

IRI's friends in Russia: the anti-utopia in power

by Roman Bessonov

With this contribution from our Russian correspondent Roman Bessonov, EIR continues to expose the fraud of "Project Democracy,"¹ applied in Russia.² The cast of characters introduced in this installment, exposes the viciousness of the argument, which is axiomatic for the International Republican Institute (IRI) and kindred "Project Democracy" vehicles, that the proponents of "free market" reforms rate as the only truly "democratic" forces in Russia. Subsequent articles will explore the activity of the IRI.

The mass media story, that there was a "new victory of democracy in Russia" in the June-July 1996 elections, sounds less and less convincing. The latest events, including the resumption of bloody fighting in Chechnya, make clear that the power struggle in Russia has not stopped (nor did it, after the previous "victory of democracy," secured when Army artillery barrages forced the Parliament to capitulate to its dissolution by President Boris Yeltsin, in October 1993), but escalated. Instead of progress and development, the reforms of the Russian political and economic system that started in 1989, have led to a situation of immense social and ethnic hatred in society, and to a total disorder in governance which makes it impossible to figure out what tendency or which power clan

is going to take over, and what the next consequences will be—actually, to what is historically known as the Russian *smuta*, or Time of Troubles.³

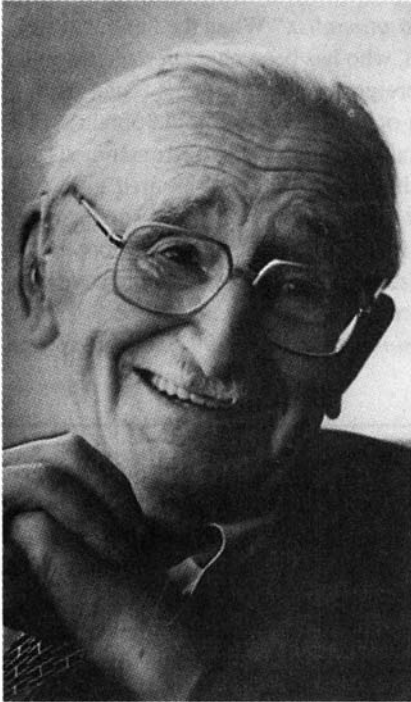
Russians appear to be deeply disappointed in political parties, and the State Duma's consensus for the confirmation of Viktor Chernomyrdin as prime minister, in which two-thirds of the Communist Party of the Russian Federation deputies joined, is evidence that not even the CPRF and its electoral bloc, which had just fielded the strong Presidential candidacy of Gennadi Zyuganov (he received 32% to Yeltsin's 35% in the first round; 41% to Yeltsin's 53% in the second), constitute a clearly defined opposition. There are no vigorous, independent parties. More and more Russian citizens of various views, beliefs, and income levels, are being driven to a conclusion that nothing except a dictatorship by one person, can help the country. As we shall see, such a political option is cultivated and admired by some of the most radical "free market" reformers.

At the same time, the whole world already knows that no significant event in Russia, at least since 1989, is prepared without well-compensated foreign assistance. Lots of advisers from Europe and the United States spend much time in Moscow at their fellow citizens' expense. It would be revealing to tally, just how much money was spent on consulting

1. *Project Democracy: The 'Parallel Government' Behind the Iran-Contra Affair*, EIR Special Report, April 1987, provides the history of how quasi-governmental organizations, authorized under the National Endowment for Democracy (NED), began to assault the institutions of the nation-state during the 1980s. Case studies are included from Ibero-America. See also, Lyndon H. LaRouche, Jr., *The Blunder in U.S. National Security Policy*, Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee, October 1995.

2. William Jones, "Bush 'Trojan Horse' Usurps U.S. Policy toward Russia," *EIR*, Aug. 9, 1996, introduced our series.

3. In Russian history, the *smuta* is a state of confusion and uncertain leadership. The great Time of Troubles was 1598-1613 (just before Thirty Years' War in Europe) beginning when Boris Godunov became czar, after Ivan IV (the Terrible) died without an heir. Russia was repeatedly invaded by Polish and Swedish armies, while Godunov's legitimacy was challenged by pretenders, the False Dmitris, each claiming to be the son of Ivan. The turmoil continued through the death of Godunov and near-capture of Moscow by the Poles, until a *Zemsky sobor*, or Council of the Lands, chose Mikhail Romanov as czar in 1613, beginning the dynasty that lasted until 1917.



(Left to right) Friedrich von Hayek, founder of the Mont Pelerin Society, and two of his disciples in Russia: Anatoly Chubais, head of Boris Yeltsin's Presidential staff, and former Prime Minister Yegor Gaidar.

work alone, for Russian political parties, by the so-called non-governmental organizations.

The U.S. contingent of advisers to Yeltsin would say: "Well, we really helped Yeltsin to win!" It would be interesting to know whether they also plan to take responsibility for the consequences of the elections themselves, which ravaged the Russian state budget—as these consequences may affect the whole world, and the United States in particular. Let's also ask them, for what purpose this heroic effort was made, considering that the "winner" seems scarcely capable of ruling the country (including the government, the military, or even the city of Moscow).

It is well known that the "heroic" crew deployed for "saving Russian democracy" was led by U.S. Republicans, who had previously been "saving democracy" in the state of California. The special image-making services to Yeltsin's campaign by George Gorton, Joe Shumate, and Richard Dresner, former campaign consultants to California Gov. Pete Wilson, were widely reported, after the fact, in the United States and (less widely) in Russia. But they had many predecessors. George Bush's people have been staying in Moscow for years, and their pupils are now in all the Russian power bodies and the putative "parties."

Has their activity really been of use for Russia, the United States, or U.S.-Russian relations? If not, who profits from this activity? And why is the Heritage Foundation crowd of the Bush era still dominating the American presence in Moscow, provoking hatred for Americans among Russians?

The history of Russia's transformation from a world industrial power into a ruined area, dominated by organized crime and destructive energies that threaten all mankind, is closely connected with the history of U.S. Republican operations in this country.

The playground

Gray-bearded Russian political analysts, sociologists and parapsychologists, high-flown conceptualists and eloquent newspaper observers, as well as their clients from the top establishment, were astonished in early May 1996, when they saw a portrait of a self-assured young guy on the margin of his intricate ideological memorandum, published on two full pages of the prestigious *Segodnya* paper. Why, this naughty person looked quite familiar. He used to arrive at various political seminars and conferences, wrapped in a bright-colored scarf and expressing demonstrative contempt for the approaches and conclusions of anybody but himself. His own views, commonly perceived as mere bombast, reduced the whole story of the "democratic revolution" in Russia to something secondary to the transformation of the Russian elites, wherein organized crime and the "informal" economy (or, "unofficial," as it is called in Russian) in general achieved a more and more decisive role. He would shock the audience, saying that under Joseph Stalin, "all the people were personally connected to the supreme power and the tasks outlined by the state leadership," while later this connection was lost, leading to the above-mentioned consequences. Still, nobody

was about to believe that the slim young Moscow intellectual of Jewish origin could be seriously promoting the idea of a new Stalin-sort of dictatorship. Moreover, he personally tried to lead the audience to another solution: that is, that the “informal economy” should be recognized and allowed to play its part in the nation’s economic life, or, as he put it, be “institutionalized.”

The real meaning of the last statement was not understood when the representatives of the Institute of the National Model of Economy, founded by the self-assured young guy, said that “actually [reformist Prime Minister] Yegor Gaidar is not a

monetarist, but an *institutionalist*.” When the famous variety singer Joseph Kobzon, who has been characterized by an Israeli paper as “the foreign minister of the Russian mafia,” openly suggested that organized crime should obtain access to official policy, liberal journalists expressed unanimous disgust. But Vitali Naishul, the young self-assured guy, who spoke aloud the very same ideas, in a more sophisticated way, was welcome at liberal seminars, despite his bombastic habits—maybe because, without him, there would have been nothing to discuss there.

Writing in *Nezavisimaya Gazeta* in 1991, Naishul spelled

Mont Pelerin pushes the criminal economy

In our latest survey of Dope, Inc., the \$521 billion per year narcotics business, *EIR* found that its greatest expansion during the past five years was into Russia and eastern Europe (see *EIR*, July 26, 1996). If the annual worldwide flow of dirty money from narcotics and other illegal sources is \$1.1 trillion, and capital flight (including all types of criminal operations) from Russia and the rest of the former Soviet Union is estimated in the \$60-100 billion range each year since 1992, that means that close to 10% of dirty money flows in the world are coming from this area, which had no regular interface with the international financial system just five years ago.

Was the criminalization of the economy an accidental outgrowth of the rough-and-tumble reform process in the former Soviet Union, or was it essential to the design of those reforms? The central role of ideologues from the Mont Pelerin Society, in plugging “neo-liberalism” into Russia, says it was deliberate.

What is the Mont Pelerin Society?

On invitation from Friedrich von Hayek, an Austrian-born professor at the London School of Economics, 38 people gathered at Mont Pelerin, near Lake Lemán in Switzerland, in 1947. Von Hayek lamented that World War II had strengthened nation-states, which he thought must be replaced with the anti-state, free-trade “liberalism” of 18th- and 19th-century Britain.

Many of those present, such as von Hayek, had the surnames of the old European oligarchical families. Among them: Otto von Hapsburg, of the recently extinguished Austro-Hungarian Empire’s ruling dynasty; Max von Thurn und Taxis, whose originally Venetian family (Torre e Tasso) had relocated to southern Germany in the 15th century; and Ludwig von Mises, leader of the anti-

Renaissance, anti-American-System “Austrian School” of economics founded by Carl Menger, a pre-war retainer for the royal houses of Hapsburg and Wittelsbach. Many of the Mont Pelerin Society founders were also members of the Pan-European Union, set up in the 1920s by Count Richard Coudenhove-Kalergi to promote a feudalistic “Europe of the regions” (small ethnic enclaves) against “Europe of the nation-states.” American followers of the Austrian School, such as Prof. Milton Friedman, were in attendance.

Von Hayek’s 1944 book, *The Road to Serfdom*, set the tone: “We shall not rebuild civilization on the large scale. It is no accident that on the whole there was more beauty and decency to be found in the life of the small peoples, and that among the large ones there was more happiness and content in proportion as they had avoided the deadly blight of centralization.” Denouncing the nation-state as “tyrannical” by definition, von Hayek called for a one-world empire: “An international authority which effectively limits the powers of the state over the individual will be one of the best safeguards of peace.”

The philosophy of this new world order, according to von Hayek, must be based on British 18th- and 19th-century liberalism: Adam Smith, David Ricardo, Jeremy Bentham, and John Stuart Mill. He didn’t say so, but each of those economists worked for the British East India Company, which ran the British Empire. The economics of Smith’s *Wealth of Nations* and its successor texts, was concocted to facilitate the looting of the colonies.

The Mont Pelerin Society set out to proselytize for a modern form of such principles, cloaking them in the wraps of “freedom.”

Count von Thurn: Crime pays

At the September 1980 meeting of the Mont Pelerin Society, held (behind closed doors, as always) in Palo Alto, California at the Hoover Institution for War, Peace and Revolution, Mont Pelerin Society founding member and longtime treasurer Count Max von Thurn spoke on “The

out his notion of how such “institutionalization” should work. Under the Soviet central planning system, he wrote, the vertical chain of economic relations was supplemented by illegal or semi-legal horizontal deals, often in the form of barter. When the perestroika reforms of the 1980s shook the vertical system to its foundations, those “informal” relations remained: “Then . . . there arose a spontaneous system, which saved the economy from ruin. . . . Life confirmed the brilliant observation of that outstanding Austrian economist, Friedrich von Hayek, who considered a spontaneous order to be primary, and to be that which organizes a subsequent organized

order. . . . The old horizontal exchange relations served as the basis for a new, intermediate type of economy—the regional barter market. Enterprises joined into regional syndicates, or pools . . . and made demands on other syndicates according to the principle: If you don’t give us what we need, you yourselves won’t get anything. For example, Arkhangelsk Province demanded food in exchange for timber and paper, while Latvia had to supply meat to Leningrad, since the latter produced spare parts for elevators. The much-criticized economic specialization of the regions . . . served as the necessary precondition for the effective functioning regional barter mar-

Underground Economy.” Here was the philosophy of the Society’s spiritual ancestor, Bernard de Mandeville, spelled out for our time. Mandeville, founder of the Hellfire Clubs in early-18th-century England, preached “Private Vices, Public Benefits”—the notion that the personal vices, lusts, and depravity of individuals pursuing their pleasures, sum to the public good.

In his 1980 paper, von Thurn pondered how to describe his subject, considering “‘shadow,’ ‘secret,’ and ‘hidden’ economy” insufficient. “What are we to understand by the underground economy? The name suggests criminal activities such as trading in narcotics, illegal gambling, blackmail and robbery. These activities certainly form part of the underground economy,” but what about unrecorded financial transactions? “Unrecorded transactions,” according to von Thurn, “have been called ‘free’ not only because they are free of taxes but also free of government regulations and restrictions and all the paperwork required for compliance.” This is the realm of pure free enterprise. According to von Thurn, the underground economy accounts for 7.5% of the national income in Britain, 10-30% in Italy, and anywhere from 5% to 25% in the United States.

Von Thurn warned his Mont Pelerin Society colleagues that some people might object to the underground economy on moral grounds, but no matter. “The approach of the economist is (or should be) value free. How is the economy going to be affected? Will it gain or lose? This is what the economist will want to know. Costs and benefits of the ‘Underground’ are difficult to measure. This much can however be said with a great degree of certainty: More goods are produced, more services are rendered and higher incomes are earned than would otherwise be the case.”

In a section subtitled “Advantages of the Underground Economy,” von Thurn listed: “a flexible pool of labor to be used or dispensed with as business requires, unfettered by job protection regulations”; “wage rates and conditions of work . . . [that] are freely negotiable”; lack of “regulations,” so that “the holders of regular jobs find in the ‘underground’ incentives to activities that would otherwise

be frustrated by taxation”; and “the frustrating effect the underground economy has on egalitarian policies and practices.” In order to bring these “advantages” into the economy at large, von Thurn recommended the abolition or reduction of the minimum wage, to allow more employment of child labor: “Minimum wages at their present levels in many countries make the employment of unqualified juveniles in the surface economy difficult if not impossible. They have no alternative to offering their services in the underground.”

Crime in office

The “institutionalization” of the black economy took off in Russia after 1992, on a grand scale. Already in 1994, U.S. Republican congressmen of Newt Gingrich’s faction would patronizingly tell visiting Russian lawmakers that the criminal boom they were experiencing, was just a natural growth phase for any “free market” economy. Since last year, Edward Luttwak of the Georgetown Center for Strategic and International Studies, an enthusiast of such policies, has been campaigning in the *New York Review of Books* and the *Washington Post*, for the Russian mafia to get the Nobel Prize for Economics.

Mont Pelerin luminary Lord Harris of High Cross, speaking to an American researcher earlier this year, let on about the “private vices” in the realm of personal gain, indulged by some of the “lively-minded, and open-minded and liberal-minded chaps” in the Russian Mont Pelerin clique that became the Gaidar government: “There is a lot of racketeering. I know, some of my pals in Russia were in it, mainly so that they could get the privatized Aeroflot. They wanted, you know, to privatize, for their own pockets. So you had a lot of people working away in Aeroflot, to see how to knock off bits of it, I mean lose bits of it, through the books; their friends would take over part of the factories. It is extraordinary incompetence! . . . I mean, imagine losing large chunks of industry, or large stores of goods. Racketeering and the black market is endemic. . . .”

—Rachel Douglas, Richard Freeman, Michael Sharp

ket, which enabled the economy to survive.” As of 1991, wrote Naishul, the remnants of the old bureaucratic deal-making and this new regional barter, were the only functions ensuring the circulation of commodities in Russia.

Naishul forecast the barter economy’s evolution into a money economy, but most likely a dollar economy—because this sector’s questionable legal status, and uncertainty about the ruble’s value, would invite dollarization. He projected how this state of affairs might be used, as the basis for further reform. Among his proposals, for example, was to give collective farm directors (not the peasants) say-so over their territory and equipment: to sell, lease, improve, or whatever they wished. This would be far better, if seemingly unfair, than telling would-be independent farmers they could go in and start working the land of that collective farm, if the directors were opposed. This would be an example of the priority of “spontaneous processes,” which would then be sanctioned by law; according to Naishul, the precedent for such a procedure would be English common law, formed as the sum of local legal systems.

Naishul’s 1991 tract reads like a Mont Pelerin Society textbook, replete with his fawning over von Hayek. It is reminiscent of *The Other Path*, the treatise on the informal economy as the locus of “real” economic activity and freedom, written by Hernando de Soto, head of the Peru-based Institute for Liberty and Democracy, and the man George Bush once, in a speech at the United Nations, hailed as an exemplar of creative economics for the Third World.⁴ It echoes the infamous 1980 accolade to “The Underground Economy,” by longtime Mont Pelerin Society treasurer Max von Thurn (see box).

It is no surprise to find the theme of “institutionalized” criminality so thoroughly articulated by a Russian in 1991, because the Mont Pelerin Society trained its sights on the Soviet Union, and eastern Europe, nearly a decade before.

In 1983, the Centre for Research into Communist Economies (CRCE) was organized in London, out of the Institute for Economic Affairs.⁵ The IEA, headed by Lord Harris of High Cross, is the main Mont Pelerinite think-tank in Britain.

CRCE representatives began to go into eastern Europe in the mid-1980s, especially to Hungary. There, they met a young Russian economist named Anatoli Chubais, member of a loose group that included Yegor Gaidar and other future leading lights of the “reform” in Russia. There were similar contacts, also made in Hungary, of the CRCE with people from Poland and Czechoslovakia, including the future prime

ministers of those countries, Leszek Balcerowicz and Vaclav Klaus. Before long, Gaidar and other Russians were travelling to London as guests of the CRCE, or convening with students of the Mont Pelerin agenda from throughout eastern Europe, at seminars held in Hungary, Vienna, or the United States.⁶

Lord Harris, among whose published titles is *The End of Government . . . ?*, co-founded the Moscow-based International Center for Research into Economic Transformation (ICRET), in 1990.⁷ It began to collaborate closely with the similarly named (Russian) Institute for the Economy in Transition, launched under the auspices of Academician Abel Aganbegyan and subsequently headed by Yegor Gaidar and Vladimir Mau. At the end of 1991, that Russian institute nearly folded, because most of its staff entered the government of Yegor Gaidar, the first prime minister of independent Russia, chosen by President Yeltsin. From the Mont Pelerin-trained group, Gaidar became prime minister; Mau was his assistant for economic policy; Andrei Nechayev was minister of economics; Leonid Grigoryev (later at the World Bank) was chairman of the Committee on Foreign Investment; 500 Days Plan co-author V. Mashchits headed the committee for economic relations with Community of Independent States countries; Pyotr Aven was minister of foreign trade; Sergei Vasilyev was head of the government’s Center for Economic Reforms. Konstantin Kagalovsky, the first executive director of Lord Harris’s ICRET, was detailed by the Russian government to handle its negotiations with the International Monetary Fund (IMF)! Above all of them, Anatoli Chubais spread his wings as the privatization czar—officially, as chairman of the State Committee for the Management of State Property, which was actually a commissariat for eliminating state property.

Lord Harris and his collaborators were in a position analogous to that of British Foreign Office agent Bernard Pares in March 1917, who exclaimed over the Kerensky cabinet, formed after Russia’s “February Revolution,” that “it seemed like a dream. Of the twelve new ministers, seven were actually collaborators of my *Russian Review* in Liverpool. . . . To me it all seemed almost to good to be true.”⁸

6. Many of these contacts went unpublicized, but *EIR*’s source reports about them are borne out by the Aug. 23, 1991 “Diary” column in the *London Times*. The *Times* wrote, “The free market gurus and think-tanks that helped redraw the economic map of Britain during the 1980s are planning an ideological invasion of the Soviet Union, in the belief that the failed coup [of Aug. 21-22, 1991] has rendered the empire ripe for a dose of Thatcherism. Although their influence may have diminished at home, the Thatcherites believe that the events of the last few days have created the perfect new laboratory to test their ideas.” Interviewed about the series of monthly luncheons he would be hosting for “free-marketeers and Soviet economists,” Lord Harris of High Cross told the *Times*, “We criticized Gorbachov in the past for not reforming fast enough. Now the pace will be accelerated and our think-tanks can play a key role.”

7. *The International Who’s Who*, London, 1996.

8. Bernard Pares, *My Russian Memoirs* (London: Jonathan Cape Ltd., 1931), p. 413.

4. Hernando De Soto, *El Otro Sendero*, 1987. De Soto’s Institute for Liberty and Democracy was one of the first institutes in the Mont Pelerin Society’s worldwide Atlas network of think-tanks. It has been financed by “Project Democracy,” the U.S. National Endowment for Democracy, and collaborates closely with the Center for International Private Enterprise (CIPE), the “business” arm of the NED.

5. Vladimir Mau, *The Political History of Economic Reform in Russia, 1985-1994*, The Centre for Research into Communist Economies, 1996.



Moscow street vendors, April 1996. "The 'institutionalization' of the black economy, which undermines statehood, was the logical result of a transformation in official Soviet ideology in the 1970s-1980s, which started under the direct influence of the Club of Rome, the International Institute for Applied Systems Analysis, and other think-tanks, which were working not against Communism, but against human civilization."

What Jupiter is permitted, is forbidden to the bull (Russian proverb)

The latest edition of Vitali Naishul's maximum program, was slated to be published in *Segodnya* already in March 1996, but for some reason, the editors decided to wait until May. In the interim, word leaked out in *Izvestia* and other publications, that Naishul had been recruited to Gen. Aleksandr Lebed's election team, as an economic adviser. (The association may have been short-lived, since by the time he took office as Security Council secretary in June, Lebed put forward Sergei Glazyev as his preferred expert on economic policy; and, Glazyev's opposition to what he calls the "market romanticism" of the other economists of his generation, as well as his own advocacy of dirigist economic measures, are well known.⁹)

In early July, when Lebed was already head of the Security Council, *Izvestia* attacked him, and especially his chief of staff, General Krivilyov, for having dealings with Russian nationalist politicians, as well as violating the freedom of belief. Lebed's fault appeared to be that at a meeting with the newly established Union of Patriotic and National Movements (headed by a left-liberal politician, Vladimir Filin), he denounced Western sects for invading Russia during the last five years, mentioning Mormons in one breath with the apocalyptic cult of the White Brotherhood. Western mass media also expressed anxiety, over Lebed's omission of Judaism, when he listed Orthodoxy, Islam, and Buddhism, as tradi-

tional popular creeds in Russia. Lebed subsequently clarified, that he did not mean to say anything bad about Judaism, or Catholicism, but the story about Lebed's alleged anti-Semitism rippled through the mass media; it appeared to some observers, that these reports were exploited to neutralize Lebed, while Anatoli Chubais was being promoted to the post of the head of the President's staff.

At the same time, almost nobody paid attention to the fact that Naishul (whose group within Lebed's team opposed General Krivilyov), in his maximum program, mentioned only, exclusively, Orthodoxy; that Naishul quoted a reactionary Orthodox philosopher of the 19th century, Lev Tikhomirov¹⁰; that Naishul offered to revive ancient (pre-Peter I) Russian Orthodox Church institutions to replace the existing legislative and judicial power bodies; or that he wrote about the "power of ideocracy" as an ideal design for Russian statehood. Why so? Why is a bright-scarved haughty fellow regarded as a "Jupiter," who is granted some exclusive right to voice feudal concepts, unlike what would be tolerated from any Russian nationalist "bull"? Is that because he is a frequent guest at radical liberal seminars? Or because, as a Jew, he is absolutely never supposed to be called a "fascist" (the liberal press uses the term as a synonym for "Orthodox nationalist")?

9. Sergei Glazyev, "The Theory of Economic Growth in a Transitional Economy," *EIR*, May 31, 1996.

10. Lev Tikhomirov was a leader of the terrorist group Narodnaya Volya (People's Will), which assassinated Emperor Alexander II in 1881. Until 1887, Tikhomirov was responsible for the organization's foreign connections, and lived in Switzerland. Then, suddenly, he issued a brochure titled "Why I Am Not a Revolutionary Any More," and became an Orthodox theologian of the "Grand Inquisitor" sort, a poet of absolute monarchy.

In reality, you can find Russian ethnic politicians who are considered to be hard-core “cosmopolitans” (the derogatory Russian term for persons primarily committed to the interests of global institutions, above those of the nation; often used as a smear against Jews); and there are Russian Jews, who are greater patriots of Russia than any ethnic Russian. But someone may be a “globalist” or a “patriot,” either for idealistic, or for pragmatic reasons. Among the latter type, who typically change their views like handkerchiefs, there is a distinct, special type of elite figure, who “never drowns,” as we put it in Russian. They have no problem adapting to new conditions: They may speak in a Russian “slavophile” or “westernizer” language, if they consider it necessary. When “radical liberal” TV boss Bella Kurkova unperturbedly interviews “radical nationalist” Gen. Aleksandr Sterligov, sincere radical liberals and sincere nationalists alike go mad with indignation. But those two elite persons, who are never obsessed with their differences in views or ethnic origin, enjoy drinking a cup of coffee together, lazily thinking of how to fool the gullible once again.

The politicians of this type are fairly confident that they’ll never be seriously blamed by the supreme authorities for anything they say, as they themselves define the political climate. Naishul is one of them, as are the other members of that narrow circle of “conceptualists,” purveyors of the “free market” recipes from von Hayek and the Mont Pelerin Society, who, in the late 1980s, had the opportunity to shape both the economic and political strategy of the top leadership of Russia. When Jeffrey Sachs, the young Harvard Business School professor hired by the Russian government for advice, brought “shock therapy” to Russia in 1991-92, the scenario was implemented in a certain modified way, which startled even some proponents of classic neo-liberalism.

Prof. Larisa Piyasheva, a neo-liberal, was knocked out from the Moscow mayoralty, as soon as she attempted to conduct privatization according to the “classic” scheme. I talked to her soon after that, in the summer of 1992. She was furious. “Why,” she said, “I told them [the Moscow officials] that they should first denationalize the retail trade bureaucratic hierarchy, and then start privatization. But instead, Gaidar decontrolled retail prices, and only *after that* did he eliminate the old hierarchy of the so-called supply system. *It was actually managed corruption, and not a property reform!*”

A top pragmatist does not use such harsh words. He calls the process “institutionalism.”

The shift of values

The “institutionalization” of the black economy, which undermines statehood, was the logical result of a transformation in official Soviet ideology in the 1970s-1980s, which started under the direct influence of the Club of Rome, the International Institute for Applied Systems Analysis (IIASA), and other think-tanks, which were working not against Com-

munism, but against human civilization.

Beginning in late 1986, Gorbachov’s perestroika campaign was conducted under two primary slogans: more information, and more consumption. This agenda was boosted primarily by Canada-trained Politburo member Aleksandr N. Yakovlev, who promoted the ideas of “post-industrial revolution” and “information age,” as well as the notion that industry should be shifted from “production of the means of production, to production of consumer goods.” The difficulty for such schemes to succeed, even in the short term, was determined by the overriding goal of the Soviet leadership of that era: the search for margins of efficiency in the economy, to sustain an unprecedented military build-up.¹¹

Instead of positive solutions to cure the economy (which would have required, primarily, infrastructure development), the accent was on a neo-Bukharinist “new economic policy,” beginning with the ruinous campaign to encourage formation of cooperatives, in 1986. Under other management innovations, directors of plants were effectively encouraged to extract unrecorded and untaxed incomes. The programs stimulated regional elites to take bribes, while loosening criminal accountability for economic crimes. Recognizing the 1920s-vintage Bukharinite motto, “Enrich yourself!” organized crime kingpins became unofficial advisers to these industrial managers. The Hayekian “spontaneity,” so lauded by Naishul, was picking up steam.

For ordinary citizens, the dream of better consumption had not come true; instead, more and more goods were in deficit, as a larger and larger part of production escaped through the gaps between production, distribution, and retail, and more and more cash leaked out of the purview of the state and its budget.

On the heels of these missteps, came a much wider experiment with “workers’ self-management,” also known as “the Yugoslav model,” which allegedly would allow citizens of distant regions to become less dependent on the center (Moscow), and enterprises to be freer from the “dictates” of government ministries. These measures disrupted the centralized planning system for industry and infrastructure, which—with all its inefficiencies—had been the basis of Soviet industrial and social development. The increasingly heteronomic enterprise leaderships, collective and otherwise, were in no position to guide the economy anywhere.

In 1989-91, with the Soviet bloc splintering under the political pressures generated by its economic crisis, the Mont Pelerin Society-groomed economists seized an opportunity

11. *Global Showdown: the Russian Imperial War Plan for 1988*, EIR Special Report, July 1985; *Global Showdown Escalates*, EIR Special Report, September 1988. In his introduction to the latter, Lyndon LaRouche recalled his forecast in the first *Global Showdown*, that “the Soviets’ Ogarkov Plan of pre-war economic mobilization of new military potential . . . would run its course after approximately five years. I forecast that if Moscow continued to follow the mobilization policy then in progress . . . the Soviet economy would reach the threshold of a worsening physical-economic crisis about 1988-89.”

Thievery is 'just a phase,' Russians are told

In his 1993 film and book The Great Criminal Revolution, Russian parliamentarian Stanislav Govorukhin surveyed the criminality rampant in Russia after just two years of so-called reforms. These excerpts from the book were translated by Rachel Douglas.

The whole country is stealing. We've heard that phrase before somewhere. Oh yes, of course! There is not a single newspaper or government official, who has not at least twice quoted Karamzin's famous answer to the question, "What is Russia doing?"

"Stealing," was the writer's succinct reply.

Confronted with the need to justify the looting of the country on a huge scale and the impossibility of concealing it, they turn to this Russian classic for help. What are you panicking for? We've always stolen.

If Karamzin is watching us from another world, he must be cursing himself for that witticism. He armed the very people he detested when he was alive, providing them with a weighty argument. These miserable good-for-nothings have made the word he spoke in a moment of pique, into a testimonial for our time.

* * *

During the fascist invasion, when half the European part of the country was under occupation, trainloads of looted goods went to the West every day. But only that section of the country was being robbed. Today the whole place is being swept clean.

But the scribblers from the "progressive press" assure us: "So what? We've always stolen. . . ."

They also hammer into people's heads a really base thought, but one that sticks: that throughout history, start-up capital was always ill-gotten. Here they weave in Marx (his theory of primitive accumulation) and recall the American robber barons of old. Sure, there is a criminal element now. But later on. . . . When they've stolen their fill. . . .

And people believe it, though you couldn't dream up a baser idea. It's absolutely untrue! Just look at the history of enterprise in Russia. The popularizers of this idea don't even believe it. They may be scoundrels, but they're not fools.

Look around. How many high-flying rogues do you know, who don't have money in a Western bank? Who among them doesn't have real estate abroad? Which of them has not evacuated his family, his wife and children, to the West? No, their money will never return to this country and will play no part in the rebirth of Russia.

* * *

And then I hear the following: "What are you trying to scare us with the mafia for?! So there's a little shooting. . . . Chicago had it in the '20s and '30s. And look at Chicago today!"

Oh, those three-card monte dealers! You won't ever keep track of their moves.

Shall we explain to them that Moscow, Yekaterinburg, and Khabarovsk are not Chicago? Furthermore, things in Chicago were not exactly as the American movies portray them; they were a little less heavy-duty. And those mafia turf wars took place against the backdrop of normal life in society. America was suffering an economic crisis, that's all; it was not being shaken by a criminal revolution.

to advance an even more radical break in policy, jumping far ahead of the "Yugoslav model," into the "free market." Its first ideological substantiation was the notorious 500 Days Plan, originally drafted under the direction of Academician Stanislav Shatalin, a dabbler in astrology, by young economists like Grigori Yavlinsky and the intense student of Thatcherism, Boris Fyodorov. George Soros assisted this plan, paying the way of Yavlinsky, Fyodorov, and four other members of the Shatalin group, to attend the September 1990 IMF conference in Washington. Yavlinsky and Fyodorov did not make a secret of their British and U.S. connections (Yavlinsky hob-nobbed with Jeffrey Sachs, in the period when the 500 Days Plan was drafted), since at that time the Russian public was enthusiastic and trusting toward the West.

The 500 Days Plan document, enticing citizens with a swift and easy transition to prosperity, proposed the total privatization of national industry in four phases: preparation,

privatization, introduction of a market, and stabilization. The first would be a 100-day period of publicizing the plan, taking inventory, and warning economic enterprises that their subsidies were about to be terminated. During the five-month second phase, state-owned industry would be sold off through share issues and other means. In the next period, to create a "market," prices would be decontrolled. Heavy industry production would be expected to plummet. The last 100 days would bring a solution to remaining "structural problems," and the reduction of prices on consumer goods.¹² The word "freedom" was applied to everything, reducing the role of the state in economic development to zero. The authors of the 500 Days Plan exploited people's real concerns, which were significantly influenced by the excessive propaganda of con-

12. Rachel Douglas, "In Need of Economic Cure, Soviets Choke on 'Free Market' Poison," *EIR*, Nov. 2, 1990, details the 500 Days Plan.

sumerist values, as well as the newborn “democratic intelligentsia,” in whose naive imagination liberalism was a synonym for liberty.

Politically active intellectuals, mostly representing junior staff at Moscow research institutes, greeted the 500 Days Plan with great enthusiasm, for its scenario of self-government for the regions was understood as a positive alternative to the centralized system of power. At the same time, the “confederalist” agenda of the 500 Days Program corresponded well with Academician Andrei Sakharov’s views of the state system. Under significant influence from his wife, Yelena Bonner, the daughter of two Comintern functionaries repressed by Stalin, Sakharov promoted a model in which all the Soviet republics and autonomous ethnic entities within them (such as Nagorno-Karabakh in Azerbaijan, Checheno-Ingushetia and Tatarstan in Russia, Abkhazia in Georgia, etc.) would acquire the same administrative status.

The moral authority of the famous physicist, dissident, and human rights advocate Sakharov, in the hands of those people who hurried to surround him, using him most commonly as a decoration for their own image, created a lot of sincere advocates of an unbridled free market and the absolute right to political and economic self-determination. It was virtually impossible to explain to these people, as well as to their audience, that their best intentions were paving a road to war and disaster, and not to prosperity. Anybody who tried to speak of foreign geopolitical manipulation of the Bonner-Sakharov model, or about the need for dirigisteconomic measures, was regarded as a KGB agent or a fascist.

But while sincere, idealistic heralds of the “free market,” like Piyasheva, Selyunin, et al., were writing their consumerist utopias in *Novy Mir* and other popular magazines, the “pragmatists” such as Vitali Naishul, Pyotr Aven, and Konstantin Kagalovsky, in consultation with the London-centered Mont Pelerin apparatus, had already prepared their own outline of the future reform, which would soon be implemented by Gaidar, Fyodorov, Chubais, and Aven, among others, as members of the Russian government. Unlike many activists of the Perestroika Club and similar institutions, they knew real property relations, as well as geopolitical issues, well enough, and first-hand. They were much more informed, and much more cynical.

The Alpha people

The first writings of Naishul, describing the development of the “unofficial administrative market” since the Brezhnev period, appeared in a series of “Progress” Publishing House books with deep blue covers, which were the journalistic tribune for the “architects” of perestroika. Ironically, the first book of the series was called *There’s No Other Way* (1988), and the last one *Sinking into the Quagmire* (1991). In these books, as well as in his October 1991 publication in *Nezavisimaya Gazeta*, Naishul lauded his sometime co-author Pyotr Aven, as a fine economist who could be mentioned in the

same breath with von Hayek. “Soviet researcher P. Aven” and Nobel Prize-winning Heritage Foundation associate James Buchanan, gushed Naishul, were pioneers in understanding economies based on institutional agreements, or “the bureaucratic market.” At around that time, Aven moved from IASA into commercial activity, founding the Alpha-Eco company and later, in January 1991, Alpha Bank. (Another one of his firms was modestly named FinPA, short for “the Finances of Pyotr Aven.”) A year later, Gaidar appointed Aven minister of foreign trade.

Both Gaidar and Aven represent nomenklatura dynasties, in which the glorious grandfather’s name was the factor providing the father with all possible privileges, whereas the father transmits to the son, not the image or example of heroism, but a feeling of his own importance, along with the “axiom” of Khrushchov, that this younger generation will live in the shining future of communism—as communism is understood by these sons, in its consumerist or “goulash” version. These young guys were sure from their early days, that their destiny was to “receive according to their needs and contribute according to their abilities,” but they have a special ability to receive, and consume, more than anybody else! And they use it, but they want more and more, in order to be on a par with the foreigners’ children, whom they see when their fathers take them abroad on business.

Before the overall privatization campaign started, Alpha-Eco had already become a prosperous trading company, engaged, from its foundation until now, in Russia-Cuba oil-for-sugar deals. Only a person from the Soviet/Russian “nobility,” could oversee such business as that.

In an autumn 1994 report by the Feliks Group, a think-tank comprised of ex-Soviet intelligence officers, Alpha-Eco was mentioned as a key structure in the drug trade in the Russian Far East, in the period when Pyotr Aven was a minister. (He resigned with Gaidar, in December 1992, right after Vice President Rutskoy spoke of having “eleven suitcases of compromising material.”) The Feliks authors don’t comment on Aven’s trade links with Cuba. But Havana was an old stomping ground for the Gaidar family, as well: According to Russian neo-conservative writer Dmitry Galkovsky, Gen. Timur Gaidar used to take his son with him to Cuba. In this connection, the recent confession of singer Joseph Kobzon about his close friendship with Timur Gaidar, looks rather symptomatic.

Spending most of their time at their father’s dacha (country house) or on his foreign postings, the grandsons were actually separated from their people, being aware at the same time that they had a kind of mission in their native country.

Unlike other Soviet citizens, the grandsons had unique access to the “real world” of the West, in which they could consume not only high-class cigarettes and drinks, but also literature that was strictly forbidden in the Soviet Union. They were the first of their generation to read the anti-utopias of Aldous Huxley and George Orwell. They were the first to

read Friedrich von Hayek. Mont Pelerin activists would later love them, for being, in the words of one, "as lively-minded, and open-minded and liberal-minded, as the people who make up the IEA in London; chaps who know about Hayek, without having to be told, [who have] read Hayek and [Milton] Friedman and the others, and are very, very bright."

Their parents were so busy with their official and unofficial business, that the sons were left alone with Huxley and von Hayek, and this loneliness, apart from their people, but with access to the "forbidden fruit," formed their psychology on the pattern of the test-tube characters in Huxley's *Brave New World*. They realized that they were *the initiated*. The name of Alpha Bank seems to have been lifted directly from Huxley, after the privileged "alpha" caste in the controlled "civilization" of *Brave New World*. And from Huxley, it is only one step to Dostoyevsky's Grand Inquisitor, or Nietzsche's superman despising God's and human laws. That is why absolute monarchy, or other forms of dictatorship unencumbered by any responsibility for the citizens' welfare, could become the social ideal, for some of them.

But the reality of Soviet life did not satisfy them. They felt humiliated when some junior customs officer checked their (*their!*) luggage; they were ashamed of their "red-skinned" passports, which stuck out like a sore thumb; they wished to be accepted as equals at the very top of the world

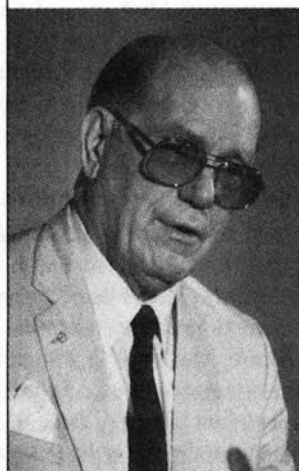
elite. This dream of getting into the world's oligarchy, or at least of being on its level, brought them together with their pals from the neighboring dachas—with the children of security generals as well as the heirs of those unofficial but powerful persons, who emerged from the Russian black economy, the "supply system."

Still, their minds were too lazy, and their way of life too luxurious, to stimulate a good education. They realized that they needed brains to achieve their goals, so the easiest thing was to hire brains.

Vitali Naishul was such a hired brain. He was a commodity in demand—not from the public, but the oligarchy. People like him were predisposed to oligarchical policies, due not to "blue blood," but to their character, their specific morality or, rather, total absence of morality.

The "democratic revolution" of the late 1980s, though coming from the top of the society, developed to such an extent that the "Alpha people" risked losing their influence on Russian policy. But they were lucky: George Bush came to power in the United States. This gave them two opportunities: firstly, the Thatcher-Bush crew selected its allies in Russia according to the same principles, and, secondly, with its assistance they were able not merely to *read* von Hayek, but to make Russia a playground for the implementation of his ideas.

LISTEN TO LAROUCHE ON RADIO



Frequent Interviews with Lyndon LaRouche on the Weekly Broadcast "EIR Talks"

ON SATELLITE
4 p.m. ET
Galaxy 7 (G-7)
Transponder 14.
7.71 Audio.
91 Degrees West.

SHORTWAVE RADIO
Sundays 2100 UTC
(5 p.m. ET)
WWCR 12.160 MHz

Cassettes Available to Radio Stations

Transcripts Available to Print Media

Local Times for "EIR Talks" Sunday Shortwave Broadcast on WWCR 12.160 MHz

Adis Ababa	0100*	Little Rock	1600
Amsterdam	2300	London	2200
Anchorage	1300	Los Angeles	1400
Athens	2400	Madrid	2300
Atlanta	1700	Manila	0600*
Auckland	1000*	Mecca	0100*
Baghdad	0100*	Melbourne	0800*
Baltimore	1700	Mexico City	1600
Bangkok	0500*	Milan	2300
Beijing	0600*	Minneapolis	1600
Belfast	2200	Montreal	1700
Berlin	2300	Moscow	0100*
Bohemian Grove	1400	New Delhi	0330*
Bogota	1700	New York	1700
Bonn	2300	Nogales	1500
Bombay	0330*	Norfolk	1700
Boston	1700	Oslo	2300
Bretton Woods	1700	Paris	2300
Bucharest	2400	Philadelphia	1700
Buenos Aires	1900	Pittsburgh	1700
Buffalo	1700	Prague	2300
Cairo	2400	Rangoon	0430*
Calcutta	0330*	Richmond	1700
Caracas	1600	Rio de Janeiro	1900
Casablanca	2200	Rome	2300
Chattanooga	1700	St. Louis	1600
Chicago	1600	St. Petersburg	0100*
Copenhagen	2300	San Francisco	1400
Denver	1500	Santiago	1800
Detroit	1700	Sarajevo	2300
Dublin	2200	Seattle	1400
Gdansk	2300	Seoul	0700*
Guadalajara	1600	Shanghai	0600*
Havana	1700	Singapore	0530*
Helsinki	2400	Stockholm	2300
Ho Chi Minh City	0600*	Sydney	0800*
Honolulu	1200	Tehran	0130*
Hong Kong	0600*	Tel Aviv	2400
Houston	1600	Tokyo	0700*
Istanbul	2400	Toronto	1700
Jakarta	0500*	Vancouver	1400
Jerusalem	2400	Vladivostok	0800*
Johannesburg	2400	Venice	2300
Karachi	0300*	Warsaw	2300
Kennebunkport	1700	Washington	1700
Kiev	2400	Wellington	1000*
Khartoum	2400	Wiesbaden	2300
Lagos	2300	Winnipeg	1700
Lima	1700	Yokohama	0700*
Lincoln	1600	Yorktown	1700
Lisbon	2300		* Mondays