

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