Mont Pelerinite Walpurgisnacht In Moscow

by Rachel Douglas

Some of the world's most radical apostles of bankers' dictatorship, clad in neo-liberal slogans of "free enterprise" and "globalization," descended on Moscow for a two-day conference on April 8-9. Sponsored by the Cato Institute, it was called "A Liberal Program for the New Century: the Global View."

Speakers at the Moscow event included persons who were among those responsible for the first onslaught of murderous neo-liberal reforms in Russia after the break-up of the Soviet Union, in the early 1990s. Among them as well were other international poster kids for free trade, deregulation, privatization and globalization: Jose Pinera ("father of the Chilean pension reform"); ex-Finance Minister of New Zealand Ruth Richardson; former Estonian Prime Minister Mart Laar; Cato Institute founder Edward Crane; and the notorious racist "Bell Curve" author Charles Murray of the American Enterprise Institute, among others. At a high point of the event, participants watched a videotaped address to the proceedings by the now-ancient ghoul of free trade, Milton Friedman.

It would have been merely a distasteful sideshow, except that participants in the confab were received on the evening of April 9 by the President of Russia. Vladimir Putin thanked them for choosing Moscow as the venue for their discussion of the world economy and finance. Stating his pleasure that the conference coincided with the manifestation of "certain positive tendencies in our economy," Putin said that he hoped the Russian Central Bank and government economic officials had listened to the ideas discussed at the meeting, since that would be needed "during the determination of strategic actions to solve various problems we have in Russia." This Presidential audience was evidently arranged by Andrei Illarionov, a Friedmanite radical who is still an adviser to President Putin.

From the standpoint of Russia's national security, continuing to entertain ideas that have wrought destruction in one national economy after another—including that of 1990s Russia—is a dubious proposition. And from the standpoint of the Western interests involved, it would be well to remember the late Prof. Taras Muranivsky's admonition: "If you want to treat Russia like a banana republic, bear in mind that we have nuclear bananas."

Yet, here they are again, as if nothing had happened—not the collapse of the Russian standard of living and life expectancy; not the August 1998 government bond default; not the nationalist impulse expressed in the December 2003 vote for the Rodina (Homeland) electoral bloc; not the onrush of the systemic crisis of the global monetary system—and the only care in the world were whether or not Russia will provide the right kind of "reforms" to make foreign "investment" (read: "profiteering") feasible once again.

Sign of Government Weakness

Most of the think-tanks represented at the Moscow meeting are offshoots of the Mont Pelerin Society (MPS), founded by Friedrich von Hayek in 1947. So were London's Institute for Economic Affairs and the Center for Research on Communist Economies, the outfits that directly trained the first generation of "young reformers" who became the first post-Soviet Russian government in 1992, and administered the "shock therapy" decontrol of prices, and then privatization.

The MPS promotes getting government out of the economy. Under its banner of deregulating in order to let "free enterprise" flourish, savage assaults on labor, healthcare, other social services, and infrastructure construction and maintenance have taken place in Britain, other Commonwealth countries, Russia, and much of the rest of the world—surging after the institution of the floating-exchange-rate monetary system in 1971 and again upon the breakup of the Soviet bloc in 1989-1991.

Whether or not Putin really intends to go in the direction of renewed Mont Pelerinite reforms, remains an open question. Before his March 14 re-election, there was some speculation that Putin would soon be free to coopt some of the more dirigist policies of economist Sergei Glazyev, who had led the Rodina bloc to its strong showing, and who ran against Putin; or even bring Glazyev onto his economic team. Beyond a small-scale imitation of Glazyev's policy for taxing oil-exporting companies, however, this has not yet happened.

Rather, the President and his new teams under Presidential Administration head Dmitri Medvedev, government staff coordinator Dmitri Kozak and Prime Minister Fradkov, have been wrapped up in implementing a thorough-going organizational reform of the Russian government institutions. Dozens of ministries have been consolidated and hundreds of high-level post eliminated, in an effort billed as eliminating the bureaucracy.

Glazyev himself said in an April 23 interview with Gazeta.ru, that the reorganization appeared to be a sign of weakness, more than confidence. "I think the system that has come into being," he commented, "will prove unviable at the first threat to its authority. . . . For all the outward appearance of a strengthening of power, in reality it is decaying."

Tax Tricks

Until now, Illarionov was famous chiefly for quarreling with ex-"young reformer" Anatoli Chubais—architect of Russia's first privatization wave and now CEO of the national electric power utility, UES—for not being ardent enough a liberal with respect to "shareholder" rights over major companies like UES. Illarionov also boasted of authoring Russia's flat income tax rate of 13%.

The Fradkov government, in its public sessions, has appeared to be inordinately preoccupied with tax policy since it took office at the beginning of March. The tax reforms it is contemplating are intermeshed with the intended reform of pension and other entitlement programs—areas in which Mont Pelerinite influences, in favor of privatizing such economic functions, have been especially damaging worldwide.

In his April 2 column for the weekly *Slovo* newspaper, the distinguished Russian economist Stanislav Menshikov analyzed "The First Steps of the New Government: Neo-liberal Haste and Dense Capitalism." He pointed to a range of neo-liberal tricks, discernible behind the new government's first actions, including in the area of tax policy. Menshikov argued that—for all the aggressive, "get-down-to-business" profile of the new team Putin has put together under Fradkov—the unhealthy neo-liberal axioms of the 1990s have not been changed, and "there are no signs that an industrial policy has been conceptualized and formulated." Putin has sternly demanded the halving of the poverty rate, writes Menshikov, "but the leaders of the social sector avoid talking about the most important thing: a program to create new jobs, especially in chronically depressed sectors, and whole regions with a chronically high unemployment and poverty level . . . into which category fall a near majority of the towns and villages in the country. Nationwide, this would mean several million new, well-paid jobs. Who will create these companies, and how, in the neo-liberal market economy, left to its own devices, remains a mystery."

Among other points, Menshikov zeroed in on the pitfalls of "the neo-liberals' dream of using taxes to defeat poverty." Indeed, the radical tax reform of reducing the "unified social tax" (paid by employers to fund the national pension program, health care and a host of other benefits) from 35% to 26.5% has been topic number one at Putin's recent meetings with the new government. Allegedly, this move will inspire employers to put their payroll on the books, instead of paying it under the counter. But how then to fund the programs that rely on the unified social tax? "It is well known," Menshikov noted, "that [German] Gref's Ministry [of Economic Development and Trade] has already drafted a plan to raise the individual income tax from 13% to 17%." [This is already the regressive flat tax, Illarionov's brainchild.] "To his honor, Vladimir Putin has forbidden this," says Menshikov; but the problem remains.

Menshikov questioned the rationale for the proposed slashing of the employer-paid unified social tax; namely, the notion that Russian businessmen would use the funds they retain, to raise wages and invest in technological renovation. There is no indication this would happen, nor means of enforcement, he said.

A London Visit

While Fradkov continued an intense schedule of meetings on these tax-policy changes—his government's main notion of how to boost the economy—and abolition of government agencies (over 120 state commissions have been reduced to 14), two of the Russian government's three top economic officials travelled to London on April 19. First Deputy Prime Minister Alexander Zhukov and Finance Minister Alexei Kudrin were among 1,500 people in attendance at the annual Russian Economic Forum, a get-together with City of London financial people and, especially, British raw materials cartel interests. Also attending were top Russian CEOs Alexei Mordashov of Severstal, Rosneft's Sergei Bogdanchikov, General Director of United Machine Building Works Kakha Bendukidze, and Unified Energy Systems boss Anatoli Chubais. Chukotka Governor Roman Abramovich, owner of Sibneft oil company and Britain's Chelsea soccer team, was also there.

Discussions there reportedly focussed on whether or not now is the time for foreign raw materials investors to get into Russia in an even bigger way than has already happened with British Petroleum's merger with TNK oil company. The *London Times* of April 19 reported that Finance Minister Alexei Kudrin hinted at a new element, as well: possible amnesty within the next four years for Russia's "oligarchs"—with respect to tax evasion such as Yukos Oil owner Mikhail Khodorkovsky is charged with, as well as illegalities during privatization—if they follow "new rules," such as paying their taxes, contributing to charity, and staying out of politics. Kudrin said, "This is not the most popular idea in Russia today. We have to pick a moment when the rules are absolutely clear so that legalizing underground capital will not shock the public and society, and will not be revised. . . . I believe this will happen during Mr. Putin's Presidency." *Vedomosti* reported April 19 that Arkadi Volsky, head of the Russian Union of Industrialists and Engineers, has made a similar appeal to legitimize the privatizations of the 1990s "through the payment of taxes on dishonestly acquired property," which revenues could then be used to fight poverty.

Earlier in April, Chairman of the Russian Audit Chamber Sergei Stepashin issued an estimate, that the Russian state received only $9.7 billion from the privatization of 145,000 enterprises under former President Boris Yeltsin, which included gigantic oil companies, industrial combines, and ports. That fire-sale privatization remains a national disgrace in Russia and should serve as an obstacle to wholesale adoption of any more formulas from the Mont Pelerin Society.