Russian government, industry look to lessons of 'Mittelstand,' New Deal

by Rachel Douglas

Prime Minister "Yevgeni-Primakov-who-has-been-slow-coming-up-with-a-plan-to-revive-the-economy," the Russian head of government is now called in the wire agencies' word-processing ID format lists. His speeches of Oct. 14 to the Federation Council and Oct. 20 before a conference of the Russian Union of Industrialists and Entrepreneurs (RUIE) have been scantily reported, although in them Primakov both updated his government's emergency measures to deal with food and energy supplies, and opened a window on his thinking about how to spark growth in the real economy.

Primakov's remarks to the RUIE featured an emphasis, new for Russian economic policy discussions of recent years, on the importance of small- and medium-sized technologically innovative companies as the motor for economic growth. The key function of this layer of productive industry, called in German the *Mittelstand,* has also been grossly neglected under post-industrial policy dogmas in the West during the past 30 years. As the "machine-tool principle," it is central to the Schiller Institute's call for a New Bretton Woods proposal, circulating internationally since January of last year.

First Deputy Premier Yuri Maslyukov reiterated the Russian government's order of priorities, speaking at a press conference on Oct. 21: "We must first solve the urgent tasks, achieve stabilization, survive winter, prevent hunger, and only then work out the necessary medium-term program." Maslyukov was also conducting negotiations with an International Monetary Fund (IMF) delegation, but the fourth-quarter state budget draft does not assume disbursement of IMF funds.

At the RUIE conference, Primakov reviewed the emergency action areas: 1) payment of state-sector wages and pensions has been resumed; 2) dealing with "the crisis of food supply," by reduction of taxes, creation of an emergency food reserve, lowering of customs duties on a list of critical imports, reduction of rail fees for shipping of fruits and vegetables, and payment-in-kind deals for debts owed Russia by Ukraine and Belarus; and 3) revival of the banking system, which has been almost non-functional since the liquidity crisis of mid-August.

On Oct. 21, the Central Bank announced the plan for Russian banks. They are divided into four groups. Eight-hundred and sixty-two banks are deemed able to survive without assistance, or with temporary restrictions on some risky operations, in the case of a segment of this group that is less sound. The second class of 398 banks consists of relatively sound regional banks with large branch networks, which are to have Central Bank participation and Central Bank-appointed managers for a period of three years; they are to take over the functions of bankrupt regional banks and work chiefly in the issue of credits to industry, trade, small businesses, and households. Fifteen major banks, the third group, are dead on their feet, but will be restructured under Central Bank guidance, because their demise would be too injurious to society. A last group, comprising 275 insolvent banks, will be liquidated during the first six months of 1999.

The real sector

The fourth policy area addressed by Primakov, he said might as well have come first: "galvanizing the real sector of the economy into action." He reviewed previously announced measures, such as the settlement of mutual debts of companies by offsets—with centralized routing through the Treasury, to reduce fraud. In the past, Primakov said, 40% of mutual settlements or offset transactions "leaked" into the hands of commercial banks.

Imported equipment, impounded at customs for want of payment of the duties, is being released, with rescheduling of the customs payments onto an installment plan.

Primakov then elaborated on his government's "fundamental line, promoting the real sector of the economy." The privatization of industry that was done, under a theory of reform whereby "we should give ourselves to the mercy of the market and the market will put everything in place and solve all problems," was false and a failure, he said. Privatization should not have been done for fiscal, revenue-raising purposes alone, or "for the selfish interests of a small group of people," but as "a means of increasing efficiency, attracting investments, creating new jobs, and enhancing the competitiveness of products."

The need to promote development of a *Mittelstand,* Primakov presented in opposition to either asset-stripping of industrial enterprises, or—what he and Maslyukov have been accused of by radical free-market ideologues at home and abroad—throwing money into obsolete facilities to save them. "Most enterprises facing bankruptcy," he suggested, "should be either leased or given to experienced managers, selected on a competitive basis. . . . But look at what is happening now. The most valuable assets are removed from such enterprises: machine tools, computers, premises are leased and workers are thrown into the street. We will stop such antisocial actions. . . .

"Naturally, the government will support domestic producers with a whole range of customs, tax, depreciation, and investment measures. Experience demonstrates, however, that monetary injections do not bring about economic growth, the production of competitive goods. This is our chief objective. This is the kind of growth we need, not the multiplication of old technologies.

"World experience proves that the innovation basis for economic growth is largely created by so-called ventures, i.e., mostly small and medium businesses which specialize in addressing concrete scientific and technical problems. One should give thought to promoting such dynamic forms of business in this country as well. Otherwise, permanent protectionism, in the final analysis, strikes a blow against the domestic producer. . . . The government intends to attract foreign investors, while shifting the emphasis to direct investments."

Volsky cites New Deal schedule

From the platform of his RUIE, an association that groups leaders of surviving industries from the Soviet period as well as other business figures, Arkadi Volsky has kept up a stream of criticisms of IMF policies for Russia since the early 1990s. Five years ago, he attempted to build a political force called the Civic Union. After Primakov spoke on the morning of Oct. 20 and departed for a meeting with President Boris Yeltsin, Volsky addressed his membership with a renewed denunciation of the IMF's record, and urging that Franklin Delano Roosevelt's New Deal was a better Western model to follow.

"Academician [Leonid] Abalkin recently joked bitterly," noted Volsky, "that the world's leading power had been enfeebled by previous governments. Equally dangerous, is the fact that instead of salvaging and developing Russian industry and agriculture, the country has been consistently turned into a supplier of raw materials. It has lost traditional markets and became seriously import-dependent."

Volsky raised the prospect that Russian firms, barring new debt restructuring agreements, may default after the Aug. 17 ninety-day moratorium on private foreign debt payments expires in mid-November, or there could even be state bankruptcy. Nonetheless, he said, "many credit terms put forth by the IMF—further cuts in government spending, reorganization of the natural monopolies, accelerated privatization, creation of a land market—are unacceptable to Russia under present circumstances." Volsky proposed to seek "at all levels—government, commercial, and banking—a deferment of the payment of principal of sovereign debts by at least 5-10 years."

"Tough anti-crisis measures," said Volsky, are not to be feared. As an example, he urged, "take the Great Depression in the U.S. They passed a set of laws—and they did this, by the way, in a matter of 20 days; I note this for the benefit of our State Duma [lower house of Parliament]—including an emergency law on banking, a law on economy, a federal law on emergency assistance, a law on the reconstruction of agricultural production, a law on honesty in exchange transactions and securities trading, a federal law on the reconstruction and restoration of industry, and—remember this one—a 'Buy American' law. . . . If we want to learn something from the Americans, we should learn state regulation of the market, rather than the Harvard school of monetarism."

LaRouche 'action program' published in Moscow

by Rachel Douglas

The Russian weekly *Ekonomicheskaya Gazeta* of Oct. 15, excerpted the action program for "emergency world reorganization," written by Lyndon H. LaRouche, Jr. and published in *EIR* of Oct. 9. The publication was contained within a report by Prof. Taras Muranivsky, on an economics conference held one week earlier.

Muranivsky wrote, "The now more than a year-long world financial crisis was the topic of discussion at an international seminar, held Oct. 8 by leaders of regular seminars from three institutes—the Institute of Comparative Political Studies, Russian Academy of Sciences (G.G. Pirogov), FIAN (D.S. Chernavsky), and the Schiller Institute for Science and Culture (T.V. Muranivsky).

"At the center of attention were the concepts of several contemporary foreign scholars and leaders of state, for overcoming the current crisis. G.G. Pirogov explored problems of the aggravated crisis in Japan, where the question of nationalizing some bankrupt banks and companies has been raised as one measure that can be taken. A comparative analysis of Domingo Cavallo's 'currency board' in Argentina and the 'currency controls' of Mahathir bin Mohamad in Malaysia, was presented by T.V. Muranivsky on the basis of materials, some of which have been published in *EG*."

In the Russian press, as in some places in Ibero-America, the "currency board" scheme, resurrected from British imperial practice and constituting a surrender of sovereignty to foreign interests, who acquire veto power over credit-creation in the victim country, has been jumbled together with exchange controls and other state regulatory measures, under the single, undifferentiated heading of "re-regulation." Professor Muranivsky's report addressed the disorientation that might result from such publications.

The *Ekonomicheskaya Gazeta* article continued: "Jona-