U.S. interests—in dollars, energy and, when there is no alternative, the risk of losing American lives." [31]

Although the U.S. National Security Strategy constantly stresses that the purpose of U.S. global hegemony is to ensure the country's security and prosperity and create optimal conditions for solving domestic economic problems, in reality it is difficult to understand, why the American taxpayer should finance dubious military operations in various parts of the world, an American military presence at all of the planet's key strategic locations, NATO expansion, and a war in Yugoslavia—all to ensure the national security. What bearing on the interests of the American people does the anti-Russian policy of the United States in Europe and the Commonwealth of Independent States (CIS) countries have, or the active efforts of the American diplomatic and military machine to prevent the reunification of the Russian people, to provoke the further dismemberment of Russia, or to frustrate integration processes within the territory of the CIS?

This is unclear from the standpoint of the national interests of the American people, but it is quite understandable as being in the interests of the world oligarchy, which utilizes the American diplomatic and military machine to impose its interests. The published strategy document even seals the monopoly of that machine as an arbiter with the right to decide on the use of force in any global matters. It is asserted that, "In many instances, the United States is the only nation capable of providing the necessary leadership and capabilities for an international response of shared challenges." [31]

In order to convince the American taxpayer of the wisdom of paying for dubious punitive operations abroad, the strategic report introduces the category of "important national interests," which "do not affect our national survival, but they do affect our national well-being and the character of the world in which we live." In such cases, it recommends that the USA "use our resources to advance those interests insofar as the costs and risks are commensurate

with the interests at stake." The American intervention in Haiti and participation in NATO operations in Bosnia and Hercegovina are cited as examples of this type of action.

A typical example of the new U.S. national security strategy in action, was the illegal American bombing of Iraq in December 1998, carried out by decision of the U.S. President, who apparently wanted to stop the impeachment proceedings against him by dragging the country into a military conflict. Thus armed aggression, in addition to defining the role of global gendarme, is becoming a means of settling U.S. domestic problems.

The new U.S. National Security Strategy spells out the basic features of the New World Order. The world oligarchy plans to ensure its supreme position by means of extending "zones of U.S. vital interests" planet-wide, while the content of those interests is extended to control over the natural, demographic, and economic resources of other countries, and by consolidating an exclusive monopoly for the American diplomatic and military machine on the use of force in international affairs [31].

In return, the American people are promised prosperity and stability, since "the health of the international economy directly affects our security, just as stability enhances the prospects for prosperity. Prosperity ensures that we are able to sustain our military forces, foreign initiatives and global influence. In turn, our engagement and influence helps ensure that the world remains stable so the international economic system can flourish." [31]

This last formulation is reminiscent of the ideology of the Khazar Khanate, which existed a thousand years ago, where internal prosperity and stability were provided by the exploitation of neighboring states, using a well-organized political and military machine, which allowed the ruling supranational oligarchy to extract superprofits and to seek the global expansion of its sphere of control [32]. The similarity is particularly evident against the backdrop of the strategy report's argument in favor of U.S. claims to exercise political and military control over global environmental pollution and natural resource consumption, when it is the country responsible to the greatest degree for both of these activities. U.S. per capita consumption of fuels and other important types of raw materials is tens of times higher than the average world level, as are its indicators for environmental pollution.

Thus are the interests of the world oligarchy interwoven with the national interests of the United States. At taxpayers' expense, the world oligarchy is marshalling a diplomatic and military machine to ensure its global domination and control, simultaneously enabling the population of the USA and its allies to create more comfortable and secure conditions of life for themselves, which encourages their claims to a privileged life-style, paid for by the exploitation of the entire planet's natural and human resources.

The world oligarchy's strategy for domination is not yet total. It is not interested in every type of activity, nor does it strive to control all of the planet's resources. The strategy is selective, oriented toward seizing "the commanding heights" of the world economy and national economic systems, which enable it to dictate its rules of the game to the rest of the world.

The world oligarchy's efforts are mainly concentrated in the area of establishing control over the most profitable spheres of activity, where possession of a political, natural, or intellectual monopoly is a source of superhigh incomes. These are the management of state debts, monetary issues, financial services, banking, auditing and legal services, international trade, the narcotics business, natural monopolies, energy, and the utilization of new technologies. Other areas, where market competition mechanisms reduce the possibilities to derive superprofits by the exercise of a monopoly, are less attractive for transnational capital, and are mainly developed by national business circles. The greater the economic power of the latter, however, the greater will be the degree of coordination and mutually beneficial partnership between the world oligarchy and national capital, which influences the formation of the rules of the game in any country.

In order to make more consonant the interests of the world oligarchy and the national interests of the most developed countries, the racist theory of the "golden billion" was developed, according to which a decent existence on this planet can be guaranteed only for 1 billion people in the most prosperous countries, while the rest of the countries have a sorry lot as providers of raw materials and suppliers of cheap human material, to service the interests of transnational capital. This doctrine is not an abstraction—it is already being applied in the practice of regulating international relations.

Countries that have joined the club of the elect are permitted to defend their domestic market, to conduct an aggressive export policy, to support their goods-producers, to preserve their national culture and public morality, and to impose their interests on others, up to and including with the employment of armed force. The others are supposed blindly to follow the recommendations of the international organizations, which express the interests of the world oligarchy, and not to impede the access of transnational capital to their markets, or the access of stultifying and corrupting techniques for the destruction of national culture and public morality, to their cultural space. These "others" are drawn into various regimes of unequal foreign economic exchange, through which their domestic resources flow abroad, and their dependency and subordinate position as "donors" for transnational capital is affirmed.

The most refined systems of unequal foreign economic exchange, imposed by the world oligarchy upon dependent countries, include drawing the latter into a trap of foreign indebtedness, raw materials specialization within the international division of labor, and renunciation of sovereignty in the conduct of trade and financial policy. Let us examine in more detail, how this trap functions.

The stimulation of foreign borrowing is the easiest route to the exploitation of countries' economic potential, with the assistance of their institutions of state power. Transnational capital extends loans to states or acquires their securities, which makes it possible to earn good interest, while the borrower country is drawn into a debt pyramid, requiring ever greater payments on previously incurred debts. Since the growth rates of the overwhelming majority of countries (0-4%) are far below the interest rates on the international loan market (8-20%), the "debt trap" is automatically sprung. As soon as spending to service the state debt reaches a level, comparable with the revenue stream of the state budget, that country's national income comes under the control of foreign creditors. By means of tax and budget mechanisms, the national productive forces of debtor countries begin to work for the enrichment of international speculative capital. Thus, the developing nations of Latin America have paid far more money in the form of interest, than they originally borrowed, while their total outstanding debt has increased.

The raw materials specialization of a country's economy is accompanied by unequal terms of foreign trade, resulting from the

"scissors," which exists between the prices on raw materials, which are mainly formed by global market competition, and the prices on finished goods, which are kept artificially high by the magnitude of the intellectual rent that can be charged because of monopoly ownership of the relevant production technologies. Once a country is drawn into raw materials specialization, it is trapped into a self-perpetuating exchange of natural rent from the use of its non-renewable raw materials deposits, for intellectual rent in the form of the prices on imported manufactured products. The country finances scientific and technological progress abroad, thus widening the "price scissors," while simultaneously undermining its own limited industrial resource potential.

The renunciation of sovereignty in trade policy, which is achieved by including a country in international systems of foreign trade regulation, in a subordinate and dependent position, deprives it of the ability to make use of the political rent, which is obtained by using instruments of state regulation of the economy for the benefit of domestic enterprises. The renunciation of sovereignty in trade policy, which international trade rules stipulate, sometimes causes just the opposite to occur—utilization of a country's institutions of state power, in order to ensure the interests of transnational capital, quite apart from, or even contrary to, the interests of domestic business circles and goods-producers.

The renunciation of sovereignty in the conduct of financial and monetary policy, which is achieved by a country's assumption of obligations to international financial organizations, respecting the maintenance of certain parameters of the money supply and the exchange rate of the national currency, or the linkage of the exchange rate to a freely convertible currency, deprives that country's economy of the possibility of using the instruments of state power for purposes of providing incentives for investment or raising competitiveness. In the worst case, the country is deprived of its sovereign right to conduct an independent policy with respect to issuing money, and its national currency is effectively replaced by foreign currency, with the attendant consequences for the appropriation of revenue from cash issues.

The huge gap between the competitiveness of enterprises in developed countries and transnational corporations, on the one hand, and the rest of the world, on the other, which has already

opened up and is continuing to widen rapidly, makes it impossible to improve the competitiveness of enterprises in most sectors of the economy in developing countries, without appropriate incentives and defense by state regulation. By renouncing the instruments of independent trade, industrial, and financial policies, these countries deprive themselves of important means for raising the competitiveness of their national economies, thus consolidating their subordinate and dependent position.

The past two years have also provided examples of repression by the world financial oligarchy against countries, which dared to carry out an independent development policy. The financial crisis in Southeast Asia destroyed the fruits of decades of sustained labor by the peoples of Malaysia, Indonesia, Thailand, and Korea, who thought they could take an independent path of development. The deliberately planned action to destabilize their financial systems has closed off the possibilities of economic growth in the region for a long time to come.¹ There is no place for upstarts in the New World Order—the international oligarchy prefers to trim everybody's hair on the same comb.

There are, of course, a number of examples of the favorable impact of foreign trade liberalization, the linkage of the national currencies of developing countries to freely convertible foreign currencies, and the rules of trade policy coordination within the framework of the World Trade Organization, of which almost all countries are members. That only goes to show that any country, in order to ensure its successful and sustained development, should maintain the necessary balance between its national interests and the interests of transnational capital, creating rules for the functioning of the domestic market, which benefit domestic goods-producers and national business circles.

The inclusion of an independent country into any international regimen is accompanied by the construction of a complex balance of mutual concessions, in which the benefits of international integration for the country's national interests ought to outweigh the anticipated losses. Developed countries determine their participation in international integration processes according to criteria of its economic advisability, whereas the comprador elite in underdeveloped countries is simply forced to renounce national sovereignty.

The mechanism for protecting the interests of the world oligar-

chy through various international regimens, under which participating nations relinquish elements of their national sovereignty, is based on the domination of the United States and other members of the Group of Seven within such organizations. Their representatives make the decisions, which become mandatory for all the member countries. This process is often accompanied by complex procedures for reconciling the positions of these countries, whose policies are also guided by national interests, which cannot always be reduced to a common denominator. In one way or another, however, the world oligarchy's various agencies manage to reconcile their interests, interwoven as they are with the national interests of the leading Western countries, and then they impose their decisions on the international organizations.

This is usually achieved at the cost of infringing on the interests of all other countries, which are given the role of extras in the cast. A great amount of effort is expended in the United States, to draw the political elite of other countries into its orbit, so that they will play their role properly. Priority attention is given to individuals who set foreign, defense, economic, and information policy. When those individuals assume international obligations on behalf of the countries they represent, it ensures the subordination of those countries' domestic policy to the interests of the world oligarchy. Substantial funds are spent for this purpose, through various technical assistance organizations, expert institutes, foundations, and so forth, while big efforts are made to draw the leaders of countries into the international elite, and impart to them a cosmopolite ideology and corresponding values, which anticipate the replacement of national interests with abstract standards of international law. Even the direct recruitment of influential leaders of national governments by the relevant special services is not shunned, nor are bribery and blackmail.

The entire arsenal of methods of working over politically less than fully mature minds, for purposes of shaping a new Russian political elite, was employed to great effect during process of the USSR's destruction and the subsequent colonization of the former Soviet republics. In any event, virtually all of the leaders of the "democratic movement" and the radical reform Government in Russia had undergone a certain kind of training, at countless seminars, sabbaticals, and conferences abroad, during the several years of

the "perestroika epoch." At these functions, the heads of candidates for the new national leadership were pounded full of the mythologies of the radical liberal doctrine and they were inoculated against attacks of conscience or common sense, by the instillation of a sure belief in the inferiority of post-socialist society and a feeling of their own superiority as bearers of "vanguard ideas."

This brainwashing system was staggeringly effective. True, its success may be largely explained by the quality of personnel, selected as "work superintendents" for the destruction of Russia. They were, as a rule, relatively young, ambitious, undereducated candidates with a pronounced inferiority complex, easily imbued with aggressive russophobia or anticommunism. These failures, possessed of inexhaustible arrogance but unable to find self-realization as specialists in their main line of work, were easily reforged, under the influence of experienced foreign mentors, into fuehrers of the radical liberal doctrine, prepared to annihilate their own people for the sake of proving their imagined superiority. The subsequent accession of these people to power, with the admixture of encouraged corruption, produced the explosive compound of incompetence, criminality, and russophobia, which has dominated in the circles determining the policy of the Russian Government these past several years.

The world oligarchy knows how to train and select personnel. Using this cadre, it has organized and directed the colonization of Russia today.

3 The Colonization of Russia

Practically the entire policy arsenal for the destruction of the institutions defining national sovereignty, in favor of global domination by the world oligarchy, was brought into action in the process of the destruction of the USSR, and continues to be employed in Russia and the other CIS countries today.

The international obligations, assumed by Russian leaders as part of the "revolutionary reforms," under pressure from their foreign bosses and at great cost to the country's national interests, bear out this policy most clearly: the Belaya Vezha agreements to abrogate the Union Treaty; the memorandum of the joint assumption by Russia and other CIS countries on responsibility to service the debt of the former USSR; Russia's renunciation of claims to compensation for property left behind after the withdrawal of its troops from East Germany and the other Warsaw Treaty countries; adherence to the Energy Charter, which provides for the relinquishment of national sovereignty in the utilization of national energy resources; the renunciation of the defense of the domestic market, an independent financial policy, and state incentives for the development of industry, science, and technology, which is fixed in Government and Central Bank declarations to the International Monetary Fund; and other decisions.

One of the latest clear examples of the policy of national treachery was the signing of the agreement on Russia's joining the Paris Club, under which it was agreed on Russia's behalf to write off up to 90% of the credits issued by our country to developing countries that have agreements with the Paris Club. Enormous financial assets of Russia, inherited from the USSR and worth tens of billions of dollars, were turned to dust. The Group of Seven countries needed this decision, in order to reduce the debt service burden on develop-

ing countries, for the benefit of their other creditors; the leaders of the Russian delegation, headed by Chubais, were concerned to distinguish themselves as executors of the recommendations of the international financial organizations, which express the interests of transnational capital.

Numerous statements by ideologists of the New World Order, and the practical actions of leading Western countries and of international organizations with respect to Russia leave no doubt, that in the framework of this New World Order, our country is assigned the role of a raw materials colony, the mission of which is to mitigate the effects of raw materials and ecological crises, which threaten the prosperity and stability of the developed countries. In the framework of this conception, a strategy has been imposed on Russia of deindustrialization, shutdown of science-intensive technologies, raw materials specialization, and adjustment of the country's legal and economic space to suit the interests of transnational capital. This strategy cleanses Russian territory not only of domestic products, but also of "superfluous" people.

In various scenarios, developed by the ideologists of the New World Order and specialists from the relevant foreign intelligence services for the further dismantling of Russian statehood, Russia is viewed as a dependent territory, utilized as a source of raw materials for industry, a thinly settled natural park, and a dumping ground for hazardous wastes—in any event, as a source of superprofits for transnational corporation.

The 1997 book by the influential American political scientist Z. Brzezinski, *The Grand Chessboard; American Primacy and its Geostrategic Imperatives* [33], is revealing in this context, bringing clarity to many directions of contemporary American geopolitics. While the official U.S. national security doctrine only asserts the American administration's prerogative to interfere in the internal affairs of other countries and to dictate its interests anywhere in the world, Brzezinski's arguments leave no doubt Russia has become the main trading piece in American geopolitics. It follows from this book that the Cold War against the USSR has been transformed into aggression against Russia. Brzezinski, who constantly emphasizes that Russia and the Soviet Union are the same thing, unambiguously asserts the necessity, from the standpoint of American interests, of Russia's destruction, describing its future in

American geostrategy sometimes as a "political black hole," and elsewhere as a freely confederative Russia, "composed of a European Russia, a Siberian Republic, and a Far Eastern Republic." [33, p. 240; English edition p. 202]

Of course, Mr. Brzezinski is not the President of the United States, nor even Secretary of State. Official Washington would hardly confirm the existence of such a geostrategy with respect to Russia. Nonetheless, many facts bear witness to the undoubted influence of the ideas expressed by this political scientist, on the work of American secret services and influential groupings within the American establishment.

Interestingly enough, Brzezinski in his geostrategic arguments acknowledges the interests of all the major Eurasian powers, except for Russia. He even defines Turkey as "a strategic partner" of the United States: "Regular consultations with Ankara regarding the future of... Asia would foster in Turkey a sense of strategic partnership with the United States." Brzezinski does not neglect the interests of India and Iran, which America has traditionally attempted to keep down: "It follows that a progressive engagement of India in discussions pertaining to regional stability, especially regarding the future of Central Asia, is becoming timely, not to mention the promotion of more directly bilateral connections between American and Indian defense communities." Or: "A strong, even religiously motivated ... Iran is in the U.S. interest." [33, p. 242; 204-5]

During a certain period of concentrating all its geopolitical resources on the struggle against the USSR, the U.S. "slept through" the emergence of two new, powerful geopolitical rivals—Japan and China, in the footsteps of which other major, rapidly growing regional powers have announced their claims. Now, proposing that these Eurasian superpowers submit to soft American hegemony, Brzezinski sounds as if he is currying favor with them, trying to persuade them to take control of chunks of Russian territory in exchange.

The enormous funds, invested by American taxpayers in the arms race, and the militarization of Europe and the Middle East, are devalued in the new geopolitical reality, where the dynamism and innovative capabilities of national and international economic systems are a greater determining factor than the force of arms. American hegemony, weighted down with billions of dollars of

annual defense spending, is becoming an unwanted burden for Eurasia. Brzezinski, fearing the devaluation of the trillions of dollars, invested in the destruction of the USSR, effectively proposes to the new rivals of the United States to share the booty of the Cold War, which is how he views Russia and the CIS, in exchange for their agreement to preserve the expensive hegemony of the United States.

In the opinion of this leading American political scientist, a balance of power in the New World Order should be achieved at Russia's expense, up to and including the partition of its territory. In his view, "territorial deprivation is not Russia's central problem." [33, p. 239; 202] The dismemberment of Russia into three parts, Brzezinski believes, will become the basis for achieving a balance of power in Eurasia, in American interests: "Each of the three confederated entities would also be more able to tap local creative potential, stifled for centuries by Moscow's heavy bureaucratic hand." [33, p. 240; 202] The development of the "creative potential" of the fragments of dismembered Russia will proceed, according to this design, with the guiding influence of the U.S. and its partners. The same applies to the other CIS countries. American colonization of Ukraine is proposed to be implemented jointly with Germany and France; that of Azerbaijan and Uzbekistan, jointly with Turkey and, in part, Iran; that of Siberia and the Far East, jointly with Japan and China. As can be seen, in the view of this chief American geostrategist, there is enough of the Russian inheritance for everybody, which will permit the USA to carry out the strategy of "soft hegemony" in the world, paying with Russian resources. At Russia's expense, it is proposed to construct a poignant system of trilateral concord, based on "America's global power, China's regional preeminence, and Japan's international leadership." [33, p. 246; 208]

Obviously, the Brzezinski version of the New World Order is to be built against Russia, at Russia's expense, and on the shards of Russia. If Zinovyev was right to say that the Soviet dissidents "took aim at communism, but hit Russia" [28], their overseas protectors were aiming at Russia from the outset, and to this day they view Russia as an enemy, which must be dealt a mortal blow.

One might treat Brzezinski's tract as the ravings of an aged anti-Soviet with an inferiority complex, whose russophobia has taken him over the edge, if not for his authority as the leading American

geopolitical strategist, and his role as the public mouthpiece for the geopolitical interests and sentiments of very influential and wealthy layers of the American oligarchy. Moreover, Brzezinski's words rarely diverge much from the actions of American special services, which from the time of their founding have considered the annihilation of Russia to be their top-priority task. The direct participation and active role of the CIA in the destruction of the USSR are no longer secret, after numerous publications by American authors, who have described the deliberate, sustained efforts in that direction, of President Reagan and CIA director Casey, as well as subsequent leaders of the USA and the CIA (see, for example, [29]).

The same line is evident in the work of American special services against Russia. Against the backdrop of noisy scandals around the failure of Soviet intelligence agents (now, in the American mass media—Russian intelligence agents) acting against the United States, people who were recruited by the KGB and have now been betrayed, as well as of demands, already implemented *de facto*, that Russia curtail any intelligence work, American intelligence agencies have stepped up espionage against Russia. It is taking place with the traditional secret means, as well as quite openly, with the participation of "agents of influence" in the upper echelons of state power.

Under the pretext of participation in joint military maneuvers, in the name of peace, special sabotage units are dropped onto Russian training ranges, to develop methods of operating in Russia.

The Russian stock market has come under the control of a strange community of foreign "experts," spies, and adventurers,² protected by the leaders of the privatization agency. The anti-Russian actions of a number of influential leaders of the "newly independent states" are guided by foreign intelligence-linked "advisers," who directly coordinate the creation of a cordon sanitaire, hostile to Russia.

Simultaneously with the intense activation of the American special services against Russia, Washington's official foreign policy line is becoming ever more russophobic. The only slightly camouflaged support for the Chechen separatists, the expansion of NATO to the East, including the intention to include the Baltic countries and Ukraine under the protectorate of that military machine, the declaration of the Central Asian republics and the Caucasus as a zone of U.S. vital interests, the demonstrative playing of the Ukrainian card

in order to set Ukraine against Russia, and the refusal to abolish laws that were adopted against the USSR and discriminate against Russia—this is far from a complete list of the anti-Russian symptoms, presented by official American foreign policy. Some people believe that the Cold War is over, and democratic Russia has no enemies. Some of those who determine American foreign policy, like Z. Brzezinski, think otherwise—that Russia lost the Cold War, and should now be dismembered, looted, and finally destroyed as an independent state [33].

America's top culture and information policy-makers evidently think likewise. In any event, those who "call the tune" in Hollywood exhibit a strong russophobic bias. The latest wave of American cinematography is permeated with anti-Russian hysteria, portraying Russians almost exclusively as terrorists, bandits, violent oppressors, and less than human, who are to be feared, and against whom "all is permitted" in defense of the "civilized world."³

A new enemy image is being created in the public opinion of America and the entire world, namely the Russian criminal community and the "criminal-syndicalist" Russian State. That is how the new social system in Russia is characterized in the report titled "Russian Organized Crime," which was prepared for the United States Congress in the autumn of 1997 by the Washington Center for Strategic and International Studies, and widely publicized on Russian television.

The report is a baldly tendentious piece of research, containing scientific-sounding generalizations of all sorts of rumors and suppositions about the criminalization of the Russian State and society. It contains no actual facts, but an abundance of every conceivable subjective evaluation and argument, including some from Russian officials, taken out of context and worked up to order. The order, as is evident from the content of the report, was to demonstrate the extreme criminalization of Russia, which, having been defined by the authors as a "criminal-syndicalist" State, represents a threat to the national security of the United States and the entire world.

The authors frighten the readers (American Congressmen) with the tremendous scale of Russian organized crime, specters of nuclear terrorism, large-scale computer sabotage, and the transfer to unstable regimes of production and deployment technologies for weapons of mass destruction. They fail to support their arguments

with actual facts, but obviously count on achieving the emotional effect of russophobia. The purpose of this piece of "analytical hack-work," is to justify the possibility and necessity for a new international isolation of Russia, up to and including the imposition of tough economic and political sanctions. "The most important and ... most alarming conclusion of the report is that, at the existing level of state to state contacts between the United States and other countries, normal mutually beneficial contacts with Russia, which has become a criminal-syndicalist State, ... under the control of corrupt government bureaucrats, politicians, businessmen, and criminals, ... will become impossible." The report assesses that "Russian organized crime constitutes a direct threat to the national security interests of the United States by fostering instability in a nuclear-armed major power."

There are numerous polling agencies working along the same lines, by fabricating questionnaire results returned by leading companies, according to which Russia is viewed as the most corrupt State in the world.

There are too many coincidences here, as they say. The consistent tendency of rapidly growing russophobia can be traced through the geopolitical theory, the official U.S. national security doctrine, the activity of American intelligence agencies, Washington's foreign policy, the outlook of the American film industry, and the shaping of American establishment opinion. Considering the stepped-up U.S. efforts to ensure its leadership in the establishment of a New World Order, the pattern confirms the conclusion that the New World Order under U.S. hegemony is being created, as stated above, against Russia, at Russia's expense, and on the shards of Russia. There is no place for Russia in the model of this new world order. Its territory is viewed as a free space with rich natural resources, which ought to be carved up into spheres of influence by the United States and its allies to ensure balance among their interests.

It is evident that the American geostrategists' new challenge is constructed according to a criminal kingpin's primitive logic: Agree to be under my command—there is booty enough for all. There is a huge, undivided territory (a geopolitical black hole, in Brzezinski's terminology), which is available to be partitioned and utilized by the leading countries as compensation for certain moral and material inconveniences, occasioned by American "soft hegemony." Other-

wise, the world will plunge into anarchy and chaos, in which Russian bandits and terrorists contrive a worldwide catastrophe.

The American strategists understand, naturally, that Russia will hardly agree willingly to be a bargaining chip in the service of American geostrategic interests (although certain well-known Russian figures, including some who held high office, are quite prepared to agree to this, having been carefully cultivated by American special services). Therefore the image of a criminal, aggressive, ungovernable country is inculcated in world public opinion—a country that resembles the real Russia about as much as the United States resembles the Congo. For large fees, however, American intelligence analysts and American filmmakers each do their part to create the required disgusting image. That image will be needed, at the point Washington decides to use force in defense of the interests of the world oligarchy, under some slogan of ensuring world stability, establishing control over Russian raw materials deposits, destroying the Russian nuclear industry, or securing "the independence of some territory within Russia." In preparation for such a possible eventuality, NATO is being expanded, conflicts within the CIS are fanned, and intelligence is busily at work.

We were tired of the Cold War, the arms race, isolationism, and claims of world supremacy. We readily gave all that up, without thinking about the reaction of the "probable adversary." The naive romantics of perestroika wanted to believe in kind Uncle Sam, who would bestow democracy upon Russia and help it to "enter the civilized world," as Russia had once assisted the United States in attaining its independence and becoming a full and equal member of the international community.⁴ But, as it has been said, "reality is rather sadder." They did not trust our rush to peace and friendship, our good will was taken as a sign of weakness, and our striving to demilitarize and end the arms race was evaluated as defeat in the Cold War. The incompetence of our leaders, combined with the cupidity and treachery of their close associates, allowed the world oligarchy to carry out its policy of subverting Russian national security, aimed at the colonization of our country.

We don't want to believe that we tore free of the "iron curtain," only to land in the company of bandits, who immediately began to carry off our property, while our friends stood by as passive witnesses. It is better, however, belatedly to acknowledge the mistakes

that were made, assess the results, and draw the proper conclusions, than to plod meekly along to the slaughter like a herd of sheep, voluntarily agreeing with the self-deception of some imagined prosperity to come after the present revolution.

The disintegration of the Russian economy and state, which resulted from the "shock therapy" policy, is portrayed to the public abroad as a direct and open threat to traditional Western values and interests, at the same time as the activity of the foreign-supported revolutionaries is presented to the Russian public as a blessing for the population of Russia and the entire planet. In reality, the transformations that have taken place in Russia have little in common with the widely proclaimed goals of economic reform. In essence, they represent a modern form of neocolonial policy.

Both the methods and the consequences of the policy carried out in our country evidence this. The Russian economy was quickly and successfully driven into the above-enumerated traps and caught in the mechanisms of unequal economic exchange, while the Government assumed foreign obligations, which inevitably led to the rapid loss of independence and the colonization of the country in the interests of the world oligarchy and transnational capital. Russia has acquired more and more of the typical features of a raw materials colony, from the standpoint of its world market specialization, as well as the structure of capital investment, which determines the future structure of the economy. The share of basic fuel and energy resources in total exports has exceeded one-half, the share of all raw materials in total exports is three-fourths, while the share of machinery and equipment is only 8-9%. In exchange for natural rent, Russia acquires consumer goods, machines, and equipment, thus financing scientific and technological progress and job-creation abroad.

The situation with the build-up of Russia's state debt is even more ominous. On top of a doubling of the foreign debt, which has passed the \$130 billion mark and become one of the biggest in the world, a huge pyramid of domestic debt has accumulated in recent years. It has already swallowed 400 billion redenominated rubles, which is more than the total money supply, and has sucked up 70% of all the credit resources of the country. The country's financial system was already de facto bankrupt, before that status was certified on August 17, 1998, after the Government's decision on the

forced restructuring of the domestic debt and the Central Bank's on the imposition of a ninety-day moratorium on credit repayments by Russian banks to their foreign partners. The Ministry of Finance leadership began to talk about the need to shift to the issue of one- and two-week GKO. The construction of financial pyramids on the shards of the state budget had become the favorite pastime of our "financial authorities."

The chief function of the Russian State gradually became the extortion of interest payments on loans, contracted for the benefit of foreign creditors and our own oligarchy. As already shown, servicing the state debt became the largest item in the federal budget, reaching half of the total spending in some months. Soon it will be demanded that we mortgage our raw materials deposits and hand the country's resources over to our creditors to manage. The basic legal conditions for this have already been created, in the form of legislation on production-sharing agreements.

The recently adopted Budget Code enshrines the absolute priority of the timely payment of debt service, declaring these payments to be exempt from cuts under any circumstances, while all other categories of spending are subject to the principle of cutting budget spending and minimizing the budget deficit. Thus, servicing the state debt became the highest priority, carrying more weight than obligations to the population, providing social guarantees, or defending the national security.

The Russian Government and Central Bank were the ones that pulled Russia into the above-listed traps of foreign dependence. We have already told how, from October 1993 until the autumn of 1998, they were under the control of the oligarchy ruling the country, whose interests are interwoven with those of international capital. This relationship predetermined the puppet nature of the Russian Government, which has been guided and controlled by the International Monetary Fund and the relevant services of the Group of Seven countries.

Although a change of government and of economic policy priorities took place in Russia, after the financial collapse of August 17, 1998 and the cessation of the financial oligarchy's parasitical feeding on the state budget, the process by which the country was drawn into colonial dependence merits a short description. The abiding influence of the comprador oligarchy on the Presidential Adminis-

tration and other agencies of power defines a present threat, that the mechanisms for the self-destruction of the country's productive forces could be resurrected. In order to avert this threat, it is important to understand how the hidden springs of the colonial policy work.

The pivotal element of the policy for Russia's colonial enslavement during these recent years has been the lie. Some goals were declared to the people, while quite different, often diametrically opposite ones were pursued in practice. The former were proclaimed publicly in official documents, while the latter were secretly laid out in agreements with foreign centers of influence, and finalized in the Russian Government and Central Bank declarations to the IMF.

From October 1993 until September 1998, the world oligarchy's direct control over the Russian Government was fully visible, and no great effort was even made to hide it. The Russian Government, in defiance of the will of Parliament, the position of economists, the demands of the trade unions, and public opinion, systematically implemented the International Monetary Fund's programs, which were defined in the annual so-called declarations of the Government and the Central Bank on the following year's economic policy, which were composed by IMF experts and then translated into Russian. These declarations were generally not publicized, since they contained a totally different policy, from the one that was publicly announced, which relatively corresponded to the interests and expectations of the citizens.

That policy, however, remained just on the paper of the annual Presidential Messages to the Federal Assembly and officially declared government programs, and had little in common with the measures that were actually carried out, under control of the international financial organizations. In cases of a direct conflict between the aims of the IMF and Russian laws, the Russian leadership unflinchingly carried out the former. This was the secret to the numerous contradictions between the Government's actions and its declarations, and to its disregard of Russian legislation.

On the one hand, it was officially declared necessary to defend the interests of domestic goods-producers; on the other, the actual steps taken by the Government meant renunciation of any defense of the domestic market whatsoever, while numerous privileges were

granted to importers, alongside implementation of a policy of maintaining an artificially high exchange rate for the ruble, which was murderous for domestic production.

On the one hand, it was repeatedly declared necessary to bring about an upswing of investment; on the other, the actual steps taken by the Government and the Central Bank, to restrict the money supply and build up the state debt, aggravated the liquidity crisis and made it impossible to lower interest rates to a level that would attract investment into the sphere of production, thus blocking any possibility of overcoming the investment crisis.

On the one hand, there was endless discussion of strengthening the national currency; on the other, the Government and the Central Bank took no measures to dedollarize the economy or expand the use of the ruble in international transactions.

On the one hand, an acute budget crisis and super-rapid increase of state debt were observed; on the other, the Government sold state property at prices tens of times below value, and legalized embezzlement in the guise of loans from the federal budget, super-high-yield government bonds, and tax breaks for privileged commercial organizations.

On the one hand, it was acknowledged to be necessary to support a structural reorganization of the economy and provide incentives for scientific and technological progress; on the other, spending on science was reduced tenfold, while the Government patently refused to take any measures whatsoever to provide incentives for innovation or organize the structural reform of the economy on the basis of modernization.

On the one hand, it was declared unacceptable for the reforms to have too high a social cost, and impermissible for the population's standard of living to decline more than it had; on the other, the Government refused to honor its social protection pledges, arbitrarily sequestered social spending that was mandated by law, permitted a steep deterioration in the quality of education and health care, and cast the non-working population, including millions of children from poor families, upon the whims of fate.

The list of these contrasts could be extended without end. It is evident that the Government's documents for public consumption talked about actions it might be expected to take, proceeding from the primacy of national interests. Some slogans were borrowed

from the opposition. Therefore, the Government knew what those were. But when it came to actual government policy, these interests were not merely ignored—the measures that were adopted usually ran directly counter to them. In effect, the line followed was to eliminate those state regulatory functions, which would impede the world oligarchy's interest in extracting superprofits. The instruments for defending state interests were liquidated, if they hindered the activity of transnational capital, patriotically minded personnel were removed from government agencies, mechanisms for the social protection of the population were dismantled, and society's moral principles were destroyed.

A clear demonstration of the effective control over the Russian Government by its foreign patrons, was the President's veto of two laws, aimed at the defense of Russia's national interests, after lobbying by agents of foreign interest in the Presidential Administration and the Government: the Law on Cultural Valuables, Removed to the USSR as a Result of the Second World War and Located on the Territory of the Russian Federation and the Law on Freedom of Conscience and on Religious Associations. The almost unanimous support for and passage of these laws by both chambers of the Federal Assembly, and their support by the overwhelming majority of the country's population, the Orthodox Church and other traditional confessions, turned out to be insignificant, by comparison with the demands of the American President and the German Chancellor. It took a special decision by the Constitutional Court, for the first of these laws to be signed by the President; on the second law, it was necessary to conduct lengthy negotiations in order to reach agreement on its content with foreign confessions, for which the Administration of the Russian President served as mouthpiece.

The Russian Premier exhibited a similar foreign orientation somewhat earlier, when he refused in 1996, under pressure from the Director of the IMF and some American Senators, to implement the Law on State Regulation of Production and Trade in Ethyl Alcohol and Alcoholic Products, which provided for the introduction of restrictions on the importation of alcohol, thus defending the interests of the State, society, and Russian producers. In response to the demands of several American Senators and the Managing Director of the IMF, who were lobbying for the producers and suppliers of foreign alcohol to Russia, the Premier resorted to a

gross violation of Russian law, inflicting enormous material damage to the Russian Treasury and the interests of domestic producers. The result was that alcoholic beverage imports increased 30 times over in 1993-1996, reaching more than 30% of the total alcoholic beverages on the Russian market [49]. There are plenty of other examples like the ones mentioned here—from the curtailment of Russia's space program cooperation with India, on demand from the United States, to the provision of Russian government guarantees for the importation of equipment, imposed from outside, to the detriment of domestic goods-producers.

The Russian Government's extension of a great range of guarantees for state purchases of imported products, as well as all sorts of privileges for foreign companies, and the transfer of valuable items of former state property to their control, was akin to the affairs of corrupt puppet governments in African colonies. The Russian Government was, evidently, the only Government in the world, which extended guarantees not to its own investors, but to foreigners, and not for exports, but for imports.

These and many other examples clearly show, that the Russian Government of those revolutionary years really did fit the definition of a puppet government—carrying out state policy lines alien to the national interests, neglectful of its constitutional obligations, mercenary, and hostile to Russia. On virtually all questions, where the United States and other Group of Seven countries exerted pressure, the Russian leadership made unjustified concessions, inflicting obvious damage to the national interests of Russia. In return, the "international community," in the name of which the U.S. State Department has generally spoken after the breakup of the USSR, has invariably supported the Russian leadership, despite its massive violations of human rights, de facto genocide against the people of Russia, and the overt looting of the national wealth by the ruling oligarchy.

The concentration of power in the hands of a small group of people, which focused the drafting and adoption of decisions within shadowy structures in the vicinity of the Government and effected their implementation by means of secretly shepherding through the required government resolutions and presidential decrees, rendered the entire formal hierarchy of the executive branch unnecessary. Many honest and responsible specialists in ministries and

agencies, people devoted to the national interest, could exert no influence on anything, because everything was decided by a shadow government, which, while depending on the highest link of the official Government, could block the work of the latter and pursue its own private interests.

The policy of turning Russian into a colony is bolstered by the ruling oligarchy's interest in consolidating its dominant position. That position is attained by means of demoralizing and reducing the population, renouncing important elements of Russia's state sovereignty, and our country's assumption of international obligations, applicable to its own internal affairs. It has been discussed above, that the best guarantee for the oligarchy ruling in Russia to preserve the riches it has appropriated, the position it has achieved, and its security, is to colonize Russia and destroy the Russian State. It is no accident that the Constitution of 1993 seals the primacy of international law over national law, a principle that is repeated in virtually all federal laws of the least significance, which makes it very easy to dismantle national legislation, subordinating it to the interests of international capital through a web of intergovernmental agreements.⁵

4 Prospects

There is always a multiplicity of options in economic policy, and, consequently, of scenarios for social and economic development. At the same time, the range of choices narrows as the country experiences the destruction of its productive forces and is drawn into the trap of foreign debt and unfair terms of trade. Continuation of the social and economic policy that was being carried out until August 17, 1998, even for only a short while longer, would leave no hope for a decent life for tens of millions of citizens of Russia, or for the independent development of the nation.

It is impossible to preserve either independence or the ability to develop independently in the world today, while failing to finance science and education, permitting a tremendous devaluation of human capital, and living in debt at the expense of the country's future. The colonization of Russia would become irreversible, if that policy were continued. An understanding of this must be the point of departure for describing the inertia scenario, which presumes no fundamental changes in the content of policy. The next part of this book will establish the grounds for an alternative scenario of the country's development, other than the inertia scenario. The implementation of this alternative will make it possible to overcome the worsening degradation of productive forces and embark on a trajectory of sustained social and economic development.

As has been stated, the main result of the economic policy carried out in Russia was the clearing of economic space for transnational capital. Because this clearing has largely already taken place, the ruling oligarchy will strive to consolidate the results it has achieved. This will be done in several directions that have already been laid out, each of which leads to a further weakening of Russian statehood.

The first such direction is the further buildup of state debt, with Russia's assumption of still greater obligations, including the use of raw materials deposits and tracts of land as collateral, and political concessions up to and including nuclear disarmament, the concession of contrived territorial claims by other countries, and so forth. This is also the route to temporary maintenance of relative social stability (holes in the state budget are plugged) and to Russia's increased dependence on international capital and the creditor nations. Both of these factors aid in strengthening the position of the ruling oligarchy.

There has been a rapid advance along this path during the entire recent period. As shown above, the federal Government was drawn into the state debt trap. The inability to pay off the foreign state debt, which in large part was foisted upon Russia as its inheritance from the USSR, forced the Russian Government to make endless concessions and to allow foreign control over national economic policy, for the sake of endless restructuring of those debt obligations. The situation was compounded after the Russian Government declared itself bankrupt, with respect to servicing the domestic debt.

The Russian Government in effect surrendered its independence of command over the state budget, the greatest part of which has gone for debt service since 1997. Moreover, equilibrium was maintained in the country's financial system, before its collapse, only to the extent that foreign investors wished to sink funds into the acquisition of new debt obligations from the Russian Government. Thus they were in a position to dictate interest rates that were many times in excess of a reasonable level, turning the Russian Government into an instrument for the redistribution of the national income in their favor.

A second direction is to compel Russia to make a partial renunciation of its sovereignty, in the form of international obligations that ban unilateral actions in areas of importance to transnational capital. The areas of foreign trade, financial markets, and the exploitation of raw materials deposits are the ones primarily involved. Typically, political decisions were taken for Russia to join the Paris Club, the Energy Charter, and the World Trade Organization, without any study beforehand. Each of these international law regimens entails a partial renunciation of sovereignty in the area concerned. A great number of such unilateral concessions and obli-

gations to renounce the defense of the national economy are contained in the Russian Government's declarations to the IMF.

A third direction is the strengthening of the comprador political regime, by means of undermining the social base of the opposition and eliminating its most brilliant and independent leaders. This path subsumes continuation of the policy of cutting social spending by the State, stimulating the rise of alcohol and narcotics consumption in society, corrupting the youth, and maintaining intolerable conditions of life for the older generations, in expectation of their speedy extinction, as well as the use, if necessary, of direct political repression and terror. The first of these elements became a main direction of the Russian Government's work, while the latter was practiced with the shelling of the opposition-dominated Parliament, the civil war in Chechnya, and acts of terror against the most purposeful opponents of the regime.

A fourth direction is the transfer of important enterprises and economic sectors to control by foreign capital. Foreign capital already dominates the Russian corporate securities market. Transnational corporations have made major inroads in buying up shares of Russian competitor enterprises, establishing control over several strategically important sectors of the Russian economy. Even in the case of the natural monopolies, which are of critical importance for ensuring the country's national security—the electric power industry, the natural gas industry, telecommunications—a rapid transfer of shares to foreign "investors" was organized. In parallel with the increase of the state debt, there has been an expanded transfer of key sectors of the national economy to foreign companies' control: instrument-making, nonferrous metallurgy, the stock market, the market for insurance and information services, and the extractive industries. Our goods distribution network has already been reoriented towards imports, the share of which on the domestic market is steadily above one-half. With the conclusion of agreements with foreign companies on their exploitation of raw materials deposits, under terms of production-sharing, which provide for the primacy of international law and the Russian Government's relinquishment of immunity, valuable Russian raw materials deposits, and subsequently large tracts of Russian territory, will come under transnational capital's direct control.

A fifth direction is the disintegration of the country, its

breakup into self-governing territories, the destruction of a single legal and economic space, and the entanglement of constituent territories of the Federation in relationships of unilateral dependence on foreign capital. This path "automatically" resolves the problem of colonizing Russia, in that it erases the significance of federal policy and the very concept of Russian national sovereignty.

Until the autumn of 1998, the Government was actively moving in the first four directions, which were termed "the second stage of reform," for the purpose of camouflage. Among its aims was Russia's adherence, as quickly as possible, to the above-mentioned international treaties and organizations, no matter on what terms, the unconditional fulfillment of the growing state debt obligations as the main goal of state budget policy, and the reduction of social spending as the leading direction of social policy. The Memorandum of the Russian Government and the Central Bank on economic policy for 1998 laid down the priority of international law in the Russian Government's agreements with foreign investors.

Preparatory work is under way on the fifth direction of the colonization of Russia. Little by little, international recognition of the criminal regime in Chechnya is countenanced, the foreign contacts and independence claims of several Russian autonomous jurisdictions are intensified, and the common economic and legal space of the country is being destroyed.

It is clear to specialists that, after several years of such policies, Russia is doomed to become a colonial country, carved up into spheres of influence among various groups of creditors and foreign corporations. The establishment of colonial dependence does not necessarily presume that Russia will be deprived of the formal attributes of political sovereignty. The contemporary practice of neocolonialism does not, as a rule, provide for that. There is no need to occupy a country, in order to exploit it economically—it is rather more advantageous, and cheaper, to gain control over its leadership, draw it into debt dependence, and establish the primacy of international law in its national system of legislation.

An important element of the fifth line of neocolonial policy is the regionalization of Russia, which is often mistakenly confused with federalization. In distinction from the latter, the actual practice of adaptation by the constituent territories of the Federation to the deteriorating macroeconomic situation and the budget crisis is ac-

accompanied by their legal and political "fencing off from the federal center, and the creeping feudalization of social, economic, and political relations in many regions.⁶ It presumes the dominance of centrifugal over centripetal tendencies, and the conversion of degrees of regional independence into the de facto disintegration of the country's unified legal and economic space.

As a rule, in countries with a federative political structure, there is a no greater than 10% difference between the levels of budget revenue in the various constituent territories of the federation, as well as in the population's levels of income. Moreover, any region's lagging behind the others in revenue and income levels by more than one-third, is viewed as a federal problem, requiring special measures to equalize these incomes and pull the "backward" jurisdiction up to the average level. We have experienced per capita tax collection levels that diverge by a factor of sixteen between constituent territories of the Federation, and per capita budget spending that diverges by a factor of twelve. Discounting the most and the least prosperous constituent territories of the Federation (the autonomous districts in Tyumen Province and the republics of the North Caucasus, respectively), these indicators diverge by a factor of six. In over one-third of the constituent territories of the Federation, total tax collections are consistently less than budget spending—they cannot make ends meet, even if the Center allows them to keep all the federal taxes collected on their territory. Over one-third of the budget revenue of these constituent territories of the Federation consists of financial aid from the federal budget, and for over ten of the constituent territories of the Federation, this share is greater than one-half.

The extreme differentiation of the constituent territories of the Federation, with respect to their levels of tax revenue and budget spending, is associated with differences in levels of production, and the structure of the economy. Since the sphere of production carries the main tax burden, this first factor is decisive. Industrial output per capita varies among the constituent territories of the Federation by factors of greater than 100. Even if data extremes are discounted (some autonomous districts in Siberia and some republics of the North Caucasus have average per capita levels of industrial production less than 10% of the average for Russia), the levels diverge by a factor of five.

The situation is analogous for the levels of agricultural production and capital investment. Regions also differ, accordingly, in their standard of living. The differentiation factor among constituent territories of the Federation for the ratio of average per capita income to the subsistence minimum is five. In one-third of the regions, moreover, this ratio is no greater than 150%, which means that virtually every person lives in poverty. Worst of all, there is a steady tendency for the differentiation among the constituent territories of the Federation to widen, chiefly through the deterioration of the situation in the poorest of them.

Although a decline of production has been observed in all of the constituent territories of the Federation, without exception, since 1992, in one-fourth of them it has been greater than threefold. In the majority of constituent territories of the Federation that have the worst ratio of average per capita income to the subsistence minimum, this indicator steadily declined in 1994-1997. Even in 1997, when production stabilized and there was only a slight decline of investment on average in Russia, the situation became worse in the majority of depressed regions.

The differentiation among the constituent territories of the Federation is increasing, due to different rates of the decline of production. This means that the widening differentiation of regions, with respect to the level of budget revenue, is taking place in the setting of a reduction of the total tax base and, consequently, a reduction of the possibilities for aid to be extended from the federal budget to support the budgets of constituent territories of the Federation. The differences among the regions in the levels at which they are able to fund their budgets are growing greater, due to the more rapid deterioration of this indicator in the poorest jurisdictions of the Federation.

The widening of differentiation among the constituent territories of the Federation, in their levels of social and economic development and the ability to fund their budgets, is compounded by the consequences of the disintegration of the economy and the outflow of capital from the sphere of production into speculation. The resulting shortage of money within the production sphere leads, in turn, to the territorial disintegration of the monetary system. In 1996-1997, over 40% of budget revenues in constituent territories of the Federation were in the form of non-cash offsets. In one-fourth of the consti-

uent territories of the Federation, the share of non-cash offsets in total tax collections is over 60%. In many regions of the country, actual money has in effect been replaced by monetary surrogates, independently issued by the constituent territories of the Federation, without coordination with the Center. The implemented macro-economic policy resulted in their "dropping out" of the unified monetary system, which is what holds the common economic production activity of the country together under market conditions.

Alongside the reduction of federal budget spending in absolute terms, the Government's adaptation to the budget crisis includes the reassignment of budget system spending, especially social spending, to the level of constituent territories of the Federation. There is not, however, any adequate expansion of their tax base—the size of transfers from the federal budget to the regions is actually reduced. The Center compensates for the shortage of budget revenue sources in the constituent territories of the Federation, by granting them broad independence. The regions utilize this freedom to patch the holes in their budgets by attracting foreign credits. This process is in full swing. Over 300 bond issues by constituent territories of the Federation and municipalities have been registered. The volume of bonded debt issues by constituent territories of the Federation was estimated at 24 trillion rubles and \$900 million in 1997. The growth of these loans was 2.7 times in 1997 [37]. Up to 20% of these bonds were purchased by non-residents [38].

The possibilities for constituent territories of the Federation to attract loans are quite limited, however, because they lack sound collateral. Under conditions of an aggravated budget crisis, therefore, the authorities in the constituent territories of the Federation will be compelled to expand the practice of borrowing abroad, collateralizing the loans with the exploitation rights to natural resource deposits. The necessary legal base has already been created for this, in the form of the legislation on production-sharing agreements, which allows natural resource reserves to be turned into a relatively liquid commodity. Some experience is also being acquired in creating regional collateral guarantee funds and utilizing them for purposes of attracting foreign loans.

The accumulation of state debt under conditions of economic depression, moreover, leaves slight chances for it to be repaid on time. Such repayment would require the economic growth rate to be higher than the interest rate on the borrowed funds, or else the

loans ought to be earmarked for investment projects, on which the return will be higher than the interest rate on the loans. As a rule, this is not the case. While issuing their bonds on the international market at 12-16% annual yields, the constituent territories of the Federation spend the acquired funds to finance their current expenditures, patching holes in the regional budgets. In a situation of continuing depression, the moment of inability to pay will inevitably arrive, whereupon procedures to take possession of the natural resource deposits, offered as collateral for the loans, will commence.

Anticipating that events will develop according to this scenario, the world oligarchy is preparing the legal and force infrastructure to ensure its interests, in the event of disputes with Russia. On the legal side of the matter, Russia is compelled to assume obligations on the extension of an international law regimen to the regulation of the economic circulation of Russian natural resource deposits, as a mechanism for production-sharing agreements on the exploitation of these resources is imposed; and, it is being drawn into the Energy Charter, a treaty under which Russia is to renounce all restrictions on the participation of foreign companies in the exploitation and export of its energy resources. On the force side, NATO's approach to Russia's borders and the expanding practice of using the military forces of the alliance to settle political and economic disputes, are elements of the development of a future mechanism to force Russia and the CIS countries to implement the international obligations that have been imposed.

Under the Russian conditions of a crisis-level decline of production, copying the principles of budget federalism that have been adopted in some places or following the tendencies for regionalization of the economies of major countries, which are imposed by transnational capital, leads to a situation in which "the poor get poorer," while the possibilities to even out the standard of living in various regions fade. The differences in the standard of living among regions are becoming qualitative, which intensifies the disintegration tendencies in the country, giving rise to different types of social and political relations in the various constituent territories of the Federation. The unified social space of the country is thus destroyed, as citizens' actual rights and social guarantees differ substantially, depending on the place of residence.

The social structure of the country by territories is assuming typically feudal and colonial features, such as the thriving capital

city that is farther and farther removed from the poverty-stricken countryside in its standard and style of living. Meanwhile, the aspirations of the regional elites to be "at the level of the capital" breed tendencies towards the de facto feudalization of social and economic relations in the depressed regions. Tendencies of political disintegration and growing separatism are more and more distinctly evident, in the wake of the destruction of the coherence of the country's social space.

The results of the policy carried out by the comprador oligarchy are not limited to the loss of Russia's national sovereignty over parts of its territory and key elements of the economic system. No less awful is the establishment of a colonial path of development for Russia over the long term, with the loss of internal sources of economic growth. If events develop according to this scenario, it will be a long time before we are able to restore the previous level of economic activity.

Expanded export of raw materials cannot compensate for the losses from the curtailment of the manufacturing industries and the production of consumer goods. After a decline of industrial production by more than one-half, the orientation of the Russian economy to raw materials export blocks a transition to steady economic growth of over 2% per annum, thus marking the consolidation of the tendency for Russia to lag farther behind in its level of social and economic development [73].

Under contemporary conditions of scientific and technological progress, specialization in the export of natural resources condemns a country to chronic backwardness. Its national wealth is washed away through unequal terms of foreign trade, whereby non-renewable natural rent is used to pay intellectual rent—the price of imported finished goods—thus financing economic growth abroad. The ongoing structural degradation of the Russian economy makes it extremely dependent on the world market conjuncture. The Russian economy is deprived of its main internal source for modern economic growth—the scientific and intellectual potential, embodied in its science-intensive industry.

Medium-term economic forecasts show that a continuation of the policy of the recent period means poverty for more than half the population of the country, for every third Russian—the threat of unemployment and a plunge to the bottom of society, for the

economy—degradation and loss of the main internal sources of growth, and for the State—loss of independence.

In the framework of the macroeconomic policy that was being carried out until the crash of August 17, 1998, there was no basis for a transition to stable economic growth. The semblance of equilibrium, represented by the suppression of inflation, zero growth, and the stabilization of the exchange rate of the ruble, was illusory. As reviewed above, this equilibrium was achieved by means of an artificial ensnarement of hot money in the speculative sector through the build-up of the government debt pyramid. The Central Bank and the Government had to guarantee a high return on investments in the government debt pyramid, in order to maintain it, and to allocate for this purpose the greater part of cash issues and one-third of federal budget spending. By thus supporting the high profitability of speculative operations (no less than 20% per annum in real terms), against a backdrop of the falling profitability (5-7% or lower) and consistently high risk of financing goods-producing enterprises, the Central Bank effectively blocked any flow of capital into the sphere of production and any increase of investment, which were pointless, given such a relationship among economic valuations. The very maintenance of this equilibrium precluded an increase of investment in production and, consequently, sustained economic growth.

As forecast in many analytical memoranda and articles by Russian economists,* the collapse of this "bad" equilibrium took place on August 17, 1998, accompanied by the simultaneous bankruptcy of the State, with respect to domestic debt, and the uncontrolled devaluation of the ruble.

The de facto bankruptcy of the State, with respect to its domestic obligations, had occurred much earlier, but it had been covered over by the furious solicitation of foreign loans and the redistribution

*See, in particular, the author's article "The Central Bank Against the Industry of Russia," in *Voprosy Ekonomiki* (1998, No. 1-2); the report of the Russian Union for Finance and Trade, "Medium-term Scenarios for State and Corporate Policy under Conditions of Self-destruction of the National Financial System and a Return to a Mobilization Model of Development" (1998); the Analytical Bulletin of the Information and Analysis Directorate of the Federation Council staff (1998, No. 13), "Questions of Anti-crisis Policy: Approaches and Proposals"; and others.—Author's note.

of the budget in favor of servicing the state debt, which was manifested in the non-payment of wages for months at a time, non-payment for the defense order, and failure to fulfill other obligations of the Government to the population and domestic producers.

There were two options for the country's continued survival under conditions of state bankruptcy: through new foreign borrowings, or by means of a mobilization of internal reserves.

The Government and the Central Bank, which had encountered the threat of overt bankruptcy already in the spring of 1998, initially took the first option, which was fraught with the danger of losing national sovereignty and dismantling the national security system. The amount of money that was going to have to be obtained, in order to keep the financial situation under control, was no less than \$40 billion by the year 2000. Therefore the loans, which it was decided to issue to Russia (\$12.8 billion, plus promises to convert \$4 billion worth of short-term ruble-denominated securities into long-term dollar-denominated bonds), failed to calm the markets. Quite the reverse—speculators took advantage of the three-week stabilization pause, to withdraw their capital. The entire \$4.8 billion credit, extended by the IMF, was essentially spent to facilitate this process.

The second option, proposed by the Federation Council (FC Resolution No 313, July 10, 1998), proceeded from the necessity of a fundamental change of economic policy, in the direction of raising the level of investment and resuscitating production. This option includes a system of measures to mobilize non-tax budget revenues, at the expense of Central Bank profits, natural gas exports, and alcohol importation and trade, as well as tightened exchange controls, and restructuring of the GKO-OFZ pyramid.

The Government and the Central Bank, having failed with the first option, utilized some elements of the second. They restructured the GKO, devalued the ruble, and placed limitations on the export of capital. These half-baked and belated measures, however, which were implemented after the population had received the most cynical sort of disinformation on a very large scale, were unable to produce the desired effect. In the West, these measures were greeted as the effective bankruptcy of the Russian financial system and the beginning of an uncontrolled devaluation of the ruble. At home, they provoked panic. On the whole, they led to a sharp

increase of capital flight through the numerous loopholes that remained open—first and foremost, in the form of cash dollars, which spurred a further devaluation of the ruble.

Moreover, the measures that were adopted radically worsened the liquidity of the entire financial system, freezing the assets of banks, insurance companies, pension funds, and other companies that were involved in the GKO pyramid. In the absence of any compensatory measures whatsoever, this led to an aggravation of the payments crisis, including an increase of wage arrears, and a deterioration of the financial situation in the sphere of production, which means moving farther away from a money economy, with the attendant reduction of investment and production activity.

Therefore, due to their half-baked and incomplete nature, the adopted measures served only to compound the crisis situation with a surge of panic and lack of confidence. They undermined Russia's credit rating for a long time to come. They made it much more expensive to proceed with the first option. The lost time and the panic that arose also worsened the effectiveness of the second option. There arose an increased probability that events would develop according to an "Indonesian" scenario, with the uncontrolled fall of the national currency, a sharp explosion of prices, deterioration of the standard of living, and growing chaos.

When evaluating possible methods to prevent economic catastrophe, it should be borne in mind that there are no ideal solutions. A choice has to be made between bad and very bad options for resolving the crisis. The most recent option, implemented until the formation of the new Government at the end of September 1998, would cause massive capital flight, hyperinflation, the collapse of Sberbank, the latest wave of devaluation of citizens' savings, and an even greater deterioration of the investment climate in Russia. Or, in the event of securing major foreign loans, very quickly, for purposes of supporting the state debt pyramid, it would lead to a new spiral of foreign debt, the renunciation of national sovereignty in key areas of economic policy, and the de facto colonization of the country.

More attractive is the mobilization option, in combination with measures to revive investment and create conditions for the resuscitation of production and economic growth, which are outlined in the final part of this book.

5 Has the Choice Been Made?

After the state financial bankruptcy of August 1998, the critical moment arrived for choice of a scenario for the country's further development. The first proposals for a scenario came from the governments of Kiriyenko and Chernomyrdin, which followed each other in rapid succession, but were rejected by Parliament and society. Although the Kiriyenko and Chernomyrdin programs were not implemented, they are of undoubted interest as two scenarios for the economic capitulation of the country.

The Kiriyenko Government's Program for Stabilization of the Economy and Finances

First of all, it should be noted that the Kiriyenko Government's anti-crisis program, like the previous general line of economic policy, suffered from the absence of a systemic approach, but emphasized exclusively the solution of problems in the budget and finance sector. The tasks of reviving production were only indirectly reflected in this government program, from the standpoint of their impact on the financial system. Even in the area of financial policy, however, entire major sets of problems and measures were omitted, including ones where huge reserves for improving the financial situation are to be found. For example, the program contained no concrete measures to correct credit and monetary policy, but only stated that "ensuring the stability of the national currency and maintaining the currency policy, which was jointly declared with the Central Bank of Russia, remain among the priority tasks." Against the backdrop of an extremely acute balance of payments crisis,

Table 4 Total budget spending as % of GDP
(Source: International Economic Indicators, 1994)

Country	1970	1985	1994
USA	32	35.3	34
Japan	19	26.9	36
Germany	39	43.4	51
Great Britain	39	44.9	45
France	39	49.4	55
Italy	34	51.9	51.9
Sweden	43	60.8	71
OECD (total)	32	37.6	42

the program made virtually no mention of currency regulation or exchange controls.

The government anti-crisis program's measures to mobilize budget revenue were chiefly oriented to the solution of technical problems, within the framework of the existing system of raising tax revenues. Their scope was clearly insufficient to overcome the budget crisis.

While the anti-crisis plan for revenue mobilization was to have brought the federal budget no more than 10 billion rubles, spending cuts would have exceeded 40 billion rubles on the year. In actuality, judging from its declaration to the IMF, the real intention of the Government was to reduce budget spending by 60 billion rubles (or 12%). No effective measures were proposed, however, forgetting out of the debt crisis, which is the main cause, alongside the deteriorating financial position of goods-producing enterprises, of the more than critical condition of the federal budget.

The first part of this book showed that any further reduction of state spending is fraught with the danger of the self-destruction of the State and the social sphere. Whereas in 1993, consolidated budget spending was 50.8% of GDP, in 1997 it had fallen to 30.1% of GDP, and in the first quarter of 1998—to 25.4%, while GDP itself fell by one-third during this period. In countries with a developed market economy, state spending as a share of GDP averages 40-50% (Table 4).

The new budget policy parameters, instituted by presidential decree in the framework of this "anti-crisis program," established

a federal budget spending level, exclusive of interest payments, of 10% of GDP, which is less than one-half the standard in developed countries, corresponding rather to the level in the underdeveloped nations of Africa. This was done for the sake of mobilizing more than 5% of GDP (or one-third of budget spending) for the purpose of servicing the state debt, which was to have continued to grow.

Presuming even that the Kiriyenko Government were to have succeeded in carrying out such a large-scale reallocation of the federal budget in favor of paying interest to financial speculators, at the cost of liquidating the system of social guarantees and the national security of the State, that would have provided no more than a temporary solution to the problem of the burgeoning debt crisis. Nor did the program contain any measures to prevent an increase of the country's balance of payments deficit. It is not surprising, that the unveiling of this program failed to halt negative tendencies even on the financial markets, but rather heightened the panic among speculators, who took advantage of the three-week stabilization pause, created thanks to the credits extended by the IMF, to exit from the market and export their capital.

The striking disparity between the skimpy content of the official anti-crisis program and the noisy advertising campaign on its behalf, which was accompanied by dramatic extraordinary sessions of the chambers of the Federal Assembly, showed, as did subsequent events, that the main component of the planned anti-crisis measures was located outside the framework of the official program, while the program itself was designed chiefly for display to the international financial organizations and foreign investors. That unstated component was supplemental foreign borrowing of approximately \$20 billion, for purposes of supporting the exchange rate of the ruble and guaranteeing the debt obligations of the State.

These large, new foreign loans constituted the main element of the government program for stabilization of the economy and finances; everything else, including the package of anti-crisis legislation, was just a political show, the purpose of which was to put "psychological pressure" on foreign creditors and disorient public opinion. The purpose of the new loans was to support the GKO-OFZ pyramid, by converting a portion of the short-term domestic bonds into long-term foreign bonds, while offering additional guar-

antees of a fixed exchange rate for the ruble, in order to keep foreign speculators in the Russian government securities market. Thus, instead of eliminating the causes of the state debt and balance of payments crises, the Government planned to continue the line of supporting the GKO-OFZ pyramid at any price; in this case, at the price of future budget revenue or, in other words, future generations. Fortunately, the government bond pyramid collapsed, before these credits were received. Only the first tranche of \$4.8 billion was scattered to the four winds.

It should be noted in this connection, that the Government's feverish efforts to replace domestic debt with foreign debt, which were being pursued outside the framework of the official program, while they were actually its key element, appear to be extremely dubious from the standpoint of legality, not to mention economic wisdom and national security. Although foreign debt may be cheaper, with respect to the yields on the bonds that are placed, it is incomparably more expensive in political terms. It was precisely the redenomination of domestic debt in foreign currency, that set the stage for the inability of the Government of Mexico to avert the collapse of its financial system in 1994.

If the State becomes unable to service its domestic debt, the Government and the Central Bank have a broad arsenal of measures at their disposal, including restructuring the debt, devaluing the national currency, deferred payments, and so forth (some of which were applied in our bankruptcy situation), but in the event of state bankruptcy with respect to the foreign debt, the choice will be made by the IMF and other foreign creditors. They have a different array of measures from which to select—from the attachment of accounts, to Russia's compulsory surrender of its national sovereignty in the areas of trade, land use, control over natural resources, and so forth.

Simple calculations show that the budget expenditures saved, by the substitution of foreign loans for domestic ones, do not fundamentally solve the debt crisis. With the present condition of the federal budget, Russia would scarcely be able to service new borrowings, available at 12% annual interest on the foreign market, given that repayment of the debt of the USSR is not far off, and that sum is greater than the entire, depleted Russian budget. The possibilities for servicing new loans appear even worse, from the standpoint of

the expected dynamics of the balance of payments, which has already gone into the red during 1998. Its negative balance is expected to surpass present Central Bank currency reserves in 1999.

Thus, the main measures on which the Government relied in its anti-crisis policy—the reduction of state spending and the conversion of domestic debt to foreign—were not only unpromising, but also dangerous. Their real effect would be similar to increasing the dosage of a narcotic, which brings temporary relief for the addict, while aggravating the destruction of his organism. These measures would only aggravate the destructive effects of the crisis, slightly deferring its resolution at the cost of unacceptable social and political losses. Essentially, it is not a way out of the crisis, but a way to shift its burden onto the shoulders of the very poorest people and to future spending. Nonetheless, that was the main content of the government program for stabilization of the economy and finances.

Analysis of the "stabilization" measures adopted by the Government suggests that the Kiriyenko Government made its choice, while orienting toward the first scenario for the development of the debt crisis, hoping to avert it by securing large foreign loans. More precisely—to delay it, since Russia was already incapable of paying off new credits: the interest payments would grow more rapidly than the ability to service the debt obligations. The Sword of Damocles of a sovereign default on foreign obligations would hang over Russia forever, as a result of implementation of such a "stabilization" program.

Due to their exclusive orientation toward external financial stabilization, the measures outlined in the government program could not serve as a basis for overcoming the crisis and shifting to economic growth, which is impossible without a revival of production and a substantial increase of investment. By preserving a high rate of return on speculative operations, even after restructuring the domestic debt, against the backdrop of the falling profitability of industrial production and the abiding high risk of financing goods-producing enterprises, the State essentially blocks the flow of capital into the sphere of production. In order for the domestic goods-producer to be competitive, within the equilibrium of economic valuations maintained by the existing policy, he would have to be five times more efficient than foreign companies (because Russian enterprises pay five to seven times higher interest on credit than

do their European or American competitors, twice as much for sources of energy and construction materials, and one and a half times as much for taxes and fees, while simultaneously encountering an extremely adverse economic situation and political instability). This is impossible for the overwhelming majority of our domestic companies, as a consequence of which they are gradually going bankrupt, and are guaranteed to continue to do so, if the existing economic situation were preserved, thanks to new loans for continuing the policy implemented so far. There is no advantage to be had from making investments. Therefore, a transition to economic growth, under the existing macroeconomic situation and structure of economic valuations, is impossible without a cardinal change in economic policy.

The natural result of such a policy would be Russia's default on its foreign obligations, which would only be delayed for a certain period of time, if large enough foreign loans were secured.

That such a result suited the Kiriyenko Government, and the ruling Russian oligarchy behind it, quite well, is evidenced, in particular, by the unilateral obligations assumed by Russia, which were laid out in the last Government and Central Bank declarations to the IMF on economic and structural policy for 1998, dated June 15, 1998 (hereinafter, the first), and on the policy of economic and financial stabilization, dated July 20, 1998 (hereinafter, the second). They significantly enhanced Russia's foreign dependence, while further weakening the condition of the economy [39, 40].

The most substantial of the alarming and astonishing articles of the Government and the Central Bank declarations concerned questions of foreign trade, credit and monetary policy, budget implementation, and the privatization of state property. These documents provided for measures in these key economic policy areas, which contradict not only the Government's own declarations, but also laws that are in force in Russia. They seriously depart from the national interests and from the policy of economic growth, declared by the President.

In the section on foreign trade policy, the first declaration stated: "During 1998, the Government of the Russian Federation intends to build upon the successes that have been achieved in creating a free trade regimen, and to refrain from adopting protectionist measures. The Government of the Russian Federation will not im-

plement any overall increase in import duties and will not institute any restrictions on imports or exports. ... By December 31, 1998, import duties will be lowered to 20% on at least one-third of the products, to which 30% duties currently apply. ..." [39, p. 14]

The Government's promise not to introduce quantitative restrictions on imports and exports meant that the provisions of the federal Law on Measures to Defend the Economic Interests of the Russian Federation in Foreign Commodities Trade, which was recently passed by the Federal Assembly and signed by the President, would not be applied in practice. The Government thereby declined to carry out its legal obligations to defend the sectors of the Russian economy and of individual constituent territories of the Russian Federation, engaged in economic activity, against the unfavorable effects of foreign competition, and to provide conditions for the effective integration of the Russian Federation into the world economy [42].

In the first declaration to the IMF, the Government wrote directly, that it "on the whole, does not intend to introduce quantitative measures, provided for by this law." [39, p. 14] The Government also had no intention of implementing the quantitative limitation standard for alcohol imports, established by another law: "... careful analysis will be undertaken of the licensing system for the importation of vodka and ethyl alcohol, for the purpose of regulating it in such a way, that the right to import is automatically granted, after receipt of advance payment of import duties by the importers." [39, p. 14]

We note that the Law on Measures to Defend the Economic Interests of the Russian Federation in Foreign Commodities Trade fully conforms to World Trade Organization (WTO) rules and the international practice of defending national interests in foreign trade. Virtually all developed countries employ these measures for the defense of their goods-producers against unscrupulous foreign competition. The Russian puppet Government, however, was forbidden to defend the domestic market, despite its monstrous pollution with imported counterfeit goods: "According to the United Nations Food Commission, some Western firms are expanding the production and export to Russia not only of ecologically dangerous food products, but of some that are explicitly outlawed for consumption in the developed countries. Approximately 80% of the food products,

cigarettes, and beverages, imported by us from the countries of North American and Western Europe, come under this category. In 1995, 58% of the imported sausage products and processed meats that were checked failed to meet quality standards, as did 57% of various types of canned food, 36% of the butter, and 55% of alcoholic and non-alcoholic beverages, which was almost twice as high as the levels of sub-standard imports in 1994. Experts estimate that more than 43,000 people died in Russia that year from the consumption of spoiled products. This tendency continued in 1996, when the level of food imports, failing to meet safety standards, nearly doubled again over the 1995 level." [49, pp. 21, 22]

Interestingly enough, the regulation of international trade does not come within the purview of the IMF. It is the domain of a different international organization, the WTO, which is engaged in negotiations on conditions for Russia to join it. The IMF, therefore, is clearly exceeding its competence, which extends chiefly to the domain of financial and budgetary matters, and is, in effect, playing the role of a colonial administration, prescribing arbitrary demands to a puppet government in the interests of international capital.

In its turn the Russian Government behaved like the hired mercenary of a colonial administration, blindly submitting to it and declining to defend national interests. By signing these obligations to the IMF, respecting concessions on customs duties, the Government automatically caused a sharp deterioration of Russia's position in the ongoing negotiations on joining the WTO. In effect, we made concessions before the negotiations even began, without receiving anything in return and having no possibility to correct these mistakes later on.

Credit and monetary policy, like macroeconomic policy, on the whole was to remain unchanged: "Macroeconomic stabilization should be maintained, on the basis of tough budget, taxation, and credit and monetary policies. ..." [39, p. 1] The first declaration went on to state, more precisely, that "the credit and monetary program for 1998 is directed towards a further reduction of the rate of inflation and the accumulation of international reserves by the credit and monetary regulatory agencies." [39, p. 6]

The declaration quite distinctly defined the priority of supporting high-yield financial speculation, to the detriment of productive investment, as the main goal of monetary policy: "The credit and

monetary regulatory organs will direct their policy towards the establishment of interest rates, adequate to support a stable exchange rate for the currency and to raise the level of international reserves. For this purpose, in the event of pressure on the currency market, the Bank of Russia will refrain from compensatory currency-selling measures, which it might employ to support the exchange rate of the ruble, and will ensure conditions, under which a reduction of liquidity will be reflected in an increase of interest rates. At the same time, the Bank of Russia will refrain from interventions on the GKO market, aimed at restricting the rise of yields, and will correct the interest rates on its lending operations in correspondence with market conditions." [39, pp. 6,7]

This obscure phraseology concealed a simple idea: In the event that a devaluation of the ruble is threatened, the Central Bank would raise interest rates, to the detriment of investment in production, in order to lower the risk to non-residents of losing their superprofits from speculation on Russian government debt. The exchange rate was turned into the latest fetish of macroeconomic policy, the main goal of which was now seen as being to support a stable exchange rate.

Evidently in order to prevent any change in credit and monetary policy in the direction of improving the financial condition of the sphere of production, the declarations established exclusively administrative methods of combatting non-payments, which, in the absence of an appropriate expansion of money supplied to the sphere of production, would lead only to an even greater aggravation of the payments crisis and an increased number of insolvent enterprises.

The second declaration contained a detailed list of such methods: a shift to payment of the VAT at the point of delivery of goods, simplification of "the procedure for cutting off or reducing the supply of electricity, heat, and natural gas to organizations and consumers in the event of their failure to pay for fuel and energy resources delivered" [40, p. 10]; liquidation "of the provision in the Law on Bankruptcy, that reorganization of enterprises is preferable to their bankruptcy." [40, p. 10]

There is no doubt that the main effect of applying these methods would be a headlong increase of the number of bankrupt enterprises. It is evidently for purposes of liquidating them, that the

Government in its second declaration stated its intention to grant "tax agencies broad powers to recover the main sum of tax indebtedness, as well as additional penalties and fines, without having to take the matter to court..., and to grant tax agencies the right to recover funds from the bank accounts of tax delinquents." [40, p. 61 In this way, the economic space of Russia was to be cleared for the long-awaited "foreign investors."

In effect, the main priority of monetary policy was to have remained the maintenance of stable conditions for the extraction of superprofits from financial speculation, the main instrument for which was the financial pyramid of GKO, carefully cultivated by the Government and the Central Bank. It was for its maintenance, that it was so important to preserve a stable exchange rate for the ruble at any cost, in order to guarantee the absence of risk for foreign speculators. For the same purpose, the following obligations were assumed in the first declaration: "... neither the Government of the Russian Federation, nor the Bank of Russia will institute or tighten restrictions on payments and transfers for current international operations, institute or change practices with respect to multiple currency exchange rates, conclude bilateral payments agreements, contradicting Article VIII of the IMF 'Articles of Agreement,' or introduce or tighten import restrictions for the purpose of supporting the balance of payments. Before the introduction of any changes in the mechanism for capital controls, consultations will be held with IMF representatives." [39, p. 7]

The purpose of budget policy in both declarations by the Government and the Central Bank came down to three main lines:

- 1) sequestration of the federal budget, which is a flagrant contradiction of the public obligations of the Government on the fulfillment of current obligations, laws in force (including on social policy), and the repayment of debts;

- 2) tightening of tax discipline for major goods-producing enterprises;

- 3) agreement to continue the existing practice of partial appropriation of revenues, belonging to the State (from cash issues and regulation of the money supply—by the leadership of the Central Bank; from the export of natural rent—by the relevant commercial organizations, specializing in raw materials export; and from the alcohol trade—by mafia organizations).

The Government, meanwhile, considered itself freed from all budget obligations, except for obligations to foreign creditors: "Neither the Government of the Russian Federation, nor the Bank of Russia will incur indebtedness on any foreign payments. ..." [39, p. 7]

For all intents and purposes, budget policy remained unchanged, which predetermined a continuation of the budget crisis, while its burden would be shifted onto the sequestration of social spending.

The Government planned no real measures to overcome the debt crisis, virtually the only indicated direction of work being the conversion of short-term domestic bonds into long-term foreign ones, the inadequacies and pitfalls of which were discussed above.

Privatization was seen in the declarations as one of the most important goals of government policy. Among the main measures planned by the Government in this area, the following should be mentioned: reduction of the list of restrictions on the privatization of enterprises of strategic significance for the security of the State, from which it was proposed to remove the enterprises of 20 sectors, including the power industry, civilian science, instrument-building, the chemicals industry, and ferrous metallurgy; ensuring free trade in land; implementation of the privatization of entities for which it was planned, even in the event of the State Duma's failure to confirm the privatization program.

We may note that the connection of these measures with the tasks of economic growth was quite dubious. In any event, of rather greater importance today is the task of effectively managing already privatized enterprises, the situation of the majority of which has not improved since privatization. Why, then, assume such risky obligations? The answer, evidently, was laid out in other provisions of the first declaration: "In order to ensure equal access of foreign and domestic investors to competitive privatization auctions, the Russian Federal Property Fund and the Ministry for State Property of the Russian Federation will ensure the publication in mass media, which enjoy international authority, of an announcement of privatization, at least 40 days before the opening of auctions or tenders for the sale of the shares of joint-stock companies, included in the program, as well as of entities, for which the starting price for bids is established at U.S.\$50 million or more. . .

"The Government of the RF will continue to work on creating

legislative and institutional procedures, designed to attract direct foreign investors by:

"a) applying national rules with respect to foreign investors, in accordance with international practice;

"b) introducing obligatory implementation of the decisions of independent international arbiters, in the settlement of disputes between investors and the State;

"c) reduction of the number of sectors of the economy, in which the participation of foreign investors is restricted, as well as reduction of the restrictions on direct foreign investment in some sectors." [39, pp. 10,11]

That's where the bodies are buried! Careful analysis of these declarations reveals, that the main tasks of economic policy for the Government and Central Bank, contained therein, included:

- minimization of risk for foreign speculators in the extraction of superprofits from the rapidly growing financial pyramid of state debt;
- redistribution of the national income, in order to provide superprofits on the state debt market;
- catering to the interest of importers in averting the introduction of any protective measures whatsoever, respecting access to the domestic Russian market, together with a reduction of import tariffs;
- ensuring the interests of foreign capital in the access to privatized property.

The Government pledged to delegate the accomplishment of this last goal, in order to achieve complete guarantees that the policy for Russia's colonization would be implemented consistently, to certain "financial advisers" (meaning, evidently, influential American banks and financial companies), who would assume the functions of planning and implementing the privatization of state enterprises: "... the Ministry of State Property of the Russian Federation and the Russian Federal Property Fund will conduct a contest and select 9-11 independent financial advisers from the ranks of experienced investment organizations with an international reputation. These advisers will take part:

"a) in the preparation of major Russian enterprises for sale, in-

cluding enterprises listed in the state program for the privatization of state property in the Russian Federation;

b) in the placement of shares of these enterprises on world markets. ...

"The advisers will also conduct audits and appraisals of the enterprises, determine the probable market price of the deals, recommend necessary measures for the structural reorganization (management) of the organizations, which need to be carried out before sale, develop an optimal scheme for privatization, and ensure the approval of applications to bid by all physical and juridical persons and foreign investors, which have this right under Russian legislation." [40, p. 11]

It could not be more plainly stated. The only question that arises, is why Russian taxpayers pay the upkeep for a Government, which not only works according to programs issued from abroad, but even hands them over to foreign executors for implementation? Wouldn't it be cheaper, having acknowledged the obvious fact that foreign administration of economic policy has been instituted in Russia, to refuse to engage in national production altogether, and simply hand these functions over to international organizations?

Thus, the program of the Kiriyenko Government could not be considered an anti-crisis program.

In effect, the actual sense of the declared anti-crisis measures boiled down to granting financial speculators the opportunity to export capital from the country, with the superprofits they had counted on, without the risk of losses from the devaluation of the ruble. Perhaps they would then reimport their capital, after the devaluation, and buying up considerably cheapened domestic assets, as has been done many times in other countries. Further speculation would require new loans, to secure which it would be necessary to confirm the obligations assumed before the IMF.

After adopting this anti-crisis program, the monetary authorities prolonged the semblance of stabilization for one month, at the cost of tremendous losses to the budget and investment, and an increase of foreign borrowing. That time sufficed, apparently, for financial speculators to escape from the GKO pyramid before its crash, dumping devalued GKO upon Sberbank, which traditionally pays for the monetary authorities' experiments with the population's savings.

Ultimately, each person invests the concept of anti-crisis measures with his own choice of meaning. The population and the

regions see them as measures to revive production and bring about an upswing of investment, to prevent the impoverishment of the population and the destruction of the scientific and production capabilities of the country, while for the financial oligarchy, anti-crisis measures are measures to prevent the devaluation of their capital and to preserve their accustomed superhigh revenues. Hence the disagreements on the substance of the anti-crisis program, and on the ways and the cost of averting the collapse of the financial system. The former see that the way out is to halt the policy of pumping capital out of the production and budget spheres, into incomes for financial speculators and abroad; the latter propose to get out of the crisis at the expense of the population and the State.

The collapse of the country's financial system on August 17, 1998 also marked the crash of the Kiriyenko Government's stabilization program, along with the Government itself. V.S. Chernomyrdin returned to replace it for a short period of time, bringing with him an even more radical plan for the economic surrender of Russia.

The Chernomyrdin Plan for "Economic Dictatorship": Capitulation through Self-Liquidation

The content of the Chernomyrdin program was the following.

First stage. Devaluation of debts and savings through hyperinflation, accompanied by a precipitous collapse of the ruble's exchange rate and a steep reduction of the real income and savings of the population. After this, the devalued money supply and a ruble exchange rate would be fixed, with transition to a "currency board" system, in the second stage:

- linkage of the money supply to the volume of Central Bank foreign currency reserves;
- total liberalization of foreign trade;
- renunciation of any state regulation of the economy;
- reliance on attracting foreign investment and credits;
- a sharp reduction of state spending.

As a result of such a policy, Russia would lose its sovereignty with respect to monetary policy, and would place its entire financial

system, including drafting of the budget, under the control of the IMF and the "currency board."

Under such a system, the state totally renounces any revenue from cash issues and all forms whatsoever of financing economic growth. Broadly speaking, in order to finance any domestic production whatsoever, it would be necessary first to export raw materials, in order to obtain foreign currency, because an accumulation of foreign currency would be the allowed basis for issuing rubles; or, to borrow abroad for the purpose of forming currency reserves. Another allowed route would be to sell enterprises to foreigners, so that they would import foreign currency as the basis for issuing rubles to refinance production.

In either case, Russia's position as a global donor to the developed countries would be consolidated—the position of a raw materials appendage and a "milk cow," and a colony of the transnational corporations.

If the Chernomyrdin plan were implemented, the following effects would be anticipated:

- sharp devaluation of the savings and incomes of citizens and enterprises during the planned hyperinflation in the first stage;
- the final destruction of science-intensive and complex manufacturing industries, which would be shut out of their foreign markets;
- an additional contraction of the money supply by a factor of two or three, causing a steep deterioration of the financial situation of production enterprises, their mass bankruptcy, and sale to foreigners;
- degradation of the technological structure of the economy, consolidating its orientation toward raw materials extraction, accompanied by the liquidation of Russia's scientific and technological potential;
- rapid increase of unemployment to the 30-35% level;
- domination of the economy by foreign capital, without an influx of which the development of production would be impossible.

The Chernomyrdin plan, which was drawn up by B. Fyodorov with help from former Argentine Minister of Finance Domingo Cavallo and the support of George Soros, is a pathway to the total

and final colonization of Russia, and its renunciation of sovereignty in the conduct of credit and monetary policy, or of having an independent Central Bank or any effective state regulation whatsoever, while the country's raw materials specialization is confirmed, and there occurs an inevitable impoverishment of two-thirds of the population, 50 million of whom will fall below the survival line.

Fortunately, the ruling circles had enough good sense not to insist on the institution of this program, fraught as it was with the danger of a sharp escalation of social and political tensions. Will it, however, be possible to crush the colonial techniques whereby state power has been exercised, under which the official upper echelon of power in Russia—the President, the Premier, and the Federal Assembly—has mainly carried out the function of ritual declaration of goals, living as captives of their own illusions and the virtual reality of their lawmaking, while the real governance of the country's development has been directed from outside, through the IMF, all kinds of international negotiations and consultations, technical assistance, and direct manipulation of individual influential figures inside the economic agencies of the Russian Government?

That was the secret of the unsinkability of the previous Russian Government, in which the ritual Premier merely performed the puppet functions, with respect to the formation of state economic policy, of signing documents that were prepared under the strict supervision of foreign experts and "delivered" for his most lofty signature by several vice-premiers and ministers, who had been specially trained abroad. Despite the cynical disregard for Russian laws, that was typical for the previous Russian Government, despite its failure to fulfill every officially declared program, including the annual Presidential Messages, and despite the monstrous ruination of industry and agriculture, the degradation of the social sphere, and the direct plundering of state property and the budget on an unprecedented scale, its policy enjoyed steady support from the Group of Seven countries, which made every effort to publicize it as a progressive reform, while its perpetrators were solicitously advanced in the service, despite the catastrophic result of their actions.

There is only one explanation: Against the backdrop of the official Government, which mainly carried out ritual functions, a shadow government was operating in Russia, which implemented the actu-

ally planned macroeconomic policy. Therefore, responsibility could not be assigned for the failure of officially declared goals of social and economic policy, the non-enforcement of laws, and the ruination of the country. The performance of the leaders of the Russian Government was assessed by "the master" according to different criteria—in particular, the criteria set down in the IMF instructions, to which the Russian Government and Central Bank signed on, in the form of their annual declarations on economic policy.

An Anti-Crisis Program

The change of government in September 1998 gives hope for a break with this system of colonial dependence—for it had no objective grounds to exist, and became possible exclusively due to the subjective dependence of the known individuals in the Russian leadership on foreign centers of influence.

One would like to believe, that the new Government will not be a puppet government, but will carry out a policy in the national interests. By the time this book appears, it will be known whether or not that is the case. The prospects for Russia's further development will also be clear.

In October 1998, as this book was going to press, the country had a good chance to break out of the trap of colonization and to embark, at last, onto a trajectory of economic growth.

For this purpose, it is necessary for an anti-crisis program to ensure, first and foremost, a take-off of domestic production, based on the activation of internal reserves. Among the latter, the most significant are:

- idle production capacities (around 60% of industrial capacities) and forcibly unemployed skilled professionals and workers (together with the partially unemployed, this is over 15 million people);
- the export capabilities of state enterprises (above all, natural gas exports);
- monetary issues, which hitherto have been directed by the Central Bank chiefly to support GKO and currency speculation (after the restructuring of the bonds and the price explosion,

the real volume of cash issues declined at least by one-half, which defines an objective necessity for a corresponding increase of the supply of money);

- natural monopolies under state control;
- natural resources deposits, which by right belong to the state.

The crisis destroyed the parasitical and barren economy, which we got as the result of six years of liberal reforms, and dissipated the blind faith on which it was based—the belief that the market, by itself, would solve all problems, and that monetarism was the only possible means for the reform of a national economy. Economic growth was impossible, as long as the mechanisms for the self-destruction of the economic and financial systems were in operation, which were the fruits of an inept economic policy. The collapse of the financial pyramids, which had immobilized a significant part of the national wealth, opens up possibilities for a cardinal change of economic policy.

For all the enormous damage, inflicted by the financial crisis, it gave the Government a unique chance to create the foundations of a civilized market economy for twenty-first-century Russia, in which the creative freedom and entrepreneurial initiative of citizens will be bolstered and defended by an intelligent and well-considered policy of state regulation of economic processes.

In the course of overcoming the crisis, the following concrete tasks must be addressed:

- guaranteed provision of the population's conditions for living;
- correction of price relationships, in order to restore the profitability of industrial and agricultural production;
- raising of the level and share of labor compensation as a portion of GDP;
- restoration of the working capital of goods-producing enterprises by means of targeted regulation of credit and monetary policy, and the linkage of cash issues to the refinancing of production at an acceptable interest rate;
- organization of the process of industrial modernization on the basis of new technologies through a several-times increase of investment, with state support;

- substantial increase (75-80%) of the utilization of the production capacities of industrial and agricultural enterprises, by means of a combination of state purchases, targeted credits for the enterprises' working capital, and measures to defend the market;
- stabilization of the exchange rate of the ruble at a level, corresponding to the requirement of maintaining the competitiveness of at least two-thirds of domestically produced goods;
- reorientation of the banking system to the transformation of savings into investments;
- dedollarization of the banking system and trade, centralization of foreign currency resources, restoration and strengthening of a system of exchange controls, and the creation of a mechanism to protect the domestic economy from the destructive impact of the world financial crisis.

Urgent measures to get out of the economic and financial crisis may be grouped into two sets: 1) measures to stabilize the situation, and 2) measures to revive production and overcome the payments crisis. The following is a short enumeration of such measures, as they were proposed to the Government in the Federation Council recommendations of July 1998.

I. Measures to stabilize the situation

1.1. Ensuring the stability of the ruble:

- centralization of foreign currency reserves, introduction of limitations on the use of foreign currency accounts (possibly, a one-time conversion of all foreign currency accounts of banks and enterprises into rubles; formation of U.S.\$20-30 billion in foreign currency reserves for the country, on that basis; formation of a state fund for critical imports);
- introduction of mandatory sale of exporters' foreign currency earnings to the Central Bank, including for the purpose of forming state foreign currency reserves; tightening of control and reduction of the allowed time for the repatriation of foreign currency earnings from exports;

- establishment of state control over the export operations of enterprises, which export the main raw materials commodities, and concentration of foreign currency earnings in accounts at a few state banks;
- tightening of currency controls with respect to import operations, decisive application of established sanctions for the violation of currency laws, as well as strict enforcement of limitations on the acquisition of foreign currency—exclusively to pay on import contracts;
- reestablishment of limitations on the export of capital, and adoption of measures to limit the import of speculative capital;
- termination of the activity of overt and covert offshore zones on Russian territory, application of sanctions against commercial organizations, which illegally export capital or provide payments and accounting services for operations in offshore zones in Russia; a ban on the opening or maintenance of accounts by offshore banks in Russian commercial banks;
- institution of restrictions on the import of foreign currency in cash according to the standards established for individual persons, while banning juridical persons from such operations, with the exception of the Central Bank;
- an increase in the stability of the structure of the country's foreign currency reserves, their diversification, and renunciation of any linkage of the ruble's exchange rate to the dollar, either during the formation of currency reserves, or in the policy for regulation and determination of the exchange rate;
- temporary fixing of the exchange rate of the ruble at the current market level;
- reestablishment of the export tariff on natural gas exports or institution of a state monopoly on such operations, with the entire foreign currency earnings going into the state currency reserve for the purpose of financing critical imports.

1.2. Regulation of prices:

- a "freeze" on the prices of fuels and energy sources, raw materials, and the products of natural monopolies, until there is a leveling of the cumulative growth rates of these prices with the prices of finished products during recent years;

- institution of a procedure for advance notice of price increases, and strict price controls on necessities;
- severe tightening of antimonopoly trade regulation.

1.3 Overcoming the budget crisis and ensuring conditions for life:

- transfer of all Central Bank profits to the federal budget as revenue, verification of the procedure by which these profits have been obtained, as well as the degree of justification for funds created by the Central Bank that can be attributed to the expenditure or accumulation of resources obtained from commercial activity;
- institution of an actual state monopoly on trade in ethyl alcohol, solutions with an alcoholic content, and other alcoholic products;
- the reinstatement of the use of Central Bank credits to finance cash interruptions in federal budget revenue and spending within a given budget year, and within the established limits for the increase of the monetary base (subject to review of the latter, in accordance with the increased money supply requirements);
- immediate repayment of federal budget indebtedness on wages to employees in the budget sector and defense industry enterprises;
- standardization of budget disbursements in correspondence with the regional differentiation of the subsistence minimum;
- regulation of the rationing system introduced by regions, regulation of regional foreign currency funds (for financing of critical imports);
- conversion to in-kind payments of at least one-half of pensions and benefits, institution of special stores (distribution points) with fixed prices for pensioners, children, and disabled persons (stocked by purchases from the fund for critical imports);
- establishment of limits for the guaranteed supply of heat and energy to goods-producing enterprises, which should be paid for as a matter of state necessity and registered as payment requirements and obligations of the State;
- transfer of all state extrabudgetary funds to the Federal Treasury;

- strengthening of state control over Gazprom, United Energy Systems of Russia, and other natural monopolies.

1.4. Expansion of the system of state purchases, for the purpose of covering in kind the relevant categories of budget spending.

1.5. Nationalization of insolvent enterprises and banks, which are of strategic national economic significance.

1.6. In accounting and payments relationships and in monetary policy:

- restructuring and cancellation of accumulated indebtedness to the state budget;
- introduction of state guarantees for personal bank deposits, which were made in foreign currency and converted to rubles, on condition that the relevant banks use them as a basis for extending credit for the development of the sphere of production and investment;
- a one-time emission of rubles, backed by converted foreign currency from the accounts of banks and enterprises, and control over the utilization of these funds for the priority liquidation of wage arrears;
- implementation of mutual offsets and restructuring of enterprise indebtedness, simultaneous with the creation of a mechanism for the collection of overdue debts from debtors;

1.7. Organization of critical imports by means of creating a state foreign currency reserve, including out of foreign currency profits from the export of natural gas.

II. Measures for the resuscitation of production and investment, and overcoming the payments crisis.

2.1. In the taxation and budget sphere:

- ensuring the implementation of the Development Budget, first and foremost with respect to providing state guarantees for investment credits;
- institution of a system of public works for state infrastructure facilities, with payment in kind;

- implementation of the state investment program;
- termination of delays in the disbursement of budget allocations to pay for purchases of military equipment and to conduct military scientific research, provided for in the federal Law on the 1998 Federal Budget;
- expansion and rationalization of the state purchase system for domestic products;
- abolition of tax sanctions for the sale of commodities below cost.

2.2. In the management of state assets:

- audit of the fulfillment of obligations assumed by investors, who acquired shares of privatized enterprises at investment auctions, with the cancellation of deals where the obligations have not been carried out, and subsequent reprivatization of those enterprises;
- audit of the exploitation of natural resource deposits, with the revocation of licenses for the development of natural resource deposits, in the case of organizations that lack their own or borrowed capital to develop them, and the subsequent issuance of licenses on a competitive basis, with guarantees for the fulfillment of obligations assumed by investors;
- a cardinal increase of the level of responsibility in the management of state assets.

2.3. In credit and monetary policy:

- conversion into securities and organized circulation of defaulted debts;
- introduction of a centralized system for the discounting and rediscounting of Central Bank paper credits, above all for large debt-holding enterprises;
- reorientation of money supply policy to the revitalization of the sphere of production, linkage of cash issues to the replenishment of enterprises' working capital through appropriate targeted commercial bank refinancing;
- techniques for the regulation of monetary circulation should be brought into correspondence with the actual problems of

improving monetary circulation, returning to the use of money in the sphere of production, and resuscitation of investment by the use of such instruments as targeted regulation of monetary flows, including cash issued by the Central Bank on behalf of the State; differentiated reserve requirements, depending on banks' asset operations; extension of state guarantees; utilization of investment accounts, targeted norms, and other instruments, designed to attract and keep money in the sphere of production and to stimulate productive investment;

- adoption of measures to lower interest rates to a level, which permits lending and investment in the development of the sphere of production, and, if necessary, creation of mechanisms to extend preferential credits for the development of production;
- creation of the necessary conditions for the circulation of collateral instruments, including collateralized commodities;
- adoption of mortgage legislation.

2.4. In foreign trade:

- incentives for exports, including a marked expansion of the practice of state guarantees for export credits;
- vigorous application of protective measures, in accordance with the federal Law on Measures to Defend the Economic Interests of the Russian Federation in the Implementation of Foreign Commodities Trade;
- termination of the Government's practice of granting exemptions from payment of import tariffs, including on imported aircraft, other types of equipment produced in Russia, and goods subject to the excise tax;
- tightening of control over the quality of imported products, elimination of the practice of delegating state quality control functions to foreign organizations, and prohibition of any exemptions for importers in this area;
- organization of a centralized supply system for the distribution of critical imports by region.

2.5. It is necessary to move, simultaneously with the short-term economic stabilization program, to an active industrial, scientific and

technological policy, taking advantage of the changes in price relationships and the structure of economic valuations, which resulted from the crisis and are favorable for a reanimation of production.

* * *

A system of necessary anti-crisis measures has been motivated in the works of Russian and foreign economists, as well as in numerous proposals from domestic business circle, for a long time [16, 42, 43, 45]. Such measures were elaborated in the Federation Council's official proposals for an anti-crisis program [46]. They are designed to overcome the gap between the spheres of production and of finance, and to bring about a change of price relationships that favors the manufacturing industries, an increase of demand, an upswing of the competitiveness and efficiency of domestic production, a dramatic revival of investment, the restoration of labor motivation, and the reconstruction of the economy on the basis of the newest technological phase and, consequently—a transition to sustained economic growth and a rise in the population's welfare.

The new Government and Central Bank leadership, formed with the support of the Federal Assembly, have every opportunity to implement such a policy and shift to an economic growth strategy. By the time this book is published, it will already be clear, to what extent they have succeeded in using these possibilities, overcoming the resistance of the financial oligarchy and organized crime.

The problem of the choice among options for the further development of Russia is not a question of scientific discussions around alternative positive programs. It is a profoundly political problem of choosing between colonial dependence and independent development, between comprador and national interests.

Until the financial bankruptcy of the State on August 17, 1998, power was controlled by a comprador oligarchy, which sought to achieve integration into the world oligarchy at the price of subordinating state economic policy to the interests of transnational capital. The nation was deprived of its immunity; accustomed to being united around the institution of the State, the nation could not, upon the destruction of the State and the utilization of the institutions of state power as a means for the self-destruction and colonization of the country, organize itself, and it passively submitted to a policy of genocide.

Russia has not been in such a woeful situation, perhaps, since the time of the Mongol invasion. The great Time of Troubles of the 1917 Revolution and the Civil War are comparable with today's state of affairs in the degree of internal destruction, but they took place under conditions of incomparably weaker and inert outside surroundings. There was neither the scientific and technological progress of today, nor the highly integrated world market. At the close of the twentieth century, the colonization of Russia is being carried out by a powerful world oligarchy, by means of establishing direct control over the key nerve centers of the state organism. Each year of such colonization translates into a three- to five-year increase in the lag behind the developed countries, with respect to the level of technical and economic development, and into the rapid loss of the Russian economy's competitiveness.

In the current situation, it is pointless to reproach the world oligarchy or transnational capital. They are acting for the sake of deriving profits and striving for world supremacy. The New World Order has already been formed, and it is beyond our power to make a fundamental change in it. It would also be impossible to fence ourselves off from the rest of the world, under conditions of the contemporary scientific and technological revolution—that is both economically impossible, and unpromising from the standpoint of national development goals. Economic, scientific and technological, education, and cultural activity occur today on a global scale, and national competitiveness must also be achieved at the level of the world market. More than ever before, excessive isolation under current conditions threatens to lead to backwardness and the loss of comparative advantages.

Consequently, we have to play by somebody else's rules. But we have to learn to play for ourselves, and not kick the ball through our own goalposts. Then it will be possible to win under those rules, as the experience of some once backward, but now flourishing countries does show. It is enough to adhere to a simple principle—state policy measures in all areas should proceed exclusively from the primacy of national interests.

The experience of how countries that today are prospering "played," as well as our own thousand-year experience of building one of the greatest states in the world, show how this may be done. First, each state possesses the instruments to maintain its own

sovereignty, which make it possible to adjust the rules of global competition on its domestic market, in the interests of its citizens and business circles. These rules should be adjusted in such a way, that the attraction of transnational capital into the country not contradict the national interest, but rather promote economic growth. The methods for such adjustment are well known. They include such principles as ensuring national control over natural resources and key sectors of the economy, protection of the domestic market and the interests of domestic goods-producers on foreign markets, the conduct of an active policy of incentives for scientific and technological progress and investment, provision of social guarantees, maintenance of a state monopoly on control over the monetary system, and creation of conditions for raising the competitiveness of the national economy and for economic growth.

Second, each country has its own competitive advantages, which allow it to utilize the developing international division of labor, as well as global competition, to its own advantage. For Russia, these are, first and foremost, our advanced scientific, industrial and intellectual potential, rich natural resources, and a capacious domestic market.

Third, on the basis of national competitive advantages, it is necessary to develop our own global economic entities, capable of competing with transnational capital on the world market, and to utilize the possibilities of that market for ourselves. This requires a state policy of cultivating national leading enterprises, capable of being world leaders—locomotives of national economic growth on the scale of the world economy.

Fourth, a technique must be mastered for pursuing national interests, when dealing with institutions that regulate the world economy, and with power institutions in countries that are important for Russia. The entire experience of Russian diplomacy should be employed in the service of our national interests in relations with the outside world. Today, these interests largely contradict the interests of the world oligarchy. But that does not mean that harsh confrontation is inevitable. Transnational capital does not only carry off national resources; sometimes, it invests. Its policy greatly depends on the conditions and the policy of the country in which it is operating. If a country's government firmly and consistently upholds national interests, provides stability, and defends the interests of

domestic business circles, transnational capital easily adapts to these requirements, and enters into mutually beneficial cooperation with local firms.

Calculations by leading economic institutions in our country show that following these principles, while never failing to defend national interests in economic policy, in combination with an aggressive structural and scientific and technological policy, adoption of special measures to restore the destroyed connection between savings and investment, demand and supply, and labor and income, will make it possible to anticipate the rapid restoration of economic growth of not less than 5% to 7% per annum [16]. This requires, of course, the formation of a government of national confidence, which pursues the national interests, resists pressure from abroad, is capable of countervailing the greed of the ruling oligarchy, and is competent to conduct an effective policy under the existing "almost hopeless" conditions.

Otherwise, our country can look forward to the fate of Africa, where there was also a great civilization at one time. The African model, with its characteristic absence of any independent institutions of sovereign state power, total subordination to the interests of transnational capital of the means of regulating the national economy, the absence of an independent national elite, a country's own independent capital, or any effective social or structural policy, is the one being forcibly installed on the territory of the former Soviet Union.

On behalf of the introduction of that model, there is a total mobilization of all the forces and capabilities of the world oligarchy, in order to eliminate the basis for a restoration of any stable state institutions, and to prevent national interests, as well as independent sources for growth not under foreign control, from being given any institutional form in society. For the same purpose, chaos has been sown in Russia, and endless provocations of political conflict have been organized, along with threats of repression, interminable personnel reshuffles in the Government, and the replacement of the latter by a small group of people, answerable to no one, who arrogated to themselves the right to take state decisions, by means of manipulating the presidential signature and seal through corrupt individuals among his closest associates.

The frenzied zeal, with which internal and external enemies

today are organizing the destruction of Russian statehood and the extirpation of Russian culture, is quite understandable.

First of all, imperial Russia, and the USSR after it, which held an enormous country under their control and, moreover, had a defining impact on the entire world, had been evaluated by the theoreticians of the world oligarchy for a long time, as the main obstacle in the pathway to establishment of a New World Order. Even now, when that obstacle has been removed, their fear of Russia's mysterious ability to be reborn from the ashes is so strong, that the ideologists of the russophobic line in Western political thought hysterically demand the annihilation of Russia.

Secondly, as shown above, the policy of destroying Russia has yielded enormous superprofits. The chaos in the wake of the imposition of "shock therapy" was a real vein of gold for the international adventurers, who descended on Russia in the guise of various consultants to the Russian Government. The instincts of oligarchical speculative capital remain unchanged from a hundred years ago—to stop at nothing in the drive for superprofits, even the threat of nuclear catastrophe.

Thirdly, there is the element of inertial acceleration, well known in criminal psychology, when the burden of already committed crimes compels a mafia group to escalate its activity, counting on staying ahead of the countermeasures of law-enforcement agencies. The anti-Russian policy of the world oligarchy is being greatly fanned by its Russian purveyors, for whom the further weakening, and possibly even liquidation of Russian statehood is the best guarantee for their own security and ability to retain possession of the enormous quantities of wealth, appropriated by seizing control over the institutions of state power. For many of them, the restoration of Russia's real independence will mean a threat not only to their ruling position and the redistribution of property they have carried out to their own advantage, but also, possibly, to their freedom; therefore, they are trying as hard as possible to prevent it. The new geopolitical maps of future global energy systems, lines of transportation, and zones of foreign influence on the territory of Russia, which have been drawn by some foreign intelligence services, suit transnational capital very well, but they also suit the ruling clans in Russia, who serve the interests of transnational

capital, and who see themselves as a component of the world oligarchy, and fear most of all the rebirth of normal state power, oriented toward the national interest.

Unlike in gentlemen's duels, where "one doesn't kick somebody who's lying down," in world politics the weak or the fallen are customarily torn to pieces. Russia's weakness today, and the enormous wealth of the Russian inheritance, whet the appetite and, to a large extent, provoke the anti-Russian tendencies of the world oligarchy. The colonization of Russia turned out to be a very profitable enterprise, undertaken by the Russian leaders at the expense of their own country.

Reviewing the costs and gains from this geopolitical undertaking, the bottom line shows a loss of hundreds of billions of dollars for Russia. This loss comprises capital flight in the amount of approximately \$100 billion, a decline in the national income by one-half, amounting to at least \$100 billion per annum of economic activity lost, the surrender to foreign companies of control over valuable items of state property at understated prices, the lost earnings from which are estimated at no less than \$80 billion, concessions to external political pressure regarding state debts, the imposition of economic sanctions against Russia's traditional trading partners, and so forth, for additional damages of at least \$30 billion. Tens of billions of dollars, lost each year from the brain drain by emigration, should be added.

Russia's losses became corresponding profits for foreign business circles and the world oligarchy as a whole, which gained control of a significant part of the Russian domestic market and financial system, deriving superprofits from speculation on the shares of Russian enterprises, government bonds, and the sale of imported goods for Russian state needs. With the planned incorporation of Russian natural resource deposits into international economic circulation, the profits from the colonization of Russia would increase even more.

This balance of profits and losses from the first post-Soviet five-year period reflects the objective lawfulness of what happened. It is pointless to blame the wolf for eating the sickly sheep. The present-day theoreticians of radical reform in Russia approvingly call it remediation of the national economy. The essence of the

problem lies in the internal ailment of the Russian State, its loss of immunity against tendencies for internal decay, and the betrayal of the national interest by the ruling elite.

If the elite had located its activity in upholding national interests, ensuring conditions for the country's economic might and the welfare of the population, and had relied on national spiritual-intellectual traditions, the world oligarchy would have agreed for transnational capital to be assigned the role of one among several sources of economic growth, as is the case in countries with strong statehood.

The reasons for the present collapse of Russia and its rapid colonization lie not so much in the realm of plots against Russia or "trumps" played by foreign intelligence services, as with the specific role of the oligarchy that rules in Russia, which in its impatient desire to join the world oligarchy, hastens to dismantle its own State, as the main threat to the present position of these temporary office-holders. In order to preserve their superprofits and hold on to their dominant position within Russian society, the ruling oligarchy didn't think twice about dismantling Russian statehood in exchange for defense by the world oligarchy, and even readily resorted to crimes against the people of Russia, carrying out coups d'etat, regardless of the human casualties, the law, or the losses of national wealth.

World experience distinctly demonstrates, how ruinous the rule of a comprador oligarchy is for a country, because it suppresses domestic competition and utilizes national resources to strengthen its position within the world elite. Oligarchical rule means the collapse of statehood, and the subordination of the institutions of state power to the business interests of oligarchical clans. As a consequence, the country experiences economic and spiritual enervation, liquidation of sovereignty, and loss of the ability to defend its national interests, as well as the very content of those interests. States that experience the "charms" of oligarchical rule either lose their sovereignty and disappear from the historical arena, or encounter, during the decades after their liberation, enormous difficulties in overcoming the consequences of oligarchical rule.

The foregoing analysis justifies the conclusion, that the interests and actions of the oligarchy ruling in Russia are contrary to the national interests of Russia. That contradiction cannot be overcome automatically. Transition to a policy in the national interest, for

economic growth and an upswing in the people's welfare, is possible only if state power is liberated from domination by comprador oligarchical clans.

Today, without exaggeration, this may be called a question of life and death for Russian statehood and the Russian people. Either the ruling oligarchy, supported from abroad, crushes Russian statehood once and for all, transforming the country into a territory under the control of international capital and the people of Russia into human raw material for exploitation by transnational corporations, or we succeed in mustering the political will to stop frightening ourselves with a worldwide plot against Russia, wake up from the hypnosis induced by hired political puppets, have confidence in our forces, and achieve the transfer of power to a competent and responsible government, capable of upholding Russia's national interests and ensuring conditions for its economic and spiritual recovery. We would like to believe, that the change of leadership in the Government and the Central Bank in September 1998 will have been the first step on the path to restoration of the national independence of Russia.

Notes for Part II

1. Prime Minister Dr. Mahathir bin Mohamad of Malaysia spoke about this quite frankly, at the autumn 1997 session of the World Bank and the IMF in Hong Kong:

"We had forgotten the experience of Japan and Korea. When these two countries seemed about to catch up with the developed world, things began to happen to them. The yen was yanked up in order to reduce the competitiveness of Japanese goods, while Korea was designated an NIC, a Newly Industrializing Country, which must be stopped in its tracks.

"We had even forgotten the lesson of Mexico, whose economy was suddenly blighted, when foreign funds were suddenly withdrawn. Mexico was forced to borrow \$20 billion in order to tide over and restore its fractured economy. Someone made a packet from this loan.

"And, of course, we in Malaysia had laughed at the suggestion that our country would follow the fate of Mexico. How could that happen, when our economy was so sound? We had practically no foreign debts. Our growth was high, our inflation low. Politically we were stable and socially harmonious. We had put in place, tried and tested strategies for a continuous 30-year growth plan.

"We dismissed the rumor that Malaysia would go the way of Mexico. And indeed it did not. We did not realize how close we were to a manipulated economic crisis. We blithely sailed on. And we were convinced that Mexico, Korea, or Japan and their fates were irrelevant as far as we were concerned. We felt totally insulated against events in other countries.

"But now we know better. We know why it was suggested that Malaysia would go the way of Mexico. We know now that even as Mexico's economic crash was manipulated and made to crash, the economies of other developing countries too can be suddenly manip-

ulated and forced to bow to the great fund managers who have now come to be the people to decide who should prosper and who shouldn't....

"When Malaysia became independent in 1957, the per-capita income of its 5 million people was \$350. By June 1997, after 40 long, hard years of toil and sweat, the per-capita income of its 20 million people was almost \$5,000. After June, you know what happened.

"All along, we had tried to comply with the wishes of the rich and the mighty. We have opened up our markets, including our share and capital markets. On the other hand, most foreign companies operating in our country do not allow local participation. They are not open, but we have not complained. Their profits accrue to their shareholders in their home country. They pay practically no tax.

"We were told that we must allow our money to be traded outside our country. We were told to permit short selling, even to let trading in borrowed shares to be legalized. We must allow for speculation. We did all that we were told to do. But we were told we have not done enough. We were told to slow down our growth. We were told that it could not be sustained, that it would be bad for us, that we would overheat....

"Despite our bitterness over the attempts to push us back by a decade through forced devaluation of our currency, through the rape of our share market, we in Southeast Asia and in Asia are still keen to receive investments from Europe and America.... But we will have to be more circumspect. We still believe there are sincere investors out there. But there are also quite a few rogues who can cause an avalanche, forcing others to run for cover."

(Source: *Ekonomicheskaya gazeta*, No 44, November 1997. Published in English in *Executive Intelligence Review*, Oct. 3, 1997.)

2. Former Chairman of the State Property Committee V.P. Polevanov assessed the price of privatization, as it was carried out under the leadership of A. Chubais:

"... The discovery that stunned me, because of the literally mortal danger it represented for the country, was the total disregard for the national interest, during privatization. Here you had the works: the sale of major strategic manufactures, including in the defense sector, the loss of control over vital processes, and the

conversion of our country into a world ecological dumping ground. It was a fantastic, criminal lack of consideration, which was just unbelievable. But the documents were right in front of me, with official data and the results of audits by competent agencies, all shouting in unison: We are heading for catastrophe! ...

"I found, moreover, that there were thirty-five employees of foreign companies working at the GKI and enjoying full access to our informational data bases. Here is a case for the Guinness Book of Records: In the holy of holies of a State, not only is there no strict control over information leaks, but the doors are simply flung open to foreigners! Naturally, I could not leave this 'achievement of glasnost and democracy' as it was. The representatives of foreign firms had their passes confiscated and they were deprived of free access to the depository of information on Russia's production capacities. Imagine what happened! My modest person had the honor of being dumped upon by leading Western publications, wire services, radio and television. Of course, certain of our Russia press quickly picked up the myth of 'the enemy of reforms' Polevanov."

(Source: V. Kuprenko, *Poriadochnost' i professionalizm*. Moscow: Podvig, 1998, p. 84, 86.)

3. Itogi magazine of Oct. 21, 1997 reported that the Hollywood beau monde (movie stars, directors, producers), beloved by the Russian public and embraced by Moscow bohemians, in 1997 alone "... unleashed on the public three expensive projects at once, aiming right for the solar plexus. There is, and has been more to come. All of them feature big-name stars. One is 'The Saint,' in which 'a Russian nationalist, controlling computer supertechnologies and a pack of killer dogs, destabilizes the situation in Russia, in order to seize power, then takes on Europe.' Then there was 'Air Force One,' in which a group of Russian terrorist fanatics seizes the airplane carrying the family and staff of the American President, and brutalizes the female hostages. Lastly, in 'The Peacekeeper,' 'a Russian nationalist general (who also works as a bandit, connected with our mafia in Europe, and with the Bosnians) steals a dozen warheads,' wipes out an entire guard unit to cover his tracks, and 'organizes the collision of the stolen warheads with a passenger train (lots of casualties) and sets off a nuclear explosion in the middle of Russia.'"

4. "In the autumn of 1775, George III sent a message to Catherine II, asking her to send 20,000 Russian soldiers to help suppress the rebellion in America. The British Ambassador in St. Petersburg was ordered to seek a corresponding agreement. But Catherine, however great her distaste for the rebels, who had risen up against a lawful' monarch, was not about to assist her rival, England. The Russian Empress secretly hoped for England to be defeated, although outwardly she expressed sympathy. Therefore, England's request was declined. Catherine II replied that the dispatch of Russian troops to America 'was beyond the limits of what was possible.'

"England was very sensitive about this failure. They would return again later to the idea of recruiting Russian troops, who were famous for their abilities in combat. The British command would even design a reduced version of the initial draft treaty, still seeking an alliance. The commander-in-chief of English forces in America wrote in June 1777, 'A corps of 10,000 combat-ready Russian soldiers could guarantee Great Britain's military success in the coming campaign.' All the efforts of the English, however, were in vain. Moreover, the Armed Neutrality at sea, proclaimed by Catherine II in 1780, helped those who were delivering military supplies to the American Army, in defiance of threats and persecution by British naval forces. ...

"On the whole, Russia's position during the War of Independence was consistently favorable for the United States. A prolonged process of establishing diplomatic relations lay ahead."

(Source: Istoriiia SShA. V chetyrekh tomakh. Vol. I. 1607-1877. Moscow: Nauka, 1983, pp. 163-64.)

5. It has become normal for the constitutions of the majority of developed countries to contain some reference to international law as a component of domestic legislation. This principle is codified in the Vienna Convention on the Validity of International Treaties. In the Soviet period, the priority of international law was incorporated into the Civil Code. The priority of international obligations over domestic legislation is also expressed in the constitutions of France, Germany, Spain, the USA, Ukraine, and other countries.

The Russian legal system, however, is distinguished by acute defenselessness. In Germany, for example, there is some provision for the Federal Constitutional Court under certain circumstances

to review conflicts that arise between international obligations and domestic laws. The norm established in Article 15 of the Constitution adopted in Russia, however, grants unlimited possibilities to foreign states, and to the Russian agencies of executive and legislative power in the domain of foreign affairs, to change existing Russian legislation. This approach is also confirmed in Article 6 of the Federal Law on International Treaties, which says "the agencies of power of the Russian Federation, in accord with their competence, may agree to accept international treaties as obligatory for the Russian Federation." Thus, executive branch agencies can effect changes in domestic legislation. During the irresponsible, comprador foreign policy of Kozyrev, the vulnerability of Russia's domestic legal system to foreign interference began to assume threatening forms. Weakening the system of state regulation and eliminating any well-considered, nationally-oriented foreign and domestic policy on the part of the Russian authorities, were preconditions for the erosion of national legislation by international law, using the mechanism of Article 15 of the Constitution of the Russian Federation.

6. From the speech of Prosecutor General of the Russian Federation Yu.I. Skuratov at the First All-Russian Practical Scientific Conference on Problems and Prospects for the Development of Russian Federalism:

"... Leaving the question of Russian statehood, and its federative nature in particular, to the whim of treaty-contracting parties, we inevitably replace the force of law with the law of force, subject to no control by society, whereupon the federal center and a given constituent territory of the Federation may say goodbye to any hope for stable Russian statehood....

"Another question ... is the question of constitutional legality in the publication of normative acts by constituent territories of the Federation. The concept of national security... defines constituent territories' adoption of normative legal acts and decisions, if they contradict the Constitution and federal laws, as one of the most dangerous factors, which erode our single legal space. ...

"Unfortunately, we (the Prosecutor General's office included, incidentally) do not yet have a coherent picture of the totality of the violations of federal legislation in the constituent territories of the Russian Federation. The information, possessed by numerous

supervisory agencies, the Main State Law Directorate of the President of the Russian Federation, the Ministry of Justice, and so forth, is not shared.... The process is very far advanced in a number of constituent territories. In just the past two years, prosecutors in the republics, territories, provinces, and autonomous districts have protested (and, subsequently, caused to be repealed) almost two thousand resolutions and laws, adopted by the legislative branch of state power in constituent territories of the Russian Federation, but conflicting with the Constitution of Russia and its federal laws. This is a growing tendency; the situation is deteriorating.

"The main point is that the majority of these acts infringed the constitutional rights of hundreds of thousands of citizens and economic entities, as well as the strategic interests of the State. In some constituent territories of the Federation, there is a marked drive to appropriate powers, which are the exclusive competence of the Russian Federation. This has produced some paradoxes. For example, the Supreme Khural of the Republic of Tyva, in violation of the Constitution of the Russian Federation, arrogated to itself the right to adopt decisions on questions of war and peace. Some constituent territories of the Federation consider that they have the right to regulate procedures for the formation of territorial militias and other units, and to supervise their movements and activity. In some republics, the presidents have arrogated to themselves the unilateral right to declare a state of emergency.

"Legislative bodies in the constituent territories of the Federation have adopted many laws, which give different definitions of the legal status of the individual in various areas of public life. These relate to the legal immunity of elected representatives, business activity, the registration of private housing, and so forth. There are abundant instances of illegal taxes and revenue collection, bans on the export of commodities, and the abolishment or termination of privileges for various categories of citizens."

(Source: Pervaia Vserossiiskaia nauchno-prakticheskaia konferentsiia "Problemy i perspektivy razvitiia rossiiskogo federalizma." Moscow: Izdanie Soveta Federatsii, 1998, pp. 86-89.)

A Strategy for Economic Growth on the Threshold of the 21st Century

The concluding part of this book presents the results of research into the present condition of the country's economy and the existing and possible directions of its evolution, in the context of global long-term development tendencies, taking into account the laws of contemporary economic growth. The expected long-term effects of a continuation of the economic policy implemented to date are analyzed, along with the associated tendencies of structural change, and a set of alternative proposals for the formation of economic policy is motivated. These proposals take into account the existing condition of the Russian economy, the need to overcome the imbalances and barriers that are typical of a transitional period, and the activation of existing competitive advantages to provide conditions for the country's sustained social and economic development.

1 Global Economic Growth Tendencies

Contemporary economic growth is characterized by scientific and technological progress and the intellectualization of the basic factors of production. In developed countries, 70-85% of the growth of GDP is due to new knowledge, which is embodied in technologies, equipment, personnel training, and the organization of production. The introduction of new technologies has become a key factor in market competition, and is the main means of increasing the efficiency of production and improving the quality of goods and services. This is the basis for achieving a sustained tendency for the per-unit cheapening of the various features of products for consumption, which makes it possible to raise the general welfare and improve the quality of life in developed countries. Innovations are a necessary condition for success in competition, enabling vanguard firms to achieve superprofits by means of monopolistic appropriation of the intellectual rent, which is formed in the process of developing new products and technologies.

Another important feature of contemporary economic growth is the shift to a continuous process of innovation in management practice. An increasing portion of investment spending goes into R&D,* on which science-intensive sectors spend more than they do on the acquisition of equipment and on construction. There is a simultaneous increase of the importance of state scientific and

*Russian "Scientific Research and Experimental Design Development" (NIOKR) stands for the same types of work as English "Research and Development" (R&D).—Translator's note.

technological, innovation, and education policy, which determines the overall conditions for scientific and technological progress. Spending on science constantly rises, approaching 3% of GDP in developed countries. The State's share in this spending comprises 35-50% on average [51]. The intensity of R&D largely determines the level of economic development today. Those countries prevail in global economic competition, which provide favorable conditions for scientific research and scientific and technological progress.

The great significance of state incentives for scientific and technological progress, for ensuring contemporary economic growth, is due to the objective properties of innovation processes: high risk, dependence on the degree of development of the overall scientific environment and the information infrastructure, the significant capital-intensity of scientific research, requirements for the training of personnel, and the need for legal protection of intellectual property. Therefore, a given firm's success in global competition is directly linked with the state policy for science and technology, in the country where it is based. Among the 500 most successful companies, active in world markets, 203 are American, 109 are Japanese, and only two are Russian [52].

The key importance of scientific and technological progress for contemporary economic growth, requires that the lawful characteristics of global technological and economic development be considered during national economic policy planning. In particular, one lawful characteristic of contemporary economic growth is its unevenness, which arises from the periodic process of the succession of coherent complexes of interrelated manufactures—technological phases. In the course of each of the structural crises of the world economy, which accompany the replacement of successive dominant technological phases, new possibilities for economic growth emerge. The countries that were world economic leaders in the preceding period experience a devaluation of their capital and a decline of the relative skill levels of people employed in sectors of the obsolescent technological phase, while countries that have succeeded in doing work in anticipation of the formation of the technological and production systems of the new technological phase become centers of attraction for capital, freed from the obsolescent manufactures. On each occasion, the change of dominant technological phases has been accompanied by major shifts in the

international division of labor, and a redefinition of the roster of the most thriving countries (Tables 5, 6).

Today's dominant technological phase began to take shape as a coherent reproductive system in the 1950s and 1960s, and has been the technological basis of economic growth since the structural crisis of the 1970s. The nucleus of this technological phase is micro-electronics, software, computer hardware and information-processing technologies, production of automation systems, and satellite and fiber-optics communications.

The development of this technological phase has been accompanied by corresponding shifts in energy consumption (an increase of natural gas consumption), transportation systems (an increase of air freight), and construction materials production (increased manufacture of composite materials with pre-specified properties). There has been a shift to new principles for the organization of production: a continuous innovation process, flexible automation, individualization of demand, organization of material and technical supply according to the "just-in-time" principle, and new types of public consumption and life-style. The latter are characterized by changes in values and consumer preferences in favor of education, information services, quality of diet, and a healthy environment—a substitution of quality of life reference-points for the stereotypes of "the consumer society."

The theory of long-term economic and technological development indicates that the limit of sustainable growth for the presently dominant (contemporary) technological phase will be reached in the second decade of the next century. By that time the reproductive system of the next technological phase will have been formed, which is already taking shape today. Its most probable key factors will be: biotechnologies, artificial intelligence systems, global information networks, and integrated high-speed transportation systems. The flexible automation of production will be further developed, as will space technologies, the production of construction materials with pre-specified properties, and nuclear power; the growth of natural gas consumption will be supplemented by the expanded use of hydrogen as an ecologically clean fuel. There will be an even greater intellectualization of production, and a shift to a continuous innovation process in most sectors and to continuing education in the majority of professions. Progress in information-processing

Table 5 Chronology and characteristics of technological phases [54]

		Numerically designated technological phases				
		1	2	3	4	5
Period of dominance		1770-1830	1830-1880	1880-1930	1930-1980	1980-1990 to 2030-2040 (?)
Technological leaders		Great Britain, France, Belgium	Great Britain, France, Belgium, Germany, USA	Germany, USA, Great Britain, France, Belgium, Switzerland, the Netherlands	USA, Western Europe, USSR, Canada, Australia, Japan, Sweden, Switzerland	Japan, USA, European Community, Sweden
Advanced countries		German states, the Netherlands	Italy, the Netherlands, Switzerland, Austria-Hungary, Russia	Russia, Italy, Denmark, Austria-Hungary, Canada, Japan, Spain, Sweden	USSR, Brazil, Mexico, China, Taiwan, India	Brazil, Mexico, Argentina, Venezuela, China, India, Indonesia, Turkey, Eastern Europe, Canada, Australia, Taiwan, Korea, <i>Russia and CIS—?</i>
Nucleus of the technological phase		Textile industry, machine-building for textiles, iron smelting and processing, construction of canals, water power	Steam engine, railroad construction and transport, steam-powered machine-building, coal-mining, machinery for flax-processing textiles industry, ferrous metallurgy	Electrical equipment and heavy machine-building, steel production and processing, electric transmission lines, inorganic chemical industry	Automobile and tractor-building industry, non-ferrous metallurgy, durable goods production, synthetic materials, organic chemistry, petroleum extraction and refining	Electronics industry, computers, fiber-optics technology, software, telecommunications, robotization, natural gas extraction and processing, information services

Key factor	Textile machinery	Steam-engine, machine-tools	Electric engine, steel	Internal combustion engine, petrochemicals	Microelectronic components
Incipient nucleus of the new phase	Steam engine, machine-building	Steel, electric power, heavy machine-building, inorganic chemistry	Automobile industry, organic chemistry, petroleum extraction and refining, non-ferrous metallurgy, highway construction	Radar, pipeline construction, aircraft industry, natural gas extraction and processing	Biotechnologies, space technologies, fine chemistry
Technological advantages by comparison with the preceding technological phase	Mechanization and concentration of production in factories	Increased scale and concentration of production on the basis of the steam engine	Increased flexibility of production on the basis of the electric engine, standardization of production, urbanization	Mass and serial production	Individualization of production and consumption, increased flexibility of production, elimination of ecological limits on energy and materials consumption on the basis of automated control systems, deurbanization on the basis of telecommunications technologies

Table 6 Institutional structures in technological phases [54]

		Numerically designated technological phases				
		1	2	3	4	5
Type of economic regulation in the leader countries	Destruction of feudal monopolies, limitation of trade unions, free trade	Free trade, limitation of state intervention, emergence of trade unions by sector, creation of social legislation	Expanded institutions of state regulation, state ownership of natural monopolies and basic infrastructure, including in the social sector	Development of state social welfare institutions, and the military-industrial complex; Keynesian state economic regulation	State regulation of strategic types of information and communications infrastructure, changes in regulation of financial institutions and capital markets, with a reduced state role in the economy; decline of the trade union movement; possible emergence of a participatory centralized state	State regulation of strategic types of information and communications infrastructure, changes in regulation of financial institutions and capital markets, with a reduced state role in the economy; decline of the trade union movement; possible emergence of a participatory centralized state
	Type of international economic regulation	British dominance in international trade and finance	Political, financial, and trade dominance by Great Britain; international free trade	Imperialism and colonization; end of British dominance	Bipolar world with economic and military dominance of the USA and the USSR	Polycentric world economic system, regional blocs, establishment of institutions for global economic regulation

Main economic institutions

Competition among individual entrepreneurs and small companies, their association into partnerships, making possible the cooperation of individual capital

Concentration of production in large organizations, development of joint-stock companies, making possible the concentration of capital on principles of limited responsibility

Mergers of firms, concentration of production in cartels and trusts, dominance of monopolies and oligopolies, concentration of financial capital in the banking system, separation of management from ownership

Transnational corporations, oligopolies on the world market, vertical integration and concentration of production, divisional hierarchical control and domination of the structure of technology in organizations

International integration of small and medium-sized companies on the basis of information technologies, integration of production and marketing, "just-in-time" system for supplies

Organization of innovation activity in the leader countries

Organized scientific research in national academies and scientific societies, and local scientific and engineering societies; individual enterprise and partnerships in the areas of engineering and invention; professional training both on the production site and away from it

Creation of scientific research institutes, accelerated development and internationalization of professional education, establishment of national and international systems for the protection of intellectual property

Creation of scientific research divisions within firms, recruitment to industry of university-educated scientists and engineers, national institutes and laboratories, universal primary education

Specialized scientific research divisions in most firms, state subsidies for military scientific research and testing work, state involvement in civilian R&D, development of secondary, higher, and professional education, technology transfer through licensing and investments by transnational corporations

Horizontal integration of R&D, planning of production and training, computer networks and joint research, state support for new technologies, cooperation between universities and industry, new property rules for software products and biotechnologies

technologies, telecommunications systems, and financial technologies will bring about further globalization of the economy and the formation of unified world markets for commodities, capital, and labor.

As the new technological phase comes into existence, the comparative advantages will take shape, which will define geopolitical competition in the mid-twenty-first century. Among the main determining factors for national competitive advantages will be the population's education level and health care, the development of science, the information environment, the provision, with state guidance, of conditions for discovering the creative abilities of each individual, a clean environment and high quality of life, and a higher than average rate of development of the key technological and production systems of the new technological phase.

The significance of scientific and technological progress and the ability to develop new technologies will become even greater in geopolitical competition. The role of the human factor and the organization of creative labor will increase. Countries that are unable to ensure the necessary levels of education for the population and development of science and a high quality of information environment, will be doomed to unequal terms of foreign trade and profound dependence on foreign centers of finance and information; they will retain chiefly the functions of sources of raw materials and "human material" for transnational corporations and the developed countries, where global intellectual potential will be concentrated.

Global competition will occur not so much among countries, as among transnational reproductive systems, each of which will group national systems of education of the population, accumulation of capital, and the organization of science, as well as commercial production structures, which function on a world market scale. Several such systems, closely interconnected and determining global economic development, will shape the world economy.

Four such transnational systems have been formed to date: the North American free trade zone (NAFTA), the European Community, Japan, and China. Until recently, the USSR could be numbered among them. Today, the CIS countries that came into being after the breakup of the Soviet Union, including Russia, have a very unfavorable outlook. Other probable contenders for a role as independent global economic development systems during the next

century are Korea, Brazil, India, and Indonesia. The competition of these systems will be accompanied by their collaboration and cooperation, and the concentration of intellectual and economic activity.

The intellectualization of labor will be the main factor in global competition. A fifteen-year period of education in and mastery of contemporary information technologies will be needed for full-fledged life and work in the twenty-first century. Countries that are unable to guarantee these conditions for the majority of their citizens will be isolated from global economic growth by a widening rift in the standard and quality of life, the population's education, and in intellectual potential, and risk disappearing forever from the ranks of independent actors in the world economic space.

2 The Economic Situation in Russia

2.1. The Macroeconomic Situation

As has been shown, the current situation of the Russian economy is characterized by an unprecedented decline of production and economic activity, a five-fold drop of productive capital investment, and the disintegration of the economy and of monetary circulation (Figs. 26, 27). Studies by leading economists have shown that these tendencies resulted, to a decisive degree, from the macroeconomic policy that was carried out, which caused the rupture of the main reproductive processes and economic ties. The failure to take into account the structural peculiarities of the Russian economy, in the hope that market self-organization mechanisms would work automatically, provoked economic disintegration and the buildup of chaos. Attempts to apply traditional methods of macroeconomic stabilization for a situation of market equilibrium, by restricting the money supply, were unable to yield adequate results in a situation of serious disequilibrium. In the setting of the Russian economy's characteristic imbalances, the application of these methods inevitably caused its breakup into autonomously functioning sectors, each of which strives to achieve its own equilibrium state.

The economic space of the country broke into two loosely connected spheres. The first was the sphere of the circulation of capital, characterized by superhigh profits, the very rapid circulation of money, and relatively low risk. The second was the sphere of production, characterized by low profitability, a low velocity of monetary circulation, high risk because of the undefined state of property relations, the decline of demand, and a generally unfavorable market conjuncture.

The sphere of production, in turn, subdivided into an export-

FIGURE 26

Industrial production, 1991-1998 and forecast for 1999

(Index: 1991=100)

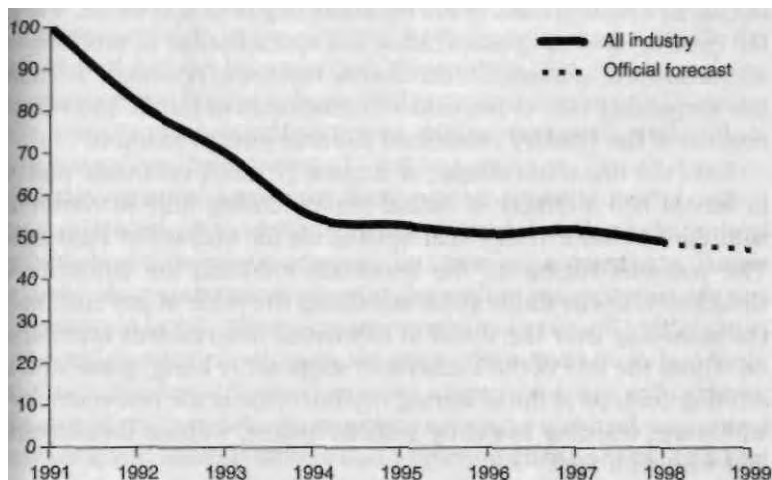
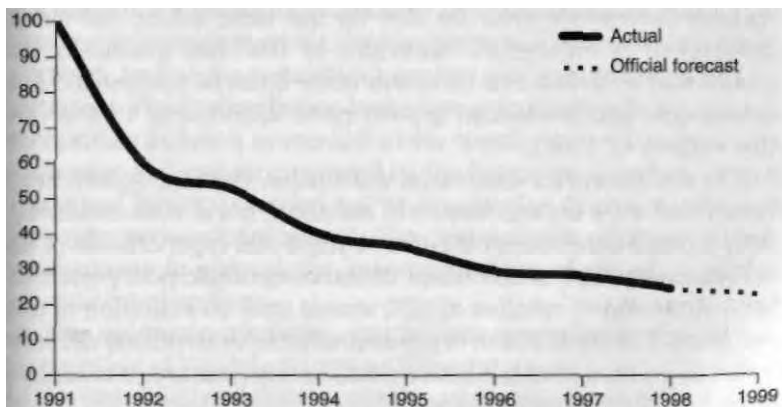


FIGURE 27

Capital investment, 1991-1998 and forecast for 1999

(Index: 1991 =100)



oriented raw materials sector, in which relative stability was maintained by means of reorientation to foreign markets, and the rest of the economy, oriented toward the domestic market and characterized by insolvency and extremely low profitability. Moreover, the territorial disintegration of the economy began to accelerate, when the existing system of cooperation and specialization of production was destroyed, as a result of the chaotic rupture of economic ties and the surpassing rate of increase of transportation tariffs. Individual regions of the country reoriented towards foreign markets.

Until the financial collapse of August 17, 1998, economic policy in Russia had a quality of virtual reality, having little in common with the economic reality that defines life for millions of Russians. The passions raging on the securities markets, the authorities' thunderous declarations about stabilizing the ruble at any cost, and the agonizing over the mood of capricious non-resident investors, on whom the fate of the Fatherland supposedly hung, presented a striking contrast to the flickering rhythm of life in the real economy, which was learning to get by without money, without investment, and without a State.

Real capital and fictitious capital, which reflects its value, moved in opposite directions. The wild growth of the price of shares of privatized companies during 1996-1997 was combined, in a most astonishing fashion, with a no less steep deterioration of their financial position (in 1997, the total capitalization of the market for securities of enterprises increased 3.5 times over, while the profitability of the firms fell by more than one-half, and the percentage of loss-making enterprises grew by 5%). By the same token, the steep devaluation of enterprises' securities in 1998 had practically no connection with their real condition (their financial position did not deteriorate, and production growth rates stabilized at 1.3% in the first quarter of 1998).

The situation at the macrolevel was similar. Yields on government bonds that were unprecedented in the entire world were combined with a pitiful condition of the state budget and rapid erosion of its revenue base. The achievement of macroeconomic policy goals in 1997 (lowering of inflation to 11%, almost total liberalization of the economy, and privatization of goods-producing enterprises) not only failed to lead to economic growth, but, on the contrary, was accompanied by a 5% reduction of investment.

The social space of the country was divided in two, along with the economy. Big business and the monetary authorities, who service its interests, lived in a world of securities quotations, foreign loans, and the privatization of state property, in which mad money was whipping around, which didn't have to be earned, and the incomes available to be obtained were incommensurate with the effort that had to be expended. Meanwhile, the people and the production and budget spheres that provide them the conditions for life, were vegetating without wages, without prospects, and without understanding the meaning of what was going on. The first sphere had the attractive force of a profit rate on invested capital, which was unprecedented in the world and exceeded the benchmarks established in the world economy by an order of magnitude. Russia was called a country of miracles (or, depending on one's point of view, a country of fools), where a fortune could be increased tens of times over within a couple of years, or even, given good luck, hundreds of times. The second sphere exerted a repulsive force, with gloomy images of provincial Russia as a place of hungry children, despairing mothers, and skilled workers and engineers gone to seed. The first picture sparkled with bright display windows, while the second bore witness that Russia had become a land of social calamity.

It is commonly understood that an economy is a closed system. If production is not increasing, but there is a concentration of income and wealth in some location, it means that income and wealth are reduced in the rest of the economy. In our situation, the superprofits in the financial speculation sector were formed and could grow on the bases of the redistribution of state property through spontaneous voucher privatization, of the state budget through the GKO financial pyramid, and of the population's savings through private financial pyramids. This redistribution took place at an extremely fast tempo, comprising as much as one-half of the country's accumulation fund each year, and was accompanied by the formation of huge financial "bubbles," which expanded not by the creation of new wealth, but through every conceivable way of appropriating it, utilizing various mechanisms to support the superprofitability of state-guaranteed speculative operations.

The economic regulation mechanism created in 1994-1997 is reminiscent of a childhood game of blowing soap bubbles. By means of the state budget and state property management, resources from

the sphere of production and the population's savings are "blown up," transformed into financial "pyramids," which then pop, leaving only heavy memories about the latest year that has been lost as an opportunity for growth, and impressive images of the life of the new ruling elite. Yet the public consciousness, stupefied as it was, rejoiced over the pretty mirage of macroeconomic stabilization and the furious growth of the financial markets, even against the backdrop of the spasmodic collapse of investment, the ruination of goods-producing enterprises, and the impoverishment of the population. This mechanism for the self-destruction of the country's financial system, evidently without precedent in economic history, also destroyed the reproductive processes, and brought about a tremendous outflow of capital from the sphere of production, and the disintegration of the economy.

The disintegration of the economy resulted from a number of cause and effect processes, which may be called contours, determined by the economic policy that was carried out.

Contour 1: dismantling of the money economy, and the payments crisis. The shift of the money supply into speculation, due to the extremely high returns available (maintained, in succession, by financial pyramids, speculation in the shares of privatized enterprises, and speculation on currency and government bonds) and the suppression of inflation by means of restricting the money supply, caused the real sector of the economy to be stripped of money and, consequently, brought about the payments crisis and the budget crisis.

Contour 2: collapse of demand and reduction of production. Cost inflation, which has determined inflationary processes until very recently, reached its extreme point with the establishment of price relationships that are highly unfavorable for the sphere of production. The rise of prices for raw materials were tens of times greater than price increases on finished goods, while price ratios for the manufacturing industries and agriculture deteriorated. There was a transition to an entirely new structure of economic valuations, whereby it became a loss-making proposition to produce a great portion of finished goods with high value added.

The chain of cause and effect, typical of cost inflation and leading

to the decline of production, is associated with the objective imbalances in the Russian economy, which manifested themselves immediately after the decontrol of prices. The process was reflected in upward pressure on prices from the highly monopolized sectors. In this situation, the rise of raw materials prices caused an increase of costs in the manufacturing industries, which, in turn, led to a decline of the competitiveness of domestic manufactures, and their displacement by imported goods. The results were a decline of production, the increase of costs, the deterioration of the financial situation of enterprises in the real sector of the economy, and the lowering of wages. Consequently: a reduction of demand, collapse of production, and so on (Figs. 28, 29).

The pernicious effects of cost inflation on the competitiveness of the manufacturing industries were amplified many times over by the policy of artificially restraining the fall of the ruble's exchange rate. This factor alone caused a more than eightfold decrease in the competitiveness of Russian goods, which were driven out of the market by analogous imports (Figs. 30, 31).

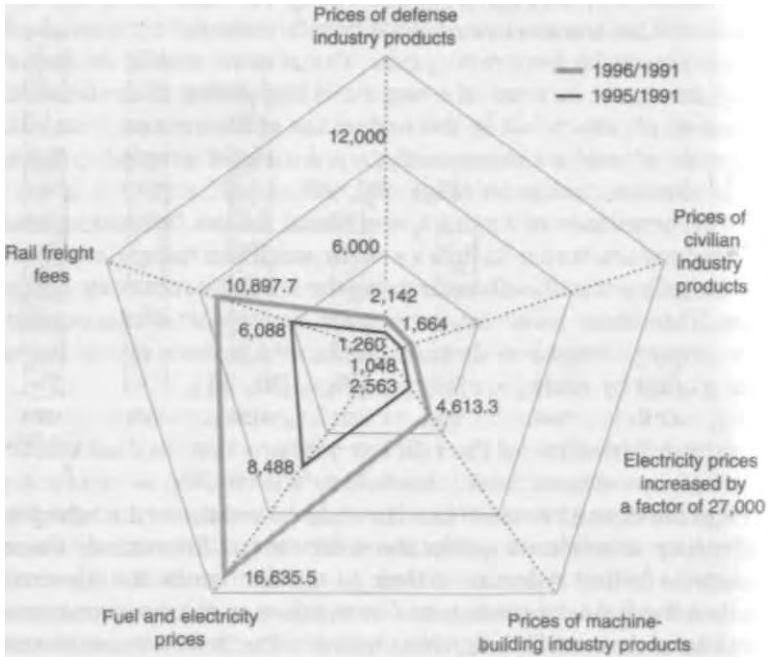
Contour 3: decline of the efficiency of production, and reduction of investment and innovation. The decline of production brings about an increase of fixed costs and a reduction of production efficiency, which leads to a decline of the competitiveness of Russian goods, to further reduction of their production, and to the deterioration of the financial condition of enterprises in the real sector and decline of their profitability. In combination with the rise of interest rates on credit, resulting from the liquidity crisis, this encourages capital flight and the draining of funds out of the real sector, which are accompanied by a steep reduction of investment. In the wake of the reduction of productive investment, there is a decline of innovation activity.

The huge gap between the return on operations in the speculation and the production sectors impedes investment and innovation in the sphere of production. This gap was formed, on the one hand, by the contraction of the real money supply and the consequent rise of money market interest rates many times over, and, on the other, by falling profitability in the sphere of production. Directors of bankrupted goods-producing enterprises preferred to sink their free capital into the high-return, low-risk sphere of speculation,

FIGURE 28

Relative price changes in basic sectors of physical production, 1995-1996

(number of times greater than 1991 prices)



Source: A.N. Shulnov

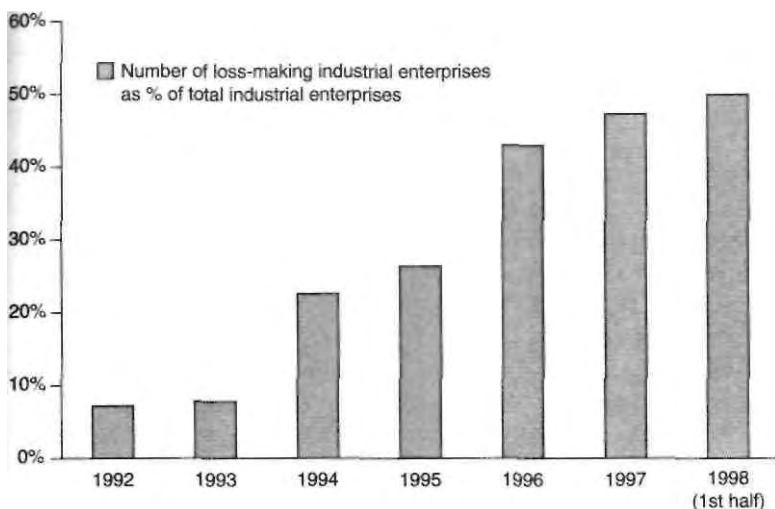
making no efforts to raise the sharply reduced competitiveness of manufactures, by means of investment in risky innovations.

The normal motives of market behavior, which orient entrepreneurs towards increasing the efficiency of production and preserving accumulated wealth by means of new investment in raising the competitiveness of their companies, work under conditions of relative equilibrium. If there is a sudden and almost instantaneous multiple decline in the competitiveness of manufactures, for reasons beyond the control of the enterprises, with a corresponding devalua-

tion of the capital invested there, the natural impulse of the entrepre-

FIGURE 29

Loss-making industrial enterprises [9,76,77]



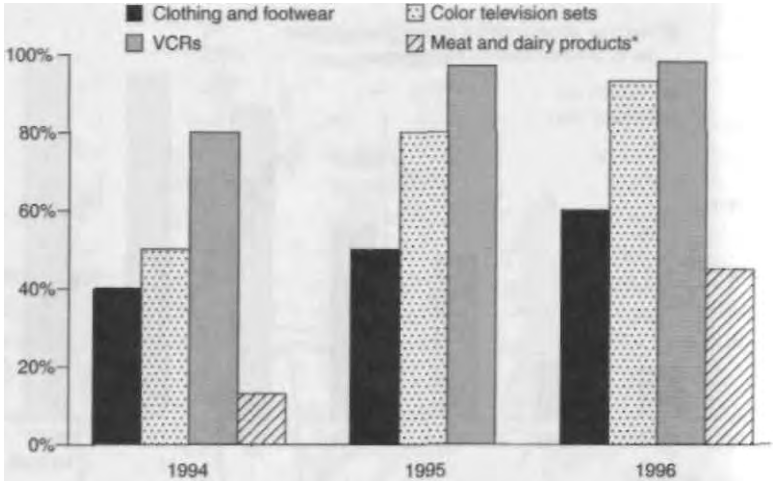
neur is to save at least part of the wealth under his control. Therefore, the natural reaction of Russian entrepreneurs and directors to the abrupt deterioration of the economic conjuncture, for reasons beyond their control, was not to invest in the development of new technologies, but to pull capital out of production and transfer it into the many times more lucrative and reliable speculative sector.

Contour 4: criminalization of the economy, growth of the illegal ("shadow") sector. The reorientation of entrepreneurial activity from production to speculative operations, as well as the struggle for the acquisition of the national wealth and state property, which resulted from the methods selected for carrying out the decontrol of prices and privatization of state property, were accompanied by the criminalization of economic relations and the corruption of the state apparatus. With the existence of a tremendous gap between the returns on speculative operations and on production, which differed by factors of hundreds or even thousands, the energies of

FIGURE 30

Share of imports in domestic consumption

(selected products—percent)



* 1995 data not available

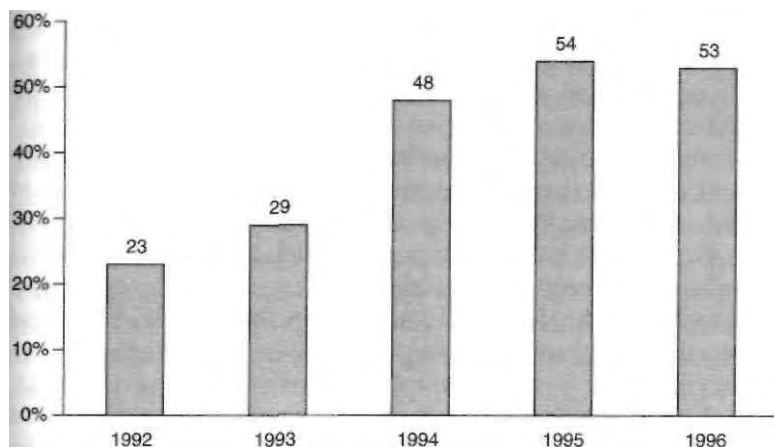
enterprising people were diverted to the acquisition of sources of superprofits in the speculative sector.

The highest-return types of activity became those connected with the privatization of state property, the establishment of organized monopolies in trade, and the emission of monetary surrogates. In a market economy, all of these types of activity are under strict state regulation and control. The relevant state regulatory functions for the economy, however, were paralyzed by the corruption and incompetence, which gripped the state apparatus after its dominant positions were seized by oligarchical clans, as a result of the coup d'etat and shelling of the Parliament in the autumn of 1993.

The oligarchy's quashing of state regulatory functions with respect to property, trade regulation, and control over monetary emission gave it unique opportunities for the appropriation of superhigh revenues. At the same time, this phenomenon led to the criminaliza-

FIGURE 31

Share of imported products in consumer goods trade, 1992-1996



tion of these types of activity, impeded important elements of market competition, and provoked a reduction of investment and an acute budget crisis.

Thus, the criminalization of trade and the establishment of organized monopolies in trade made the goods distribution network almost impassable for Russian goods-producers. Up to two-thirds of the value produced in the sphere of production was appropriated through multilevel intermediary monopolies, operated by organized criminal groups with close ties to official agencies. Consumers had to pay up to 100% more than the real price of commodities, while the superhigh revenue from these sales went to maintain these organized monopolies.

The devaluation of citizens' savings, through the large-scale financial machinations of the people who set up the financial pyramid schemes, has already been mentioned. It resulted in the population's loss of confidence in securities in general, a sharp increase in the dollarization of the economy, and the blockage of the economic growth mechanism of transforming the population's savings into productive investments.

The intense criminalization of the process of the mass privatization of state property and the orientation of its participants toward speculative superhigh incomes, undermined the motivation for ownership of the means of production, which plays a key role in promoting economic activity in a market economy. The organizers of the privatization campaign, and their commercial partners, oriented toward speculative superhigh revenue from the resale of the obviously undervalued shares of enterprises, rather than toward the effective utilization of privatized means of production.

A few years after completion of the mass privatization campaign, chaos continues to reign in property relations. Up to two-thirds of major and medium-sized enterprises lack a responsible owner [54]. The abrupt rupture of economic ties, which took place during the privatization campaign, brought about a rapid increase of transaction costs and the destruction of complex forms of scientific and production cooperation, shutting down the production of high-technology products in an unfavorable macroeconomic environment. The chaotic and undefined state of the microeconomic environment provokes a rise of corruption among economic managers and destroys the basic mechanisms of the organization of labor and production.

These processes led to serious infringement of the most profound motivational mechanisms of productive activity. The connection between conscientious labor, training levels, and the social significance of labor, on the one hand, and size of wages, level of welfare, and social status, on the other, was broken. Meanwhile, the criminalization of economic relations, corruption, acute stratification of the population, and the flow of public wealth to benefit the organizers of financial pyramids and the privatization of state property, all served to consolidate destructive stereotypes of entrepreneurial behavior, which was oriented toward the appropriation of earlier created wealth, rather than constructive activity.

The basic concepts of the value of human creative activity were destroyed. The rapid enrichment of thieves, swindlers, members of organized crime groups, and the corrupt segment of officialdom, as well as speculators, against a backdrop of the impoverishment of the overwhelming majority of those employed in socially useful productive labor, demoralized society. People lost their bearings

in an abruptly altered life environment, ceased to distinguish the fundamental concepts of good and evil, and lost their incentives for honest labor and for raising the level of their culture and training.

The criminalization of the privatization campaign, the securities markets, and trade, determined a high share of illegal operations in the speculative sector. In the setting of the radical redistribution of incomes and economic activity in its favor, and the decline of the sphere of production to a subordinate position, this led to a rapid growth of the shadow sector in the economy as a whole, reaching a level of one-fourth of all economic activity. This, in turn, brought about a rapid decline of state budget revenue and an even greater weakening of the state, as a result of the budget crisis.

These negative cause-and-effect relationships resulted from a combination of the processes of the fall of production, reduction of the population's incomes, and decline of investment and innovation, which collectively formed the self-reproducing mechanism of the economic crisis.

With the end of the high rate of inflation and the slowing of the production slump in 1997, our court economists started talking about macroeconomic stabilization and a transition to economic growth. The structure of economic valuations, however, which in a market economy determines the direction of resource flows, was characterized by a price ratio for raw materials and finished products that was highly unfavorable for domestic goods-producers. In addition, the devaluation of the ruble many times over, deeply undermined the competitiveness of Russian industry. Under conditions of continuing depression in the sphere of production and the reduction of investment, the appearance of stabilization in the economy was maintained by artificially tying up "hot monies" in the speculative sphere, through the build-up of the government debt pyramid. By maintaining high returns on speculative operations (approximately 30% per annum, in real terms), however, in the setting of the declining profitability (7%) and abiding high risk of financing goods-producing enterprises, the State blocked any influx of capital into the sphere of production. It became unprofitable to invest, and the profound disintegration of the economy went on. Not surprisingly, contrary to the expectations of the Government, investment continued to decline, despite the reduction of inflation. After having

declined by a factor of four in 1992-1996, investment fell another 5% in 1997, and in the first half of 1998, the decline continued at an annual rate of 7%.

A semblance of equilibrium was achieved in 1997, which could not be sustained and was maintained by a further buildup of foreign borrowing, i.e. at the expense of future revenue. This is patently evident from the relationship of the following parameters, characterizing the equilibrium state (the data are given in real terms, corrected for inflation):

• government bond yields	30-40%
• Central Bank refinancing rate	30-40%
• interest rates on commercial credit	40-60%
• profitability in the sphere of production	5-7%
• capacity utilization in industry	around 40%
• unemployment (including implicit)	10-15%
• inflation	around 10%

This equilibrium state was maintained, until the crash of the GKO-OFZ financial pyramid, by the following monetary streams (in redenominated rubles).

Circulation of capital in GKO speculation. The monthly influx of funds to service the GKO pyramid, a sum of 30-40 billion rubles, was provided chiefly by new borrowing, which predetermined an avalanche-style growth of the GKO pyramid at the rate of 1.3-1.5 times each year.

Maintenance of the GKO pyramid by means of cash issues.

The increase of the money supply was mainly directed into the acquisition of foreign currency for purposes of servicing foreign speculators' investments in the state debt pyramid, the direct acquisition of government bonds by the Central Bank, or the refinancing of commercial banks with government bonds as collateral.

Maintenance of the GKO pyramid by means of an influx of foreign capital. Non-residents' share in the total government bond portfolio reached approximately 30%, or on the order of \$20 billion. The Central Bank ensured the conversion of foreign capital into

the GKO pyramid by issuing rubles for the acquisition of foreign currency.

Direct outflow of capital from the sphere of production into financial speculation. In four years (1993-1996), the real volume of the money supply (M2) declined by almost one-half, while balances in enterprises' accounts fell by a factor of five.

Shift of money out of the sphere of production and citizens' income, into the GKO pyramid through the federal budget.

Average monthly budget spending to service the domestic state debt was 3.5 billion rubles, against average tax collections of 16-18 billion rubles. At the point the limit of growth of the GKO pyramid and the outflow of speculative capital abroad was reached, budget spending to support them had reached 3.5-4 billion rubles per week.

Compensation for the flow of money out of the sphere of production, by means of mutual offsets and non-payments. A monthly increase of defaulted debt by 4.2 billion rubles (or 2% of GDP), and the increase of tax arrears owed to the federal budget.

Outflow of the population's savings into the GKO pyramid through Sberbank. Government bonds made up the largest share of Sberbank's assets, meaning that the greater part of citizens' ruble-denominated savings was locked into the GKO pyramid.

It is obvious that the longer such an equilibrium state were maintained, the more the condition of the sphere of production, and investment, would deteriorate. The 6% decline of investment and 1.5 times increase in defaulted debt, the 30% increase of losses in the sphere of production (by 103.7 billion rubles in 1997, compared with the preceding year), and the insolvency of 60% of goods-producing enterprises are the obvious cost of maintaining that equilibrium state. To maintain the equilibrium in 1998 required the increase of debt obligations by more than 110 billion rubles, as well as direct federal budget spending to service the state debt, in the amount of 124.1 billion rubles. These sums were confirmed in the Law on the 1998 Federal Budget. It is not surprising, that the equilibrium was blown to pieces by the excessive internal strain on the economic system.

The acute disparity between the existing interrelationship of economic valuations and the technological and production structure of the economy made it unrealistic to shift to economic growth, in the framework of the macroeconomic policy being carried out. It predetermined a further increase of unemployment and decline of the standard of living. The continuation of that policy deepened the indicated disparity, in tandem with bringing about a further deterioration of the financial condition of the sphere of production, an aggravation of the disintegration of the economy, and the loss of possibilities to attract investment in the restructuring of the economy on a new technological basis.

The collapse of the financial pyramid of government bonds destroyed the existing equilibrium state on the financial markets and in the economic system. Depending on what measures are adopted, the next interrelationship of economic valuations may be more or less favorable for a revival of production and economic growth. The devaluation of the ruble and reduction of yields on the restructured GKO somewhat improved the situation of domestic producers. At the same time, the decline in the population's income, the insolvency of many commercial banks, and the upward flight of interest rates have worsened the possibilities to expand production. Under these conditions, the balance of positive and negative changes, associated with the economic system's transition to a new state after the collapse of the financial pyramid of government bonds, depends on the economic policy of the State. On the one hand, the crisis creates a chance to move to a new economic equilibrium state, favorable for economic growth. On the other, the crisis could develop into a new, deeper phase of destruction of the productive forces. The choice of one of these two trajectories of further development for the country will depend, to a decisive degree, on the ability of the Government and the Central Bank to organize the proper anti-crisis policy.

2.2. Structural Changes

The Russian economy's structural imbalances are invoked quite often to explain the reasons for the steep decline of production

during radical liberalization of the economy. Even official economic programs treat this argument as a self-evident fact [55], referring to the significant portion of goods produced, for which "there is no market demand," and the disparity between the structure of demand for commodities and their supply, as well as their low level of competitiveness, and so forth. Calculations made by the Institute of National Economic Forecasting of the Russian Academy of Sciences, however, fail to bear out this thesis: Even in the absence of fundamental innovations to reform the economy, the decline of production in 1991-1994 would not have exceeded 1-4% per annum [56].

There is no doubt that serious structural imbalances do exist, which came into existence during the years when the national economy was managed by directive, and they hinder the economic development of the country. They cannot, however, be reduced to an imbalance of supply and demand or to the problem of low competitiveness of domestic products, by comparison with analogous imported goods, but are rather embedded in the lawful characteristics of how the technological and institutional structure of an economy managed by directive is reproduced, as a result of which there emerged a technologically multi-phase economy that increasingly lagged behind in technology.

Unlike a market economy, where the succession of technological phases is accompanied by a redistribution of resources from the reproductive contours of the old technological phase into the expansion of the new one and by modernization of productive capacities on a new technological basis, in an economy managed by directive, new technological phases came into being simultaneously with the preservation of the previous ones, which were backed up by the relevant production and organizational systems. The result was the peculiar situation that the national economy had a self-reproducing multi-phase character, which brought about the buildup of technological imbalances and a retardation of progressive technological shifts and overall economic growth rates [53].

Pre-revolutionary Russia was already technologically multi-phase, a characteristic that took shape in the course of the country's extremely rapid industrialization at the end of the last and beginning of the current century [57]. The subsequent national reindustrializa-

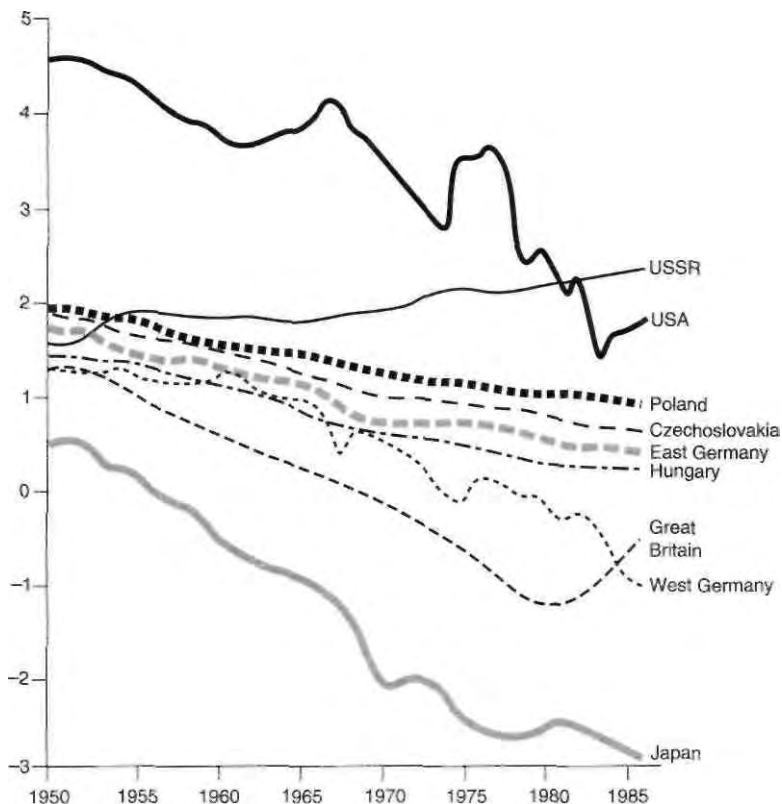
tion in the 1930s was organized chiefly on the basis of technologies of the third technological phase, which had already reached its limits of growth in the developed countries. The rapid expansion of manufactures from the fourth technological phase commenced only at the beginning of the 1940s, in connection with the necessary upswing of the defense industry. The reconstruction of the national economy after the war, however, was oriented toward reproduction of the previous technological structure. Only at the end of the 1950s, was the line of bringing the fourth technological phase into existence resumed, by means of national economic programs for the development of the chemicals industry.

The fifth (contemporary) technological phase began to come into existence in the USSR virtually simultaneously with the developed capitalist countries. The development of its component manufactures, however, occurred in tandem with the continuing expanded reproduction of the fourth and third technological phases and was mainly oriented toward the requirements of the military-industrial complex. The fact that the greater part of resources were locked into the expanding contours of the third and fourth technological phases retarded the development of the fifth. Its expansion took place, within the limits of centralized allocation of increases of economic resources, extremely slowly in comparison with the developed countries, being mainly limited to the military-industrial complex (Figs. 32-34).

The accumulation of structural imbalances, due to the reproduction of the national economy's multi-phase character, predetermined the retardation of the USSR's economic growth and the stagnation of the living standard in the 1980s (Fig. 35). Several attempts to reform the management of the national economy were made, in order to overcome these tendencies. The stability of the production and organizational structures, however, ensured a continuation of the inertial distribution of resources, according to the contours of the existing technological phases, and blocked attempts at structural reorganization of the economy. To a great extent, this set the stage for the radicalization of economic reform in 1991-1992. The reorientation of economic reform to political goals, which accompanied that shift, obscured the challenges of a structural reorganization of the economy. With the liberalization of the economy, in the absence of economic equilibrium points and of any guiding influence

FIGURE 32

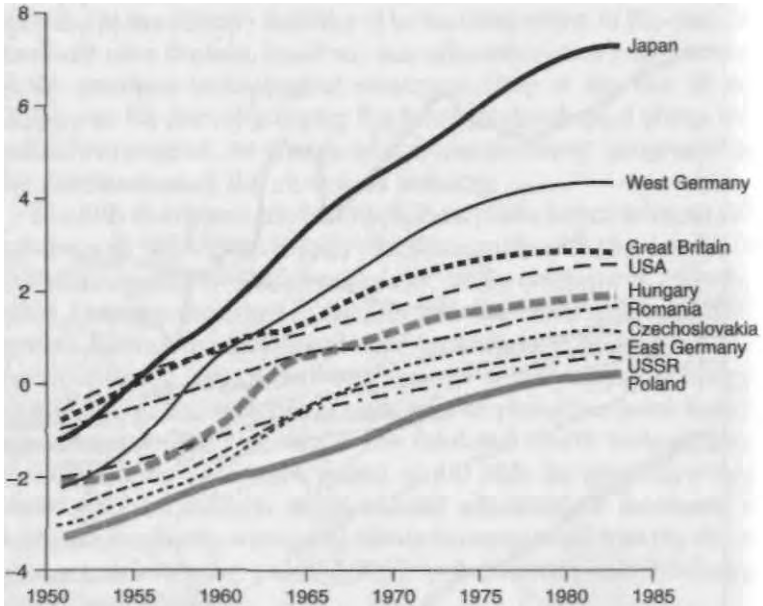
Generalized index of relative growth of the third technological phase



Note. The generalized index of the growth of technological phases shown here and in other graphs (Figs. 32-36) was calculated by analysis of more than 50 dynamic series of initial indications of relevant changes in various spheres of the economy (the structure of consumption of fuels, construction materials, consumer goods, freight transport, the production of relevant products and use of technologies, and so forth), using the main components method. Indicators of relative growth reflect an increase in the share (weight) of the given technological phase in the structure of the economy of different countries (see [54] for more detail).

FIGURE 33

Generalized index of relative growth of the fourth technological phase



whatsoever on the part of the State, there was a spontaneous destruction of the reproductive contours of all existing technological phases, accompanied by a breakup of the technological chains and existing cooperation ties that comprised them.

Beginning in 1992, an abrupt turning point can be measured in the tendency of gradual growth of the fourth technological phase, with a precipitous collapse of its development indicators. During 1990 to 1994, the Russian economy "slid" to the level of 1974 (i.e., 20 years backwards), with respect to the level of development of the fourth technological phase. According to other estimates [58], the share of manufactures belonging to the fourth technological phase in 1990-1995 fell by between 52% and 42% in the output of industrial products, between 38% and 27% in the agriculture com-

FIGURE 34
Generalized index of relative growth of the fifth
technological phase

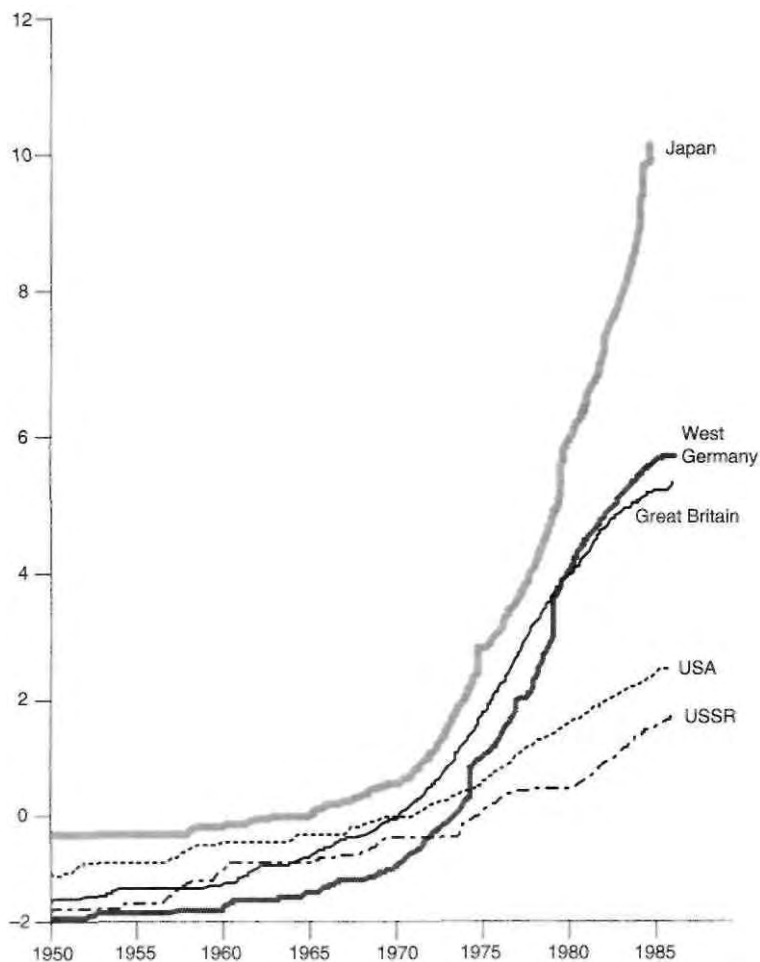
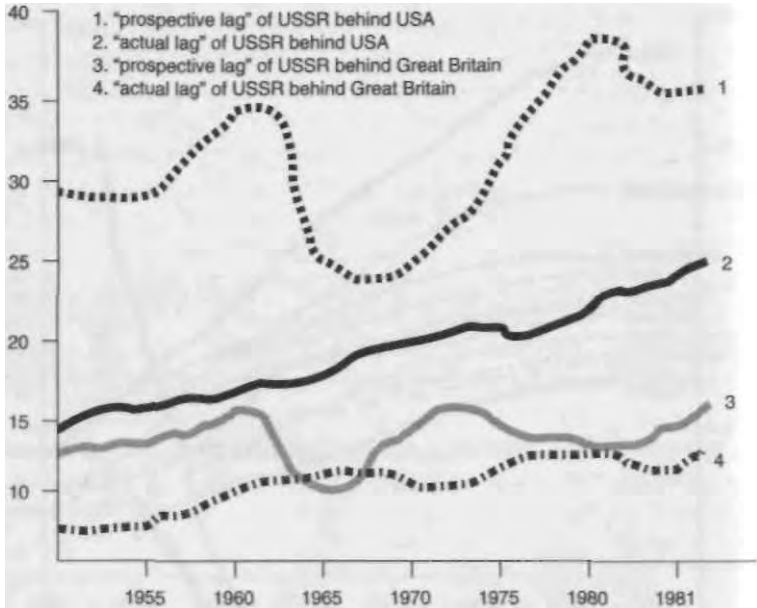


FIGURE 35

Time displacement of the generalized index of technical-economic development



Note. The generalized index of technical-economic development was calculated by analysis, using the main components method, of a set of 50 initial indications, reflecting the basic economic development tendencies in various sectors of the economy and the national economic complexes of ten countries, including the U.S.S.R., East European countries (CMEA), and leading members of the Group of Seven. The "actual lag" indicator was calculated as the number of years that had passed since the time the reference level of technical-economic development corresponded to a given current level in the U.S.S.R. The "prospective lag" indicator is equal to the number of years it would take for the U.S.S.R. to achieve a given current status of the reference level of technical-economic development, based on an extrapolation of current tendencies at the time of forecast.

plex, between 50% and 42% in construction, and between 62% and 58% in transport.

The lag in development of the fifth technological phase steeply increased. Its growth curve (Fig. 36) shows that the level of development of manufactures belonging to the fifth technological phase was much higher in Russia than on average in the USSR in 1990,

FIGURE 36a

Growth of the fifth technological phase in selected countries (absolute magnitude)

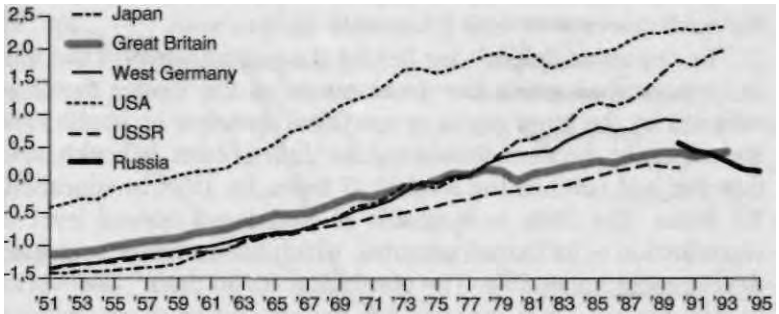
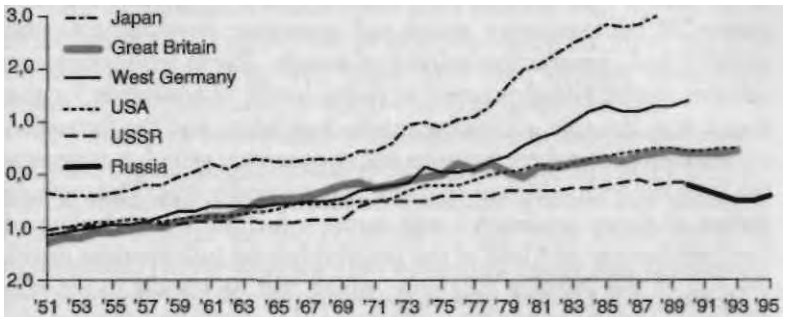


FIGURE 36b

Growth of the fifth technological phase in selected countries (relative to GDP)



but in 1995, it had fallen to the 1990 level of the USSR. According to other estimates [58], the share in gross industrial output of output belonging to the fifth technological phase fell by a factor of three (from 6% to 2%) between 1990 and 1995. At the end of that period, it comprised only 8% in machine-building, as against 20% at the outset, and in the production of industrial products for the population, 1% as against 4%. The reduction during this period of the

relative weight of manufactures belonging to the fifth technological phase, within the structure of the economy, is equivalent to a fifteen-year slide backwards. Our lag behind the developed countries increased many times over, since the 1990s have witnessed their swift dash ahead in the development of the fifth technological phase and the modernization of their economies on that basis.

The degree of Russia's lag behind the requirements of the fifth technological phase in the development of the human factor is revealed by the huge gap in proportional spending on health care and education, between Russia and the United States. In health care, that gap had reached the level of 17 times, by 1995; in education, 7.7 times. The State is incapable of ensuring a normal level of reproduction of its human potential, which makes future sustained development impossible. The continuing "brain drain" also works in this direction. It is expressed in the emigration of several tens of thousands of scientists and professionals each year, inflicting upon the country \$50 billion of economic damage, according to estimates done by United Nations methodology.

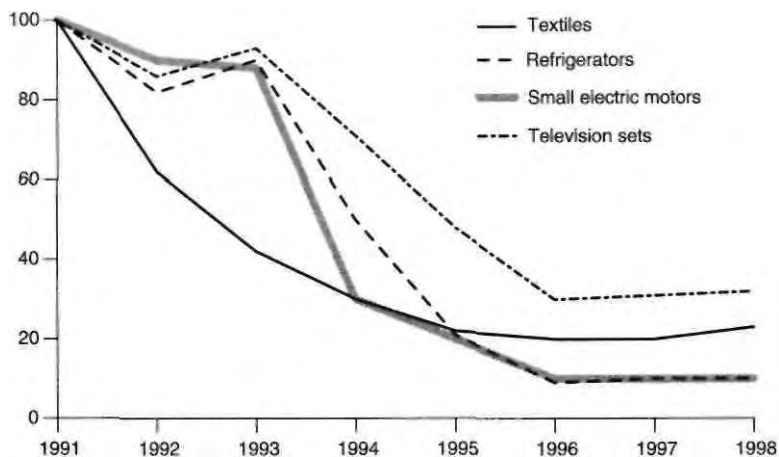
The tendencies observed in Russia, for a massive devaluation of human capital and degradation of human potential, undermine the main source of scientific and technological progress and, that means, of contemporary social and economic development—the intellect and constructive activity of people. These tendencies run counter to the global process of rising levels of education for the population, the role of creative intellectual labor, and the formation of relations of social partnership and cooperation, which is inseparable from the technological changes that are under way. The consolidation of these tendencies will mean a further steep decline of competitiveness and loss of the possibilities for independent development of the Russian economy, which will be unable to provide the level of labor productivity, education of people, and quality of life, necessary for the contemporary and the next technological phases.

The technological shifts in Russia's economy in 1991-1998 were distinctly regressive in nature, which led during these six years to the rapid degradation of the technological structure of the economy. The most serious regression gripped the most advanced types of manufacture, and was reflected in the country's "backsliding" by 10-25 years in the level of their development. The majority of manufactures of finished goods, completing the reproductive contour of

FIGURE 37

Production of selected commodities, 1991-1998

(Index 1991=100)



the fifth technological phase, have been virtually shut down—their reduction greatly exceeds the production slump for other types of finished products (Fig. 37). They have been virtually completely driven out of the domestic market by analogous imports.

The headlong destruction of manufactures belonging to the contemporary technological phase means the destruction of the technological foundations for sustained economic growth and makes it extremely difficult for the economy to exit from a state of deep depression. Theory tells us, that economic crises and depression are overcome by the introduction of new technologies, creating new opportunities for production, the development of which ensures a transition to economic growth. As a rule, the reduction of economic activity during a structural crisis does not lead to a shutdown of progressive manufactures belonging to the new technological phase, which possess high growth potential and are capable of becoming locomotives for the future economic development of the country.

Under conditions of general economic depression, growth is usually observed in the production of fundamentally new products,

and an upswing of investment and innovation takes place in promising directions. Capital flows from obsolete manufactures into new ones, so that it becomes more risky to invest in existing areas, than in innovations [59]. In the normal course of things, an economic crisis has an invigorating impact on the technological and production structure of the national economy, culling out obsolete and inefficient manufactures, eliminating imbalances, and clearing the ground for economic growth on a contemporary technological basis.

Thus the present condition of the Russian economy is distinguished from a classic depression, which is characterized by heightened innovation activity and "creative destruction" [60] of the existing technological phase, its modernization on the basis of expansion of the new technological phase, and—by this means—the increased efficiency and expanded variety of production, which creates new possibilities for economic growth. In Russia, by contrast, the slump of production in the high-technology sectors was higher than the average for industry. An anomalous tendency was observed: the rates of decline of production are greater in sectors with a higher technological level (Table 7). Spending on R&D was reduced by a factor of more than eight, and now comprises only 0.7% of GDP (Fig. 38).

Enterprises' innovation activity has declined steeply. In the USSR at the end of the 1980s, around 70% of industrial enterprises were engaged in the development and introduction of innovations, but in 1992-1996 this portion fell to 22.4% (in developed countries this indicator is usually above 70%) [61]. The indicators of the economy's overall efficiency substantially declined: labor productivity by one-third and the energy-intensity of production by the same magnitude. The contemporary depression of the Russian economy presents an obvious pathology, characterized by the chaotic collapse of the economic system, its degradation and decay.

The disintegration of the Russian economy and the breakup of once coherent reproductive contours into autonomous elements, partially integrated into foreign reproductive contours, have long-term negative consequences. The loss of reproductive integrity, the destruction of the basic elements of scientific and industrial potential, the steep reduction of the scale of scientific research and development, and the domination of the economy by external reproductive processes, signify not only the loss of economic inde-

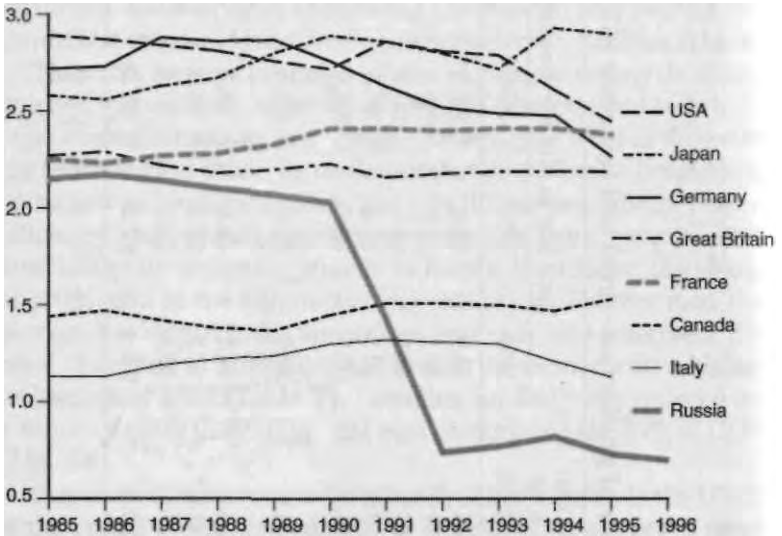
Table 7 Index of industrial production—total and by sector [67]

Sector of industry	July 1997 as % of Jan. 1990	Each July as % of the preceding December				
		1993	1994	1995	1996	1997
Fuel and energy complex	65.7	94.9	92.0	100.5	98.7	102.0
Ferrous metallurgy	52.9	88.8	97.8	106.1	96.2	102.2
Non-ferrous metallurgy	85.3	98.6	98.9	107.6	99.6	105.2
Machine-building	29.0	92.8	85.2	85.3	101.0	103.6
Chemicals and petrochemicals industries	44.1	93.5	83.6	102.4	96.3	103.6
Timber, wood-processing, and paper industries	34.8	86.9	85.2	110.1	79.6	109.0
Construction materials industry	26.2	94.2	80.1	98.7	84.9	103.2
Food industry	41.9	94.3	87.3	92.3	92.6	117.0
Light industry	11.6	95.9	58.3	87.1	90.7	99.8
ALL INDUSTRY	42.4	93.4	87.5	97.0	96.0	105.0

FIGURE 38a

Spending on science in the Group of Seven countries and in Russia

(% of GDP)



pendence, but the disappearance of internal sources for sustained economic growth. They make the economy vulnerable to the world market conjuncture and they impose serious external limitations on its development.

2.3. Probable Long-Term Development

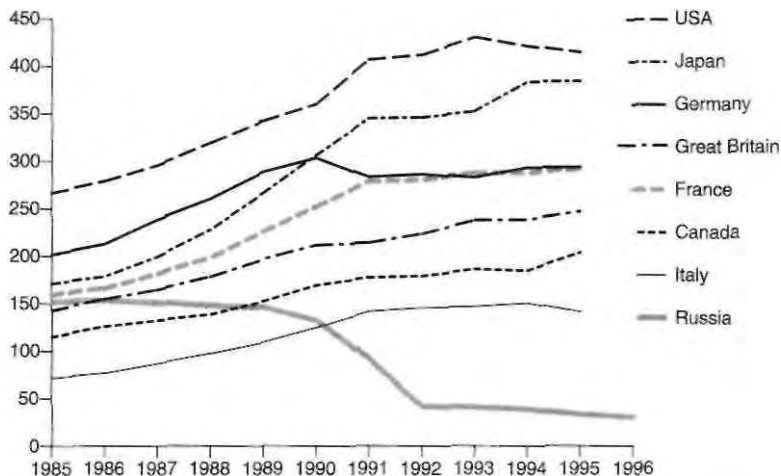
Tendencies for the Russian Economy: The Inertia Scenario

As shown above, the implemented macroeconomic policy put almost insuperable barriers in the way of an upswing of investment and economic growth, because of the disintegration of the economy and the disparity between the structure of economic valuations and the

FIGURE 38b

Spending on science in the Group of Seven countries and in Russia

(U.S. dollars per capita)



structure of the technological and production system. A continuation of this policy would mean the consolidation of existing tendencies for the financial condition of the sphere of production to deteriorate, the reduction of production and investment, and a more than critical situation for the economic security of the country (Table 8).

A continuation of the extremely low level of investment in production inevitably will accelerate the processes of degradation of the country's production potential, and bring the further aging of fixed capital, the obsolescence rate of which is approximately 50% in industry. The situation is gravest in the main sectors, which determine the investment potential of the economy: machine-building (over 50% obsolescence), the chemicals industry (60%), and the construction materials industry, where investment has fallen below the 1991 level by a factor of more than ten [62].

It is impossible for integrated reproductive structures belonging to the new technological phase to be created, with such a serious degree of lag in renewal of the production potential, under condi-

Table 8 Economic security parameters

	Threshold values*	Actual	Ratio of actual to threshold values**
1. GDP:			
% of average G-7 level	75%	29%	0.39
% of average G-7 per capita level	50%	19%	0.38
% of average world per capita level	100%	25%	0.25
2. Share of machine-building in industry, %	20	17	0.85
3. Investment as % of GDP	25	14.5	0.58
4. Defense spending as % of GDP	5	2.9***	0.58
5. Spending on scientific research as % of GDP	2	0.4	0.2
6. Share of new types of products in total output, %	6	2.2	0.37
7. Portion of population with incomes below subsistence minimum, % of total population	7	28.5 (Oct. 1998)	0.24
8. Life expectancy, years	70	66.9	0.95
9. Incomes of the best-off 10% of the population as multiple of incomes of the worst-off 10% of the population	8	13.5 (Oct. 1998)	0.59
10. Unemployment level, ILO methodology, %	7	9.3	0.75
11. Annual rate of inflation, %	20	80 (1998)	0.25
12. Domestic government debt as % of GDP for comparable period	20	26.6***	0.75

Continues

Table 8 Continued

	Threshold values*	Actual	Ratio of actual to threshold values**
1 Foreign state debt as % of 3. GDP	25	105.8****	0.24
1 Share of foreign borrowing in 4. covering budget deficit, %	30	20***	1.5
1 Budget deficit as % of GDP	5	4.7****	1.1
1 Volume of foreign currency in 6. circulation, compared with national currency money supply, %	10	50	0.2
1 Volume of foreign currency 7. circulating in cash, compared with cash rubles in circula- tion, %	25	100	0.25
1 Money supply (M2) as % of 8. GDP	50	14.3	0.29
1 Share of imports in domestic 9. consumption, %	30 25	52 30	0.58 0.83
Total:			
Food:			
2 Differentiation among consti- 0. uent territories of the Russian Federation in provision of sub- sistence minimum, best level as multiple of worst level	1.5	5	0.3

* The threshold values for these security parameters were determined on a provisional basis by the Security Council staff, taking into account the proposals of scientific and public organizations.

** The ratio of the actual and threshold values is standardized to the threshold value, which is taken as the unit. It is calculated as the ratio of the actual value to the threshold value, if it is desirable for the given economic security parameter to be higher, or the reverse, if it is desirable for the given parameter to be lower.

*** The data on budget spending are taken from the Federal Law on the 1998 Federal Budget.

tions of structural imbalance. There will be relatively steady development of those technological and production structures belonging to the contemporary technological phase, which are integrated into foreign reproductive processes, either as sources of raw materials and materials- and energy-intensive semi-manufactures, or as final elements of global reproductive processes, servicing the consumption of imported finished goods. The probable structure of the Russian economy's new equilibrium state may be inferred from the present structure of capital investment, where two-thirds of all investments in industry goes into the fuel and energy complex (Fig. 39) [63].

In light of the existing tendencies for disintegration of the economy and the assimilation of its remaining elements into foreign reproductive processes, the following structural characteristics of the future Russian economy may be surmised. Of greatest weight will be the export-oriented sectors of the fuel and energy, chemicals and metallurgy complexes (above all, the natural gas industry and the steel industry), and the service sector (above all, trade in imported goods, and services for foreign exchange operations and financial markets). Among industrial manufacturing sectors oriented to the domestic market, the food industry, wood and paper industries will remain moderately developed, while machine-building is sharply reduced, becoming localized mainly in the defense industry and individual machine-building sectors, which work with imported components. Science-intensive industry, with the exception of individual sectors that are competitive today (the nuclear power industry and rocket-building), will mainly lose its place on the market and cease to exist.

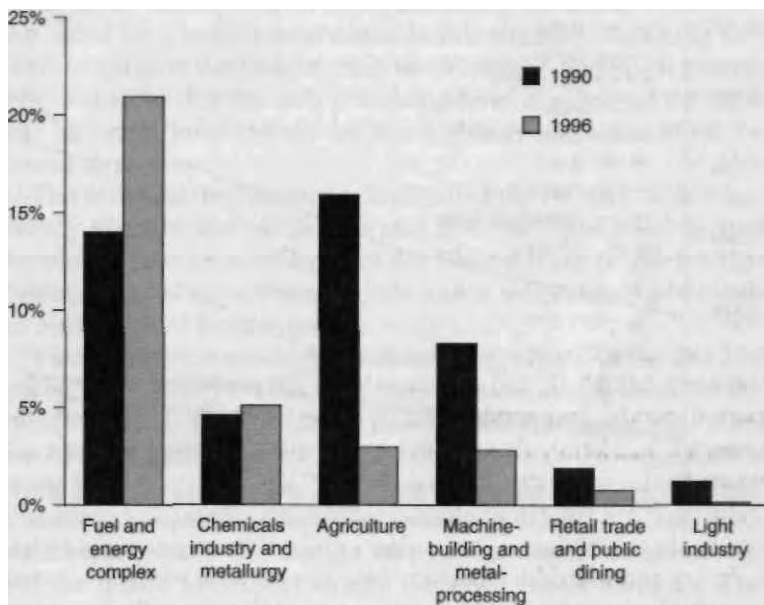
As was shown in the second part of this book, such an economic structure dooms a country to profound foreign dependence and unequal terms of foreign economic exchange, under which non-renewable natural resources are exported in payment for the intellectual rent, contained in the price of imported finished products. The natural rent formed within the Russian economy is thereby utilized to finance scientific and technological progress and economic growth abroad.

Modelling of the evolutionary tendencies of the Russian economy shows that it is heading towards what may be defined as a state of irreversible disintegration, characterized by the incorporation of

FIGURE 39

Share of capital investments by sector of the economy, 1990 and 1996

(percent of total capital investments)



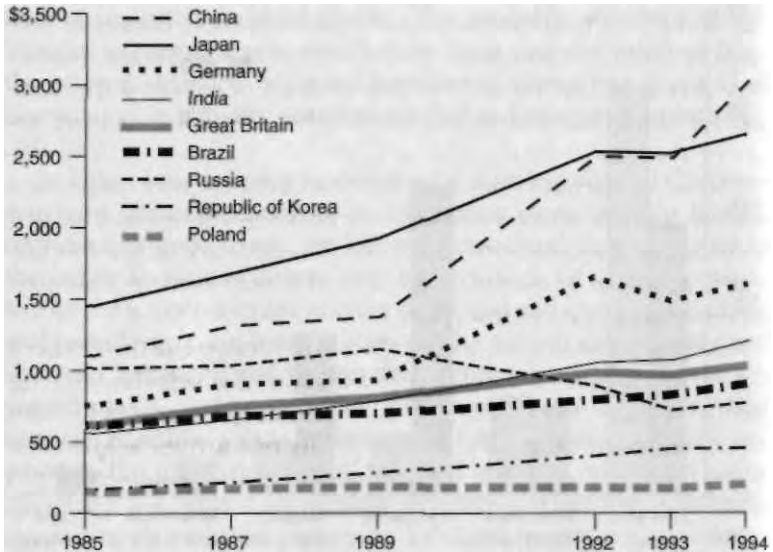
elements of surviving technical and production systems into foreign reproductive processes, the shutdown of from one-half to two-thirds of the existing scientific and production potential, the dismissal of up to one-third of employees, the establishment of foreign control over the most valuable national resources, and the loss of the basic internal factors for contemporary economic growth and the ability to have independent sustained development.

The depressed state of the economy creates a serious threat to Russia's geopolitical position. As already stated, the collapse has put Russia ten times behind the United States in the volume of GDP, five times behind Japan and China, and almost three times behind Germany—and removed it from the top ten nations of the world today (Fig. 40). That concerns the absolute size of the econ-

FIGURE 40

GDP growth in selected countries, adjusted for parity of purchasing power

(billions U.S. dollars)



omy. In per capita production, Russia has moved to the level of such countries as Thailand, Colombia, and the underdeveloped nations of Africa.

At this level of economic activity, Russia would be hard put to maintain an acceptable level of state spending, such as would be necessary to provide for social protection, the national security, a unified economic space, and scientific and technological progress. The growing disparity between the budget's shrinking revenue base and the minimally necessary levels of state spending leads to an aggravation of the budget crisis, but the possibilities to solve it within the framework of the implemented economic policy have been exhausted.

It was shown above, that further utilization of state borrowing on the domestic market is made difficult by the already accumulated

state debt pyramid, which soaked up practically all available credit resources. Additional borrowing on foreign markets is made difficult by investors' low level of confidence in the solvency of the Russian Government and the record size of its already accumulated foreign debt. The crash of the GKO financial pyramid, which broke through the limits of stability, has lowered Russia's credit rating to an "African" level for a long time to come. In this situation, obtaining new loans to mitigate the budget crisis would require additional guarantees. It may be that the only remaining form of collateral the State has for such loans would be the rights to exploit natural resource deposits.

The economic and financial condition of the country, which was already in crisis, sharply deteriorated after the clumsy and belated decisions of the Government and the Central Bank on the forcible restructuring of government bonds and a temporary moratorium on repayment of foreign credits.

The anti-crisis measures that followed the collapse of the financial system on August 17, 1998 were unsystematic, which shortcoming greatly reduced the efficacy of the emergency measures to stem capital flight and increased the probability of a further aggravation of the crisis. In particular, widely used channels for capital flight remained open, such as hoarding savings in dollars at home, accumulating money in the foreign currency accounts of enterprises, and the failure to convert foreign currency export earnings. The attempts of the Central Bank to advertise the stability of currency exchange operations on the domestic market, actually provoked an abrupt intensification of the tendency of dollarization of the economy, which amplifies pressure on the ruble even more and leads to its further devaluation and the rise of prices.

The increase of prices, in the setting of the refusal of the Government and employees to index wages, as well as the rapid increase of wage arrears, heightens social tension. Political conflicts build up. The situation will be aggravated by the inability of insolvent banks to return deposits to the population. In such a situation, the authorities are usually forced by the pressure of the population's mass protest actions to take one of the following decisions: 1) turn on the printing press, 2) resort to repression against the desperate population, 3) effect a swift turn to a mobilization economy.

The first solution, under conditions of a self-destroyed financial

system, will bring temporary relief followed by the rapid springing of self-intensifying hyperinflation mechanisms, further buildup of chaos and disorganization of production, and aggravation of the social and economic crisis, to the point of catastrophe.

The second solution, because of the lower level of authority and weak legitimacy of the federal Government, would encounter resistance from regional authorities and provoke a sharp escalation of separatist tendencies, fraught with the danger of the destruction of a unified State.

In either case, events would unfold according to "the Indonesia scenario," and very soon the country would encounter an abrupt escalation of the social and economic crisis, fraught with the danger of the latest national catastrophe.

There remains only one acceptable solution, the third one—transition to a mobilization economic policy. Its main elements are:

- the mobilization of all non-tax sources of budget revenue (de-commercialization of the Central Bank, its shift to an estimated financing basis and the transfer of its entire profits to the budget; institution of state monopolies on natural gas exports and alcohol and cigarette imports; an increase of rent payments for the utilization of natural resource deposits; an increase in the efficiency of the management of state property);
- the centralization of the country's foreign currency reserves, dedollarization of the banking system, and severe tightening of currency regulation and controls;
- the tightening of control over pricing and deliveries in the natural monopoly sectors, up to and including their renationalization;
- the orientation of credit and monetary policy toward providing support for production, with corresponding regulation of interest rates and monetary flows;
- the decisive suppression of organized crime and cleansing of embezzlers and extortionists from the state apparatus;
- the renationalization of bankrupt enterprises that are essential to maintain conditions for life in the country;
- the firm protection of legally obtained private and state property rights and the development of competition, together with

- harsh suppression of organized trade monopolies and cleansing of criminals from the goods distribution network;
- the adoption of measures to protect the domestic market and provide incentives for the competitiveness of domestic goods-producers;
 - the conduct of an active industrial, structural, and science and technology policy.

To implement the mobilization option requires political will. If this time, once again, there is a continued balancing between the interests of international capital and those of the domestic oligarchy, instead of the necessary anti-crisis measures, at the next step of deepening crisis and building chaos the Government will have to resort to altogether radical measures: nationalize the banks, natural monopolies, and vital enterprises, economically "close" the country, and keep order by force.

If the economic policy that has been carried out is continued, we may expect a buildup of its inherent tendencies for the reduction of production, degradation of its structure, growth of unemployment and devaluation of human capital, and aggravation of the budget and debt crisis. In the setting of economic growth in the world, including among Russia's foreign economic partners, many of which are developing at sustained growth rates of more than 5% per annum, as well as the ongoing internationalization of the economy and increase of the role of transnational corporations, this will lead to Russia's profound economic dependence and the dominance of foreign capital in the Russian economy.

There will be an irreversible loss of the main internal factors of sustained economic growth—an intellectual potential and a scientific and production potential, adequate to the requirements of the contemporary technological phase. The insolvency of the Russian State, becoming inevitable if the existing tendencies were continued, in that situation would very likely mean the de facto loss of Russia's national sovereignty as a coherent State, its disintegration, the establishment of control by transnational capital over its economic space, including natural resource deposits, and a protectorate of interested foreign powers and their international organizations over its regions.

The alternative to such a policy is an orientation toward activation

of the competitive advantages of the Russian economy and creation of the necessary preconditions for its growth on the basis of the dissemination of manufactures belonging to the contemporary technological phase, which is defined below as "a strategy for economic growth."

3 A Strategy for Economic Growth

To achieve economic growth in a transitional economy requires a coordinated approach to the tasks of forming technological, institutional, and organizational structures, capable of uniting all the necessary elements into integrated reproduction contours for the growth of the contemporary technological phase, and the creation of conditions for the modernization and increased efficiency of the economy. A macroeconomic environment must be created, which is conducive to an upswing of investment and innovation. At the microlevel, appropriate motives for entrepreneurial behavior should be promoted.

Economic policy should embody a complex, systems approach, subsuming not only monetary policy, but also investment, structural, industrial, foreign trade, scientific and technological, and other components, necessary for creating the preconditions for economic growth under present conditions. It must provide ways to overcome the disintegration of the economic system, and for the transformation of savings into investment, the restoration of the normal circulation of payments, incentives for innovation and for structural reorganization of the economy, modernization of the economy on a contemporary technological basis, and an increase in the competitiveness of Russian goods-producing entities, the social orientation of the economy, and the creation of a system of social guarantees and social protection.

In the composition of economic policy, it is also necessary to take into account the disintegration of the economy that has occurred, which defines the necessity of a differentiated approach to each of its sectors. In order to neutralize the negative consequences of that disintegration and reestablish a normal reproductive process, special measures should be adopted to ensure basic capital circula-

tion flows: savings—investment in production—growth of production—growth of wages and profits—growth of savings and accumulation; depreciation allowances—investment in production. Special measures also need to be taken to restore the relationship between the population's demand and the supply of domestic products: restoration of the incomes and savings of the population, their transformation into demand for domestic products, utilization of idle capacities, and the increase of the population's wages and demand.

The economic policy of the State should be oriented toward realizing the competitive advantages of Russian industry. World experience demonstrates that successful structural economic changes hinge on support for those areas of the national economy, capable of promoting economic growth on the scale of the world market [65].

Despite the tremendous destruction, Russia has an array of competitive advantages. The most prominent of these are:

- the high education level of the population, and spiritual-intellectual traditions, which orient people towards constructive creative labor, social justice and partnership, and individual self-realization in the interests of society;
- rich natural resources, providing for most domestic raw materials, fuel and energy needs;
- a huge territory and capacious domestic market, which ensure that the population has a wide diversity of employment and requirements;
- relatively cheap labor power, in combination with fairly high skills levels;
- a developed scientific and industrial potential, and the existence of significant technological research and development already accomplished in several areas of the contemporary and the next technological phases;
- the existence of our own scientific schools and unique advanced technologies, the practical application of which can make it possible to develop products that are competitive on a world market scale;
- significant idle production capacities, which make it possible to gear up production at relative little cost;

- experience in the export of products with high value added, as well as production cooperation in the markets of many countries (especially in the CIS, Asia, and Eastern Europe).

By activating these advantages, it will be possible to turn the balance of our national interests and those of transnational capital in our favor, both on the domestic market and with respect to Russia's prospective niches on the world market. This presumes the solution of the relevant problems of economic policy.

In the area of technological development, the task is to create technology and production systems for the contemporary and the next technological phases and to stimulate their growth, as well as the modernization of closely associated manufactures. This requires creating, on the basis of already accumulated scientific and industrial potential, enterprises that are competitive on the world market, incentives for the rapid diffusion of technologies from the contemporary technological phase, the launch of training systems to provide necessary skill levels, protection of the domestic markets, and aid in support of the export of promising domestic products. At the same time, conditions should be created for the next technological phase to come into existence at a surpassing rate of development, including state support for the relevant basic and applied research, development of infrastructure for training personnel with the required skill levels, and creation of the necessary information infrastructure, as well as systems for the protection of intellectual property.

In the institutional realm, the task is to create an economic mechanism that would reallocate resources away from obsolete industries, into the technology and production systems of the contemporary technological phase, concentrate resources at its growth points, modernize the economy, and increase its efficiency and competitiveness on the basis of the dissemination of new technologies. Measures for the privatization of state property, and the foreign trade regulation, financial, credit, industrial, scientific and technological, education, and other components of social and economic policy, should all be subordinated to this task.

The same goals should shape policy for the organization of the economy's production structure. It is important to promote those

forms of integration of financial, production, trade, scientific research and educational organizations, that will be able to develop at stable rates under conditions of intense international competition, while continuously increasing the efficiency of production on the basis of the timely development of new technologies.

Macroeconomic policy should create favorable conditions for solving the above-listed tasks, guaranteeing that it is advantageous to engage in production, as well as providing a good climate for investment and innovation, and support for the competitiveness of domestic goods-producers. It is necessary to overcome the disintegration of the economy, normalize monetary circulation and the circulation of capital in the sphere of production, and support price relationships and other parameters of the economic mechanism that favor the development of the next technological phase.

At the microeconomic level, the connections must be restored between constructive socially useful activity and wages, incomes and the production of consumable benefits, savings and investment. Conditions should be created that promote a constructive motivation for engaging in business activity, aimed at increasing the efficiency of production, introducing progressive innovations and assimilating modern technologies, producing high-quality goods and services for consumers and the public, and transforming incomes into productive capital investments.

Alongside the creation of the necessary general conditions for economic growth, there need to be special measures to break the dependencies, characterized above, which created conditions for the disintegration of the economy. These measures should provide for overcoming the gap between the spheres of production and finance, equalization of price relationships, increased demand for domestically produced goods, an upswing of investment, and reconstruction of the economy on the basis of the contemporary technological phase.

Proceeding from these tasks and principles, proposals may be formulated for transition to a policy of sustained economic growth under existing conditions. Taking into account the collapse of the financial system, due to the state debt and balance of payments crisis, these proposals consist of two parts: anti-crisis measures and conditions for economic growth. Unlike the previous approach, which proceeded from a Utopian model of the primacy of financial

market stabilization, after which a revival of production was supposed to occur, this approach proceeds from a systems vision of the crisis, comprising a complex of measures, which are aimed simultaneously at a revival of production, the population's survival, an upswing of investment, and financial stabilization. The former approach proceeded from the unacceptability of violating the debt obligations of the Government (even debts to the Central Bank, in its capacity of a private entity), while the second approach proceeds from the unacceptability of the degradation and extinction of the population or the renunciation of national sovereignty. Accordingly, the main directions of anti-crisis policy in the first approach were the reduction of state spending, and borrowing abroad, while the second approach looks to the restructuring of debt obligations and the mobilization of non-tax budget revenues from sources belonging to the State, an upswing of investment, and revival of production. An adequate approach to overcoming the consequences of the collapse of the financial system requires corresponding measures to eliminate its causes—a way out of the debt crisis, the revival of production activity, and the restoration of the necessary level of investment.

To this end, the collapse of the financial pyramid of government bonds should be taken as the opportunity for an abrupt change in price relationships, in the direction of an improvement of the financial condition and competitiveness of the sphere of production. At the same time, the anti-crisis measures should provide stability for the economic system, and a reserve of strength in the face of any possible internal or external destabilizing factors.

The demands, which should be made on economic policy today, are very high. In the wake of the precipitous reduction of production and investment, calculations show that extraordinary efforts will be required to neutralize the growing wave of fixed capital being taken out of commission, entailing a no less than four-fold increase of annual investment in the renovation and development of the country's production potential [73]. These must be high-quality investments, which raise the competitiveness of domestic production and open up new possibilities for economic growth on the scale of the world economy.

In order for the country to embark on a sustained development trajectory, overcoming the inertia of the production slump and the

destruction of scientific and production potential, the parameters for the GDP growth rate must be at least 5% per annum, for investment—at least 15% per annum, including the growth of investment in science-intensive industry and new technologies at 20% per annum, wages—12% per annum, the efficiency of production—at least 10% per annum, while inflation is held to 25% per annum.

These guidelines may seem ambitious (by contrast with the pessimism of the Kiriyenko Government program, which promised a revival of production at a growth rate of 1% per annum), but they define the minimum necessary measures for overcoming the tendency for the country's production and human potentials to be degraded.

The possibilities for achieving very high rates of growth, by comparison with the current depression, were discussed above. These are, first and foremost, savings that are not tied up, idle production capacities, unemployed fit-to-work citizens, unutilized scientific and technological, as well as intellectual potential, capital that has been taken abroad, undeveloped natural resources, and unexploited instruments for state regulation of the economy.

The savings rate in Russia remains one of the highest in the world: over one-fourth of GDP. At the same time, the accumulation rate is lower by nearly one-half. Utilization of the country's investment potential is at the level of only one-third. Another reserve is the improved utilization of the existing production potential. Capacity utilization in industry is no higher than 40% at present [66]. We have forgotten about the outstanding intellectual and creative potential of our people, which is productively utilized to the extent of only a few percent. If these resources were used and the above-enumerated competitive advantages of our economy were realized, the suggested economic growth parameters could be attained.

In order to execute a turn of this nature, there must be cardinal changes in the economic policy of the State, which should be reoriented to providing incentives for the growth of production and investment and sharply raising the functional efficiency of the institutions for state regulation of the economy. The arsenal of anti-crisis measures needs to be substantially expanded, renouncing "easy" decisions like cutting state spending and increasing the foreign debt. This means that there should be a substantial increase

of budget spending, a restructuring of state debts, an increase in the effectiveness of currency regulation and controls, as well as the application of a set of measures to revive production, sharply increase investment and innovation, and ensure the population's survival. This is still possible. In order to uncover this possibility, however, it is necessary to adopt truly, as the Kiriyenko Government put it, radical measures. Only these measures should not be against our own population and the future of the country, which the ruling oligarchy would attempt to trade for a year or two more of the "status quo," but they should reorient the economic policy of the State from supporting superhigh revenues from financial speculation, to providing incentives for the growth of production, investment and the real incomes of the population.

The following measures should be adopted for that purpose. They are designed to overcome the crisis and create the conditions necessary for the country's sustained social and economic development.

3.1. Anti-Crisis Measures

1. Cessation of the self-destruction of the financial system, dec commercialization of the Central Bank, and solution of the debt and budget crisis.

As shown above, the main cause for the deepening debt crisis was that the monetary authorities, the Ministry of Finance and the Central Bank, constructed a financial pyramid of government bonds, with rates of return that were unprecedented in world practice and made the bonds impossible to redeem; for if money is borrowed with the intention of repaying it, the interest on the credit should not exceed the rate of growth of revenue. In the case of the GKO, it was exactly the opposite: the issue of bonds with double-digit annual rates of return in real terms took place in a setting of negative economic growth rates and contraction of the budget revenue base. Such a ratio of the growth of debt obligations to the reduction of the borrower's income foreordains his bankruptcy, which occurred on August 17, 1998.

In order to dismantle the mechanism of self-destruction of the financial system, which was created by the state agencies in charge of regulating it, the activity of the monetary authorities has to be decommmercialized. The prevalence of commercial interests in an agency that exercises the state monopoly on regulation of monetary circulation should be excluded. In particular, it is imperative to terminate the Central Bank's practice of deriving superprofits from the construction of pyramids and other superprofitable speculative operations, which undermine the stability of the state financial system. Under present conditions, there should also be a decision on transferring all Central Bank profits to the federal budget as revenue. After all, their source is the state monopoly on regulation of monetary circulation, and it is natural to require that revenues from the exercise of this monopoly flow into the Treasury, rather than going to service departmental interests.

Alongside government actions to improve tax discipline and raise the efficiency of the utilization of state property, expand the application of imputed taxes for small businesses, and strengthen state control over the alcoholic products market, it is appropriate to reinstitute the export tariff on the export of natural gas or, as has been done in many countries, to introduce a state monopoly in this area. This would make it possible to increase annual state budget revenues by 30-50 billion rubles.

Strict enforcement of the Law on State Regulation of Production and Trade in Ethyl Alcohol and Alcoholic Products, together with the introduction of a real state monopoly on the import and trade of alcoholic products, would yield additional income of at least 15 billion rubles per annum. Moreover, consistent application of measures to protect the domestic market, provided for in the Law on State Regulation of Foreign Trade, and the abolition of unfounded exemptions from customs laws, would make it possible to obtain an additional 30 billion rubles of revenue.

Together with the above-indicated measures, these steps will raise budget revenues by one-third, while substantially reducing the cost of servicing the state debt, and halting its growth. It thereby becomes possible to overcome the budget crisis, without resorting to the sequestration of spending, and to pay off existing state indebtedness to enterprises and the population.

2. Increase of the effectiveness of currency regulation and controls.

Besides the obvious measures to tighten the application of sanctions for infringement of currency legislation (including enforcement of the restriction on obtaining foreign currency, which should be permitted for the exclusive purpose of paying on import contracts and other current operations allowed by law), it is necessary to adopt a number of serious decisions to strengthen the defense of our financial market against unfavorable fluctuations of the world conjuncture: to reimpose restrictions on the export of capital, limit the use of foreign currency accounts, and centralize foreign currency reserves. The scale of the latter measure may vary, depending on public confidence in the policy being carried out, and readiness to assist it. If it were limited to the banking system (conversion of foreign currency bank accounts into rubles), Central Bank foreign currency reserves could be increased to \$22-25 billion. If those measures are supplemented by the dedollarization of savings, which the population currently has "in the sock," the volume of foreign currency reserves will surpass \$50 billion, making it easy to sustain the stabilization of the ruble at its new rate of exchange, which should be sufficient to support the competitiveness of at least two-thirds of domestic goods-producers, as well as meet the requirements for maintaining the balance of payments.

The centralization of foreign currency reserves should be accompanied by the imposition of restrictions on the use of foreign currency accounts by enterprises, the reinstatement of the mandatory sale of foreign currency export earnings to the Central Bank, the introduction of restrictions on the export of profits from operations on the securities markets, the establishment of state control over the export of basic raw materials commodities, the concentration of foreign currency earnings in accounts at just a few state banks, and the introduction of restrictions on luxury imports, as well as on the export of foreign currency to pay for services.

As an incentive for the dedollarization of the population's savings, it is appropriate to plan on the introduction of state guarantees for personal bank deposits, which were made in foreign currency and converted to rubles, on condition that the relevant banks use them

as a basis for extending credit to develop the sphere of production and investment

This set of measures will make it possible to fix a long-term, firm ruble exchange rate at the new level, which is extremely important for purposes of ending the speculative demand for foreign currency and flight out of the ruble, while preventing the economy from being drawn into self-intensifying inflationary mechanisms.

If necessary, the devaluation of the ruble to its new fixed exchange rate should be accompanied by a simultaneous "freeze" of domestic prices, in order to restrain their abrupt increase and to create conditions for building up domestic production, thus mitigating the fall of the standard of living. In order to prevent shortages of basic necessities that are not produced in sufficient quantity within the country, it will be necessary temporarily (for not more than one year) to reestablish a mechanism for centralized financing of critical imports. For this purpose, the state monopoly on the export of natural gas will need to be reinstated, along with the mandatory sale of export earnings.

The main agency involved in currency controls, the Central Bank, must be put in order, as a necessary condition for effective currency control. The Central Bank's activity must be made transparent, with respect to its policy on the allocation of foreign currency reserves and operations on the open market for purposes of regulating the exchange rate of the ruble, while control is tightened over the activity of Central Bank traders, so as to preclude the possibility of abuses in this area.

Considering the unstable situation on world financial markets and the necessity of dedollarizing the Russian economy, measures must be taken to increase the stability of the structure of the country's foreign currency reserves, diversify them, and renounce the linkage of the ruble to the dollar, either during the acquisition of currency reserves, or in the policy for regulation and determination of the exchange rate.

It is appropriate to institute restrictions on the import of foreign currency in cash according to the standards established for individual persons, while banning juridical persons from such operations, with the exception of the Central Bank. At the same time, it is desirable to expand the practice of using the ruble in foreign trade transactions, and as a reserve currency within the CIS.

In addition to the Government's intention to terminate the activity of offshore zones on Russian territory, the application of sanctions should be envisaged against commercial organizations, which illegally export capital or provide accounting and payments services for operations in offshore zones inside Russia.

3. Measures to create conditions for the revival of production and investment, and normalization of the circulation of payments.

It will be impossible to bring the financial system back to health and prevent the threat of a spontaneous deepening of the debt and budget crises, or self-destruction of the financial system, without supplementing the anti-crisis program with long overdue measures in the sphere of production and investment. The following must finally be achieved:

- implementation of the Development Budget with respect to providing state guarantees for investment credits;
- fulfillment of the state investment program;
- termination of imports paid with state budget funds, if analogous domestically produced products exist;
- unconditional implementation of the provisions of the Law on the Federal Budget, regarding obligatory regulation of the problem of defaulted indebtedness on budget payments by defense sector enterprises, caused by the underfinancing of the defense order.

The process of mass privatization of state enterprises through competitive investment auctions should be ended, since the undefined status of the property rights of investors, who fail to carry out their obligations, blocks the development of the enterprises. For this purpose, there should be an audit of the fulfillment of obligations assumed by investors, who acquired shares of privatized enterprises at investment auctions, with the cancellation of deals where the obligations have not been carried out.

The measures to change monetary policy, described above, should be supplemented by obvious emergency measures to mitigate the payments crisis, including:

- restructuring and cancellation of accumulated interest indebtedness or defaulted payments to the state budget, with a reduction of penalties and fines on condition of timely fulfillment of current tax obligations;
- implementation of mutual offsets and restructuring of enterprises' indebtedness, simultaneously with the creation of a mechanism to recover defaulted debts from the debtors;
- conversion into securities and organized circulation of defaulted debts;
- introduction of a centralized system for the discounting and rediscounting of Central Bank paper credits, above all for large debt-holding enterprises;
- creation of conditions for the circulation of collateral instruments, including warehouse warrants.

Overcoming the payments crisis is inconceivable, without the elimination of accumulated price imbalances, entailing the reduction of prices for fuels and fees for electricity, transportation services, and communications. Although this cannot be done in a few months, certain measures to mitigate these prices can be undertaken, both administrative measures (the freeze or forced reduction of the relevant prices and tariffs) and contractual ones (agreements between the power industry and transportation providers, and the consumers of their products).

The mass bankruptcy of insolvent enterprises, proposed by the radical liberals, cannot be considered an anti-crisis measure—the application of bankruptcy requires a long time, great expense, and far from always produces a positive effect on the enterprise's subsequent development. It is more appropriate to consider as an anti-crisis measure the nationalization of insolvent enterprises of national strategic significance, and subsequently restructure them and increase their efficiency.

Despite leanness of our budget, it would be possible to expand state purchases for the provision of public needs, modernization of the housing and utilities sector and of health care and educational institutions, which would stimulate the development of production. It would have a positive effect to institute a system of public works for state infrastructure facilities, with payment in kind. We should think about introducing government control over equipment pur-

chases for state enterprises—the natural monopolies above all—with the aim of orienting them toward the purchase of domestic equipment. It is necessary, once and for all, to eliminate the practice of extending state guarantees for foreign tied credits, when analogous domestic manufactures exist, and to reorient the policy on state guarantees, toward support for domestic investors and the purchase of domestically produced equipment.

There must be an activation of foreign trade policy:

- application of protective measures, in accordance with the federal Law on Measures to Defend the Economic Interests of the Russian Federation in Foreign Commodities Trade;
- adjustment of the import tariff, taking into account the possibilities for import-substitution, in order to increase the utilization of idle domestic goods-producing capacities;
- vigorous application of compensatory duties, including on imported food products, for the purpose of equalizing the conditions of competition on the domestic market;
- termination of the Government's practice of granting exemptions from payment of import duties, including on imported aircraft, other types of equipment produced in Russia, and goods subject to the excise tax;
- incentives for export, including a marked expansion of the practice of state guarantees for export credits;
- tightening of control over the quality of imported products, elimination of the practice of delegating state quality control functions to foreign organizations, and prohibition of any exemptions to importers in this area.

The above-enumerated anti-crisis policy measures are aimed at overcoming the debt and budget crises, improving the stability of the ruble, acquiring necessary economic regulatory functions for the State, resuscitating the country's production potential, and preventing mass famine and the destruction of life-providing systems. At the same time, they are insufficient for a transition to sustained economic growth. For that purpose, implementation of the immediate crisis measures should be carried out in tandem with the broader set of medium-term measures, characterized below.

3.2. Creation of Necessary Macroeconomic Conditions for Sustained Social and Economic Development

Proceeding from the above-listed requirements for economic policy, the measures described below, for creation of the necessary conditions for sustained social and economic development, include: macroeconomic conditions (general preconditions for the reanimation of production, oriented toward bringing the system of economic valuations into correspondence with the tasks of increasing production and investment and shaping the basic mechanisms for economic growth under market economy conditions) and special measures, aimed at overcoming the disintegration of the economy and blocking the associated negative interrelationships and mechanisms of self-destruction of the economic system, as well as initiating powerful impulses to pull the economy out of its deep depression and onto a trajectory of economic growth.

The basic problems, which today block economic growth and must be solved by economic policy, include: the disparity between the existing structure of economic valuations and the requirements for the technological and production structure of the economy to function without a loss; the low competitiveness of enterprises in the sphere of production; the payments crisis and disorder in the monetary circulation system; the condition of the credit and monetary sphere, which is unfavorable for investment; the criminalization of economic activity; and, the underdevelopment of market competition mechanisms. The rudder of macroeconomic policy should be the creation of favorable conditions for production, an upswing of investment and innovation, and the reestablishment of the normal circulation of capital. Presented below is a system of measures, designed to address these tasks.

1. Monetary policy.

Monetary policy on the supply of money must be reoriented towards supporting interest rates that are acceptable for productive investment and the replenishment of enterprises' working capital, while maintaining a supply of money that is adequate to ensure payments,

and pushing foreign currency and monetary surrogates out of domestic payments circulation. Monetary policy should correspond to the actual demand for monetary resources for the circulation of capital and for production. This requires a shift from the policy of formal planning of the monetary base, to a policy of interest rate target levels, under which the rates are maintained at no higher than 3-7% per annum in real terms.

In addition, given the disintegration of the economy and breakup of the monetary circulation system into separate processes, credit and monetary policy should be planned in a differentiated manner, taking into account the requirements of the sphere of production for monetary resources to restore normal circulation of capital and increase investment. Cash issues should be managed with consideration for the need to eliminate "bottlenecks" in the monetary circulation system, which are barriers to the increase of investment and economic growth.

In order to bring order into monetary circulation and payments and accounts, and to decriminalize the economy, the time has come to improve the structure of the money supply and monetary circulation technologies: the regulation of paper circulation by means of introducing an appropriate Central Bank discounting policy (this is particularly important for bringing money supply policy into correspondence with the demand for means of payment within the sphere of production), the development of non-cash monetary circulation using debit instruments of payment, extensive computerization of payments and accounting, and minimization of cash in circulation.

State insurance for citizens' savings deposits could improve the structure of the money supply and raise the portion of deposits that are long-term.

These measures will make it possible to improve monetary circulation, while maintaining control over inflation. They will supplement quantitative control over the total size of the money supply, with consideration of its component parts, which have different velocities of circulation, and control over the correspondence between the money supply and the demand for monetary resources within different sectors of the economy and contours of monetary circulation.

2. Currency policy.

Currency policy should be directed toward bringing the dynamics of the ruble's exchange rate into correspondence with the requirements for raising the competitiveness of domestic products, as well as dedollarization of the economy. Solving the first task presumes a transition from the policy of artificially restraining the fall of the exchange rate of the ruble, to its proportional devaluation on the domestic market, for the purpose of ensuring the competitiveness of domestically produced goods.

A solution for the second task should envisage measures, which mainly have been listed above as anti-crisis measures: stronger currency controls; expansion of the use of rubles in foreign trade transactions; introduction of strict quantitative limits on the importation of foreign currency, and the termination of its circulation and accumulation on the domestic market.

It is very important, for the policy of dedollarization of the Russian economy to succeed, to reject attachment to the dollar in prices or statistical indicators: to renounce the expression of prices in dollars for goods and services, on the real estate market, in setting wage levels, and in official statistics. The State should strive to conduct all appraisals, economic measurements, and the establishment of price indicators, exclusively in the national currency.

The dedollarization of the domestic market and the expanded use of the ruble in foreign trade transactions will make it possible, within a few years, to return over 100 billion rubles to domestic monetary circulation, replacing a corresponding volume of foreign currency, to restore the use of money in economic turnover, and to improve the financial condition of the sphere of production.

3. Price and anti-monopoly policy.

Price and anti-monopoly policy should be directed toward eliminating the disparity between the structure of economic valuations and the technological and production structure of the economy, and to make it profitable to invest in the modernization and development of production. For this purpose, it is necessary to envisage measures to establish actual control over prices in highly monopolized sectors (especially the natural monopolies), in order to restrain their growth and equalize price relationships in favor of the manufacturing indus-

tries. In view of the present weakness of the state apparatus, this control should be exercised in the simplest and most reliable forms, up to and including the introduction of a state monopoly on the turnover of electricity, natural gas, and electronic communications, in order to prevent price rises.

In order for mechanisms of market competition to function, there must be serious efforts to bring pricing procedures into order, and institute their legal regulation to prevent unscrupulous competition, discrimination against consumers, and price gouging. Attempts to create organizational monopolies for purposes of hiking prices must be harshly suppressed, while sanctions are applied against illegal cartel agreements and other forms of collusion to control the market.

Another important task is the decriminalization of wholesale and retail trade, the adoption of measures to clean organized crime out of the goods distribution network, the elimination of informational and other barriers within domestic trade, and the provision of conditions for market competition mechanisms to function.

4. Tax policy.

Despite some progress on the tax code, it remains a pressing task to change the system of taxation, for the purpose of stimulating investment and innovation and expanding production. This requires: reduction of the overall tax burden (including all mandatory payments) to no higher than 35% of income; tax exemption for the part of profits, earmarked for the development of production and the assimilation of new technologies, scientific research and development, and replenishment of enterprises' working capital; simplification of the tax system; redistribution of the tax burden from poor citizens to those with high and superhigh incomes. As an incentive for the revival of production, tax credits should be provided to enterprises, which are expanding production and increasing investment.

It is worthwhile to support plans to extend to small businesses the method for charging imputed taxes, as well as to shift the tax burden from production to consumption.

The reduction of the taxation burden on current incomes may be compensated by the expansion of the tax base, as a result of

curtailing the "shadow economy" and because of the overall reanimation of production, by increased taxation of socially and ecologically harmful activities, speculative operations, and incomes from property, by increased excise taxes on luxury items, as well as by an activation of the non-tax budget revenue sources, listed among the anti-crisis measures. Among the latter, natural rent is of particular importance. The large part of it should be collected as state budget revenue, through appropriate resource payments and the regulation of raw materials exports.

Within the total of non-tax revenues, excises and taxes on socially and ecologically harmful types of activity can yield up to one-half of the income side of the budget. The implementation of these measures for increasing budget revenues, not connected with the taxation of socially useful productive activity, will make it possible to conduct the desired tax policy without reducing state revenue or spending.

5. Budget policy.

In budget policy, the main directions are bringing order to spending and minimizing outlays, in order to mitigate the consequences of the budget crisis and overcome it. It is necessary to put a halt to the policy of deriving superhigh incomes from servicing the budget's monetary flows ("cycling" of budget appropriations through privileged commercial banks, replacement of budget appropriations by commercial bank paper credits with Ministry of Finance mediation, accumulation in privileged commercial banks of reserves for servicing the state debt, and so forth). The budget's monetary flows should be managed through the Treasury and the Central Bank.

In order to prevent a further deepening of the debt crisis, the restructuring of the domestic debt should be followed by a renunciation of new borrowing to finance current budget spending. Temporary budget deficits, caused by the natural seasonal factor in the Russian economy, should again be financed by Central Bank credits, directed to finance cash interruptions—gaps between budget revenue and spending within a single year. This will eliminate an important source of the senseless buildup of the state debt.

Budget policy should be brought into correspondence with the

priorities of the economic, structural, scientific and technological, and social policy of the State.

6. Reform of the pension system.

Reform of the pension system should provide for transition from the existing quasi-taxation fiscal method of providing pensions, to a mixed system, in which the weightiest component is citizens' pension savings, accumulated in various pension funds with an appropriate mechanism of state guarantees and regulation. This will facilitate the simultaneous reduction of production costs, formation of a capital market, and expansion of possibilities for the accumulation and productive investment of savings, while raising the effectiveness of the pension system as such.

7. Foreign trade policy.

Foreign trade policy should be subordinated to protection of the interests of the Russian goods-producer and should provide for: elimination of unscrupulous foreign competition; restoration of strict quality controls for imported goods, which must meet the standards for domestic producers; incentives for the export of products with high value added.

Foreign trade policy should facilitate the expansion of markets for domestic production and make the competitive advantages of the Russian economy work. For this purpose, it should involve such measures as: incentives for the export of domestic commodities with high value added, especially science-intensive products (state-guaranteed export credits; subsidies for progress on the standardization, quality control, and quality improvement of production; marketing programs; active support for these measures through diplomacy, and so forth), launching infrastructure to service Russian exports abroad, and completing the process of creating a customs union and free trade zone with the CIS countries.

The fiscal approach to establishing customs tariffs should be rejected. Instead, they should be brought into correspondence with industrial policy priorities. It is important that customs tariffs be used to protect manufactures and other types of activity that are of some promise and significance for society.

National interests should determine policy on attracting foreign investments, as well. Any discrimination against domestic enterprises, by comparison with foreign investors, on our own market is intolerable, no matter what sums the latter may offer. Foreign investment in sectors and spheres of activity that are sensitive for the national security must be limited.

Implementation of the above-listed measures will create favorable overall conditions for a positive shift in the economic situation and for overcoming the crisis. But, in and of themselves, they will not break the interrelationships associated with the disintegration of the economy, which will undercut their positive effect and continue to exert a depressive influence on the national economy. To break them will require strong initiating impulses, which are capable of exploding those interrelationships, stopping the action of the mechanisms for the self-destruction of the country's productive forces, overcoming the barriers between the financial and production spheres, and reorienting the movement of capital and resources towards an upswing of investment and economic growth.

In order to propagate these impulses, measures should be taken to create incentives for investment and provide the microeconomic conditions for growth. Among such measures are a program for the restitution of citizens' savings; structural reorganization of the economy on the basis of the contemporary technological phase; and creation of conditions, including the accumulation of scientific and technological potential for the next technological phase to develop at a surpassing rate. The implementation of these measures presumes the formation of appropriate institutions and instruments for a differentiated economic policy, described below.

3.3. State Incentives for Economic Growth

1. Measures to stimulate investment.

Measures to stimulate investment should provide for the creation of special mechanisms, which impede the flow of capital out of the sphere of production and into speculation, as a result of the

disintegration of the economy outlined above. They need to be able, on the one hand, to keep the circulation of capital within the sphere of production and, on the other, to level out the standard rates of return and attractiveness of operations in the speculative and productive spheres. These tasks may be accomplished by the creation of special instruments for the regulation of monetary circulation, which will help in the application of necessary economic policy measures.

Introduction of a special subsystem of monetary circulation through investment accounts, for the purpose of keeping capital in the sphere of production and organizing the flow of capital investment into the development of production, envisages the creation of a special regimen for the movement of enterprises' depreciation funds and funds, which are exempt from taxation in connection with their commitment to purposes of investment, through a system of investment accounts. The utilization of funds accumulated in those accounts is restricted exclusively to purposes of capital construction, equipment purchases, and funding of R&D.

The organization of such a monetary circulation process will create conditions for implementation of the following measures, to provide incentives for investment in the sphere of production:

- creation of special development institutions, which provide financing on preferential terms for investment projects to develop production, and the extension of state guarantees to investment in production;
- exemption from taxes, for any profits of enterprises that are used for purposes of investment and R&D, and are entered in investment accounts, as well as the application of accelerated depreciation schedules;
- limitation of securities issues to purposes of attracting funds, which are to be accumulated in investment accounts, for productive capital investment.

This monetary circulation process will also create conditions to address the problem of the targeted management of cash issues, which can be channelled through the system of investment accounts, in order to increase the supply of monetary resources in the sphere of production. This ensures balance between the additional

supply of money and of commodities, and is a regulatory means to limit the inflationary effect of cash issues. Instead of cash issues being channelled into the payment of interest on government bonds, through support for their turnover and the Central Bank's acquisition of foreign currency, brought in by foreign speculators for the purpose of acquiring GKO, as has been the practice hitherto, the proposed system restores the main function of cash issues—to advance economic growth. Before the increased money supply assumes the form of increased demand on the consumer market, the investment accounts mediate the process of expanding production and increasing the supply of goods and services, by means of investment in production.

Introduction of the investment accounts subsystem will make it possible to retain capital in the sphere of production, preventing its flight into speculative operations and abroad. This, in turn, makes it possible to set up targeted direction of the supply of monetary resources, channelling them, first and foremost, into investment. In addition to the organization of competent centralized control over cash issues and the launch of a system of development institutions (the Development Budget, and investment banks and funds), this system is a necessary element, under existing conditions of economic disintegration, of the restoration of investment activity and a transition to sustained economic growth.

Of course, the idea of investment accounts is not devoid of shortcomings. It significantly complicates the system of managing monetary circulation, and it requires appropriate control mechanisms to prevent the covert flow of money out of the investment accounts and onto the consumer and speculative markets, as well as a high level of professionalism on the part of the Central Bank leadership. Nonetheless, these difficulties are surmountable. In particular, the attractiveness of swindles may be reduced by means of introducing special legal procedures and mechanisms for the conversion of the resources in investment accounts into cash at a regulated market rate of exchange.

With all the shortcomings of this instrument, its introduction is justified by the fundamental impossibility, under the existing structure of monetary circulation, of neutralizing the processes of disintegration of the economy and the spontaneous flight of capital out of the sphere of production and into speculative operations

and abroad. The use of special instruments for the regulation of monetary flows and the management of cash issues is indispensable, in order to extract the economy from the trap of the debt crisis, payments crisis, and underproduction crisis.

Policy for the regulation of financial markets should envisage measures to reduce the rates of return on speculative operations, which are not connected with investment in production. Above all, it is necessary to abolish measures that increase the attractiveness of operations in the sphere of circulation: the Central Bank's provision of services to keep commercial banks' free funds on deposit at the Central Bank, mechanisms by which commercial bank credits have been used as an intermediary step in the disbursement of budget spending, and setting government bond yields at superhigh interest rates. In the course of restructuring the domestic debt, these rates should be reduced to a level, no higher than the average rate of profit in the sphere of production. Necessary measures must be introduced, to impede the massive flow of capital from the government bond pyramid into speculative operations and abroad and, on the contrary, to promote its return to the sphere of production.

In order to prevent financial machinations and restrict speculative operations, which destabilize the financial market, the issue and placement of securities should be restricted exclusively to purposes of attracting investments into the development of production, for specific investment projects. This restriction should apply not only to the issue of private securities, but also to the issue of state securities, either by the federal Government, or by constituent territories of the Federation.

Activation of state support for investments should be based on expansion of the state investment program and the placement of state orders for the purchase of domestically produced capital-intensive equipment for multiple users (aircraft, ships, agricultural implements, etc.), for subsequent leasing to the companies that use it, as well as the extension of state guarantees for private investments in production, which anticipate the purchase of domestic equipment. State support for the import of foreign products, including the extension of state guarantees for foreign tied credits and for imports for the State's own needs, should be held to a minimum.

On the whole, the policy for state investments and purchases

should correspond to the priorities of industrial and structural policy and be oriented toward promoting the development of manufactures belonging to the contemporary technological phase, and toward initiating and supporting progressive structural shifts in the economy.

2. Restitution of citizens' savings.

Restitution of citizens' savings, properly organized, could become a powerful mechanism for reviving production and economic growth, uniting in a single reproductive process the solution of the problems of restoration of the population's incomes, activation of demand, utilization of idle production capacities, restoration of enterprises' working funds, and the growth of production, as well as the transformation of the restitutions made for devalued savings, into investments. Solving the problem of restitution of citizens' savings can be a path to renewing the connection, which today is broken, between the population's income, on the one hand, and the production of consumer benefits and capital investment, on the other, as well as to provide the real sector of the economy with working capital, through the expansion of consumer demand. This requires application of the following techniques to solve this problem.

Use of citizens' savings in Sberbank of Russia, which should be restored in correspondence with the purchasing power of their mid-1991 deposits, should be restricted to three purposes: 1) the purchase of domestically produced consumer durables, 2) investment in housing construction or in production, and 3) payment for a certain portion of housing and utilities. The first direction provides incentives for demand, the second increases investment, and the third makes it possible to mitigate the social limitations of housing and utilities reform. In each of these areas, there will be a registration of claims and a procedure for placing them with goods-producers on a competitive basis, according to a schedule that makes it possible to monitor the correspondence between the total claims, placed each year, and the planned limits on the increase of consumer demand, based on existing production capacities and the rate of inflation.

Simultaneously, restrictions are to be introduced on the alloca-

tion of Sberbank credit resources. Their utilization should be limited to investment in the sphere of production, in accordance with the established structural policy priorities, and backed by state guarantees. For this purpose, they should be kept in investment accounts, with a ban on their sale and restrictions on their use for interbank lending, which may be done only in the form of extending credits to authorized investment banks and development institutions, for projects corresponding to state structural policy priorities.

Taking into account that the USSR Sberbank solicited savings deposits, the ones now subject to restitution, at 3% annual interest, it is appropriate to limit the interest rate on the restituted deposits to the same level, in real terms. This will make it possible to ensure that the supply of credit resources, which will have been formed as a result of this program, will have a price acceptable for productive investment. The following cycle of expanded reproduction will be restored: "population's savings—investment—expanded production—increase of wages—higher savings."

This method for the restitution of citizens' savings solves a key problem for the restoration of a money economy in the sphere of production, namely to distribute issued monetary resources in the most effective way—showing preference to the population, while precluding arbitrary administrative actions and the associated opportunities for abuse. It makes it possible simultaneously to ensure: the increase of end-product demand, the increase of enterprises' capacity utilization, the growth of labor productivity and employment, and, consequently, reduction of the cost of production and increase of its efficiency; mitigation of the payments crisis and partial restoration of enterprises' working capital. It also achieves a reduction of interest rates for investment credits and reviving overall investment. It creates possibilities for the structural reorganization of the economy: the direction of investment resources, in line with the established priorities of science and technology policy, into development of the contemporary and the next technological phases.

The proposed restitution program for citizens' savings may become an important lever for shifting to economic growth and raising the welfare of the population, simultaneously ensuring the consolidation of society and maintenance of social stability.

3. Measures to provide microeconomic conditions for growth.

The formal change in the nature of property relations, which occurred as a result of mass privatization, has not yet been backed up by actual mechanisms for economic responsibility, which would ensure that economically active persons and entities strive to promote the economic efficiency and long-term development of enterprises. The resolution of this problem necessitates a system of measures to put property relations in order: a) introduction of a strict system of accountability for the efficient management and use of state property; b) firm protection of legally obtained property, by law and in the courts; c) introduction of state control over the circulation of land, through a network of land banks; d) political and juridical formalization of the conclusion of the mass privatization phase for state enterprises, providing for an audit of the results of privatization, with the cancellation, by court proceedings, of acts that were illegal and damaged the economy, threatening national security interests, as well as of deals for the acquisition of state property, entailing obligations that have not been fulfilled. With respect to all other enterprises, property rights will be permanently confirmed; e) tightening of standards for the effective management of corporate property, under which managers are accountable to shareholders, labor collectives, and the State. Introduction of advanced management technologies, which envisage the activation of the human factor, optimal utilization of productive resources, improvement in the quality of production, incentives for innovation, maximum utilization of competitive advantages in the development strategy for enterprises; f) decriminalization of economic activity and strengthened state protection for property rights, accountability for honoring contract discipline and contract obligations, and an increase in the efficiency of the system for court resolution of economic disputes; g) creation of conditions for the efficient organization of industrial production, and the integration of financial capital and industrial enterprises, including by these means: elimination of artificial restrictions on the joint participation of financial and production organizations in property ownership, and on mergers and association among goods-producing enterprises, scientific research, and financial organizations; promotion of the creation of

industrial finance groups, which are capable of independent survival under conditions of domestic instability and tough international competition; privatization of enterprise shares, which are still owned by the State, for the creation of an efficient and competitive organizational structure for industry.

The approach to economic policy at the microlevel should be subject to review. The contemporary technological phase is characterized by complex production cooperation on a world market scale. The cycles of science and production that comprise it are supported by major corporations, which exist in a symbiotic relationship with small and medium-sized enterprises that innovate, and scientific research institutes, laboratories, and universities, which, in their totality, ensure a continuous process of developing new technologies, training personnel, manufacturing complex products, and creating new qualities of products.

The reproduction of the contemporary technological phase is characterized by widespread use of incentives for innovation, a developed support system for investment, flexible forms of organization of the technological process, with the active involvement of employees in the management of production, and the combination of private and public sector efforts in the education and training of personnel, health care, the development of transportation and information infrastructure, and financing of scientific research.

The enterprises of our domestic science-intensive industry are uncoordinated and not viable today. Without their association into integrated reproductive complexes, with the simultaneous launch of an adequate state system for the support of innovation and incentives for scientific and technological progress, they are doomed either to be swallowed up by interested foreign corporations, or to further degradation.

There needs to be a purposeful state program to develop national leaders—large, vertically integrated corporations, which are linked through cooperation with financial, scientific, educational, and consulting organizations, and which are sufficiently stable and diversified to compete successfully on the world market. The realization of existing competitive advantages requires the creation of a new institutional environment and diverse forms of cooperation among science, education, production, and finance; the development of modern approaches to personnel management; and the use of flexi-

ble structures for the organization of production management, which make possible an abrupt improvement in the quality and productivity of labor, while satisfying employees' needs for self-realization.

4. Transition to an active development policy.

Transition to an active development policy, including scientific and technological, industrial, foreign trade, investment, and education components, is a necessary condition for sustained economic growth under existing macroeconomic conditions. This policy should include: setting priorities for long-term technical and economic development, providing state guarantees for their realization, implementation of investment and science and technology programs, conversion of the defense industry, activation of scientific and industrial, and intellectual, potentials, increase of the competitiveness of domestic enterprises, a purposeful foreign trade policy, reform of enterprises and creation of national leaders, capable of independent development under conditions of tough international competition.

Special measures to provide for the structural reorganization of the economy on the basis of dissemination of technologies belonging to the contemporary technological phase and the creation of conditions for it to develop at a surpassing rate should be the rudder of state scientific and technological, industrial, and structural policy.

The effectiveness of measures for the structural reorganization of the economy depends to a decisive degree on the correct choice of priorities. From the standpoint of science and technology, the priorities selected should correspond to promising directions for establishing the contemporary technological phase and for preparatory work on bringing the next one into existence. From an economic standpoint, state support for the priority areas should be characterized by two most important features: to have a significant radiating effect, improving the general economic environment and the conditions for developing business activity, and the ability to initiate the growth of business activity in a broad range of sectors, involved with priority manufactures. In other words, it should have a multiplier effect, generating a spreading impetus for the growth of demand and of business activity. From the standpoint of produc-

tion, state incentives should bring about growth of the competitiveness of the relevant manufactures, such that, starting at a certain moment, they can take their own trajectory of expanded reproduction on a world market scale, playing the role of "locomotives of growth" for the economy as a whole. From the social standpoint, implementation of the priority directions of the economy's structural reorganization should be accompanied by an increase of employment, growth in the real wages and skill levels of the working population, and a general improvement of the people's welfare.

On the whole, the substantive goals and priorities of state structural policy should correspond both to the comparative advantages of the Russian economy and to the objective tendencies of global technical and economic development on the basis of dissemination of the contemporary and the next technological phases. It is necessary to provide for the concentration of various forms of state support in the most promising areas for economic growth. Diverse instruments of state economic policy may be utilized in their implementation: purposeful investment and innovation programs, purchases of advanced equipment for direct consumption by government agencies or for leasing on a commercial basis, preferential credits, state guarantees, subsidies for R&D, etc.

In particular, the following are among the priority directions, implementation of which meets the above-indicated criteria:

- development of biotechnologies, sharply raising the efficiency of the agroindustrial complex, the pharmaceuticals industry, and health care, and constituting one of the key areas for shaping the next technological phase;
- development of new microelectronic technologies, which make possible a rapid increase of the competitiveness and efficiency of domestic machine-building and the information infrastructure;
- conversion of science-intensive industry, in view of areas that are promising for the creation of the contemporary and next technological phases;
- renovation of the civil aviation fleet, the obsolescence of which has reached a critical level, and its replacement, using the relevant possibilities that exist to produce a new generation of airliners;

- renovation of equipment at electric power stations, where obsolescence is approaching critical limits;
- modernization of management systems in rail transport, which should make possible a significant increase of the carrying capacity of the railroads;
- production of up-to-date means of flexible automation, software, and computer equipment;
- development of up-to-date transportation junctions: seaports, airports, railway stations, highway interchanges—making possible a substantial improvement in the speed and reliability of mixed carriage deliveries, to provide conditions for the introduction of modern delivery-management systems using the "just-in-time" principle, which is critically important for developing enterprises of the next technological phase, and for expansion of interregional and international cooperation in production;
- development of housing construction and reconstruction of urban infrastructure systems, using the latest technologies, and modernization of housing and utilities;
- development of information infrastructure on the basis of modern satellite and fiber-optics communications systems, and cellular phone communication in cities;
- modernization of health care and the education system on the basis of the most up-to-date domestically produced equipment (diagnostic devices for medicine, computer technology for the education system, and so forth);
- improvement of the environment through the use of modern means of pollution diagnosis and cleanup, and the introduction of ecologically clean technologies.

In addition to the concentration on state support measures and incentives for the priority areas of structural policy, science and technology should also be activated, with the adoption of special measures to preserve and develop our national scientific and technological potential:

- fixing of the portion of budget spending, allocated for R&D, at no less than 2% of GDP; sharp increase in state subsidies

for scientific research, and tax-exemption of enterprises' R&D spending;

- concentration of state support resources on the implementation of federal development programs and the dissemination of key technologies of the contemporary and the next technological phases; incentives for innovation, by means of state support for risky projects to develop promising innovations, which can provide Russian enterprises with competitive advantages on the world market;
- formation of an incentive mechanism for technology transfer from military to civilian manufactures;
- support for the information infrastructure for scientific research, the network of science and technology libraries, subsidies for spending by scientific research organizations on the use of information networks and databases and on the purchase of scientific literature abroad;
- subsidies for spending by domestic enterprises and organizations to import technologies, as well as to protect intellectual property and intellectual property rights within Russia and abroad;
- support for the functioning of test units, experimental devices, and pilot production;
- elaboration and implementation of development programs for regions with a high concentration of scientific and technological potential.

Implementation of the above measures for the structural reorganization of the economy requires a corresponding approach to state regulatory functions for the economy. The naive notions of the State as a "night watchman," or a superstructure on top of an economy of independent actors, must be abandoned. In a modern market economy, the State performs the internally important function of promoting the development of production and the betterment of the citizens' welfare and quality of life.

This requires that the State not only ensure all necessary conditions for market competition to function normally and defend the legal rights of citizens and enterprises, but that it also help enterprises adapt to the changes and fluctuations of the market conjuncture, and create favorable conditions for the development of produc-

tion activity, financing a portion of undertakings of general significance—primarily, spending on scientific research, education, health care, the development of information and transportation infrastructure, and incentives for innovation.

Foreign experience, as well as our own, bears witness that one of the necessary attributes of the development of the State, is a system of indicative planning and long-term state programs for modernization of the economy, oriented toward the creation of favorable conditions for growth and the increase of the national economy's competitiveness in promising areas of global scientific and technological progress. The State creates development institutions, which support investment in new technologies, promote innovation, foster progressive technological improvements, and unite financial, labor, and information resources for promising directions of economic growth.

An active role for state regulation does not diminish the significance of market self-organization, for ensuring the economy's structural reorganization and transition to sustained growth. State structural policy does not replace entrepreneurial initiative, but rather creates conditions for the subsequent growth of private investment and an economic upswing, on the basis of widespread development of new promising technologies through market self-organization and competition. The State helps to form competitive economic organizations, which can function in domestic and world markets under conditions of tough competition and concentrate resources into promising areas for the renovation of production. The instruments of direct state influence should be oriented toward support for a broad range of private initiative to develop manufactures belonging to the contemporary and next technological phases, promoting investment and entrepreneurial initiative in the relevant areas.

* * *

Calculations based on models of the above-described mechanisms for increasing investment and economic growth show that implementation of the proposed measures will make it possible for the Russian economy to emerge from the depression, onto a new, steady economic growth trajectory, ensuring the necessary guideline targets for the medium-term perspective.

The economic elements of a strategy for Russia's successful

development in the next century were characterized above. At the same time, modern economic growth is impossible, without high standards of public and personal morality, and corresponding qualities of public spiritual and intellectual culture. The next technological phase is based on the intellectualization of all factors of production. It is accompanied by a fundamental change in the nature of social labor, which becomes primarily creative and collective, combining the individual's constructive creative freedom with advanced forms of cooperation, large and flexible organizational structures, and intense international exchanges of information.

The values of mass consumerism, individual wealth, and individualism are replaced by the values of harmony in human relations, global security, environment protection, and intellectual creativity. In the new way of life, there is a synthesis of technology and culture—the cultural and moral features of different peoples become important factors of international competition. Those social and economic systems prevail, which ensure the combination of rationalism and the spirit of freedom, with traditional values of a high level of culture, spirituality, and social responsibility.

Embedded in this feature of the next technological phase, are unique possibilities to raise the competitiveness of the Russian economy, and effectively uncover the spiritual-intellectual potential of Russia. The Russian character and Russian spirituality can play a decisive role in Russia's natural progress into the future world civilization, as one of its leading countries. The traditional Russian qualities of collectivism, unselfishness, striving to help others, "universal sympathy," and self-sacrifice are key elements for a new organization of social production, devoid of "economic egoism," and based on the principles of mutual help, cooperation, and trust.

A necessary condition for overcoming the crisis and shifting to economic growth is a cardinal change of state cultural, information, and education policy, which need to be brought into correspondence with the traditional values of Russian spiritual-intellectual culture. We need to develop a modern edition of the Russian national idea, which should promote harmony in social development and the spiritual enrichment of people. In combination with the introduction of contemporary technologies for the education of the generation now growing up, this will provide Russia with important competitive advantages in the economy of the twenty-first century—a high qual-

ity of the human factor, the intellectualization of social production, and the harmony of social relations.

Realization of the traditional spiritual values of our culture is a necessary condition for overcoming the economic crisis and emerging onto a steady economic growth trajectory. The surge of investment, which this will require, makes impossible any substantial enlargement of the public consumption fund during the next decade. That means that for a long time to come, even if the desired growth of production is achieved and an optimal policy on incomes and social guarantees is implemented, we shall not be able to provide a level of compensation for highly qualified labor, at generally-accepted standards for developed countries [73]. It will be necessary to activate Russia's customary resource of spiritual energy and the patriotism of broad masses of the population, in order to build up economic activity under conditions of relatively low labor compensation.

Reliance on traditional values in Russian spiritual culture, such as patriotism and self-sacrifice for the common good, creative labor, and the primacy of the spiritual over the material, will be necessary to overcome the systemic crisis in Russia and bring about its rapid rebirth as a great power, which unites the values of economic and spiritual-intellectual progress, sustaining high rates and quality of growth, and combines harmonious social relations with responsibility for supporting global stability and the sustained development of human civilization.

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The translation has been made from the second Russian edition of Doctor of Economics Sciences Sergei Yu. Glazyev's book *Genotsid* (Genocide), published at the end of 1998. The study was broadened from the first, 1997 edition, and expanded with new material. In the words of the Russian publisher, the book is intended for a broad array of readers, interested in the development of Russia, and "for all those who are not indifferent to the fate of the Russian people and the Russian State."

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