participation, or even if it is a fully foreign-owned one but located on the territory of Russia, it works here first and foremost to satisfy the needs of the population, produces commodities that are in high demand."

Answering questions, Primakov commented more sharply on the posture of the IMF. "As to the IMF," he said, "we are having now what I regard as a dialogue. They presented their remarks. We can agree with some of them and, in my opinion, we cannot accept some." He said that some IMF negotiating positions, "directed against state intervention, against serious work on the micro level" of the economy, contradicted public statements by Managing Director Michel Camdessus in a recent interview with the Paris daily, *Le Monde*. At the same time, he pointed out that Camdessus's own assertion, that the IMF has promoted "direct investments" in Russia, was untrue.

Egyptian TV asked whose fault Russia's situation was, if not its own? Primakov replied that Russia's situation was "definitely not through any fault of Egypt!"

He said that the reimposed state monopoly on alcohol would be a source of substantial funds, as would "improved utilization of state property." A crackdown on corruption and crime, said the Premier, would create "serious reserves" for the economy.

Primakov said that price controls are being applied only to certain products, such as medications for patients with serious disease (insulin, anti-TB medicines, oncological medicines). "As for foodstuffs, I don't think so. Market prices will exist for foodstuffs."

Locomotives for growth

Obshchaya Gazeta asked Primakov to tell more about the planned National Development Bank, in connection with which Russian government experts are studying postwar German industrial banking (see box). He replied, "I cannot go into greater detail, because the idea of its creation is just being considered. I would rather not rush to conclusions, and I would prefer my answer to your question not to be regarded as the final decision in connection with the bank's creation."

In his *Nezavisimaya Gazeta* interview, Maslyukov outlined a concept of economic growth engines, citing another aspect of the experience of Germany's industrial sector. Asked, "Where will you get the necessary resources?" Maslyukov replied, "In my opinion, the natural monopolies can serve as locomotives capable of pulling the country's economy out of the crisis. In order to utilize the possibilities, say, of the oil and gas sector, it is necessary to make fuller use of the capacities of the defense industry—which so far are not fully utilized. The German Union of Machine Builders is a model of such cooperation of the leading sectors in the real sphere of the economy. It is very demanding toward the enterprises that are its members, it sets production quotas and determines the size of exports, and it conducts talks with the government on benefits in this or that area. I can describe the Union of Users of Oil and Gas Equipment as an embryo of such a structure in Russia."

Since formation of the new cabinet in September, Maslyukov has visited Norilsk Nickel, the giant mining company above the Arctic Circle, while Primakov in late October spoke before the Greater Volga Association Council in Saransk. The leaders of seven major industrial cities in this region, where over two-thirds of Russia's automotive industry and half of its aerospace firms are located, have formed a new association.

While focussing on industrial policy, Maslyukov again denied that the government would crank up the money printing presses 'round the clock. "I am convinced that hyperinflation is as big a woe for a country as is the absence of money," he said.

A Russian 'Kreditanstalt für Wiederaufbau'

One of the key issues of the Russian government's anti-crisis plan, furiously rejected by the International Monetary Fund, is the proposal to create a "state-owned bank for reconstruction." The references by both Prime Minister Yevgeni Primakov and Deputy Prime Minister Yuri Maslyukov to the strong state role in the postwar German reconstruction period, indicate that the model for such a new bank is the Kreditanstalt für Wiederaufbau (KfW), or Reconstruction Loan Corp., founded in November 1948 in Frankfurt, West Germany. For 50 years now, the KfW has played a crucial role as a state-run instrument for dirigistic economic activities, with special emphasis on infrastructure financing; assisting private, medium-sized business; and fostering German exports through credit grants.

During 1948-52, the U.S. government supported the economic buildup in western Europe with its Marshall Plan credits. In the absence of any noteworthy hard currency reserves, such funds allowed the import of the most urgent food necessities, and raw materials by German industry. But far more important than the initial credits as such, was the special way in which the repayments on the credits were later put back into circulation again and again. A group of German bankers around Hermann-Josef Abs went to the leadership of the U.S. occupation forces in Germany, and proposed to create a new state-owned bank for reconstruction, which would use the (local currency) repayments of Marshall Plan credits from German companies as its core capital. The U.S. officials agreed to the plan

By what rules

The Primakov government's moves have been greeted with consternation on the part of international financiers and their press mouthpieces. "Russian liberals, like the IMF and Western governments, are worried that the current crisis might signal the end of post-Soviet Russia's experiments with free market capitalism," proclaimed a Nov. 1 Reuters wire, which also cited Interfax leaks about the IMF delegation's concern over Russia's " 'step backward' in the process of moving toward free market reform." London financial editors' anxiety over Russian policy was rivalled only by their chagrin about China's latest moves to protect itself against the consequences of financial speculation, exemplified by an Oct. 29 London *Financial Times* article on how China had begun "to test—indeed, strain—foreign nerves" with the closing of Guangdong International Trust and Investment Corporation.

Just before the demise of LTCM, megaspeculator George Soros told the U.S. House of Representatives Banking Committee that there ought to be international insurance for derivatives operators—"borrowers who play by the rules." U.S. Secretary of State Madeleine Albright, in an Oct. 2 speech on Russia, complained about the "talk in recent days, about printing new money, indexing wages, imposing price and capital controls, and restoring state management of parts of the economy. We can only wonder if some members of Primakov's team understand the basic arithmetic of the global economy."

Not everybody has caught on, that nations can change the rules and the arithmetic.

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because of the convincing argument by the German bankers, that this policy would be fully in line with the successful economic policies of President Franklin Roosevelt. Due to the creation of the KfW, the German economy was able to take the greatest advantage from the Marshall Plan, although it was far from the leading recipient of such funds (**Table 1**).

TABLE 1
Total U.S. Marshall Plan aid through the end of 1952
(millions $)

Great Britain	3,165.8
France	2,806.3
Benelux countries	1,532.8
Italy	1,515.0
West Germany	1,412.8
Austria	711.8
Greece	693.9
Denmark	275.9
Sweden	107.1

With a balance-sheet volume of 278 billion deutschemarks at the end of 1997, the state-owned KfW is today among the biggest German banks. During 1997 alone, its total commitments of loans and grants had a volume of DM 59.9 billion.

The primary activity of KfW is the granting of loans at below-market interest rates to well-defined categories of private business. The focus of such loans is financing for:

- business investment and investment in environmental protection by small and medium-sized enterprises in Germany;
- business investment by small and medium-sized enterprises outside Germany;
- technology, innovation, and equity participations; and
- the construction and modernization of housing.

Another priority is the promotion of local infrastructure projects, such as:

- water supply and sewage disposal systems;
- solid waste management;
- projects in the energy sector;
- local transportation infrastructure;
- social facilities.

Furthermore, KfW grants export loans and project financing loans in the following economic sectors:

- aircraft production;
- shipbuilding;
- transport infrastructure;
- raw materials extraction;
- telecommunications;
- energy;
- manufacturing industry and technology.

Finally, KfW is engaged in financial cooperation with developing countries.

After German reunification, the reconstruction of East Germany became a key activity of the KfW. By the end of 1996, the total volume of KfW credits into eastern Germany amounted to DM 105 billion, triggering investments of DM 190 billion, that is, 20% of all public and private investments into eastern Germany during this period. In times of speculative bubbles, it is noteworthy as well that, according to a 1997 statement by KfW chairman Gert Vogt, the quick action by KfW, to grant additional large emergency credits for local infrastructure, was vital to the stabilization of the German economy right after the stock market crash of 1987.—*Lothar Komp*