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Dear Alexander:

The following are comments on the EC 1992 Technical Assistance Indicative Programme and the USAID Fact Sheets on Technical Assistance.

EC 1992 Technical Assistance Indicative Programme

You already have my comments on the earlier version of this program, so I will not repeat any of them here. I believe those comments still apply to this latest version, which uses general statements that are probably intended to encompass the specific proposals of the prior program. For example, rather than specifically advocating the continued use of nuclear energy, the program calls for "modernization and privatization of the energy supply industry." (3.3.1. Energy, p. 7.) This probably includes the modernization of nuclear power plants. So, while the wording used to describe the program appears more benign (this is probably for propaganda purposes), I am sure the specific aims of the program remain the same; as does its overall goal -- to profit western companies at Russia's expense.

One additional Comment:

3.2 Human Resources

3.2.2. Objectives

When enterprises privatize, many employees will be thrown out of work as part of an enterprises' effort to cut costs and make a profit. Part of the subsidies the state now provides to unprofitable state enterprises can be used to establish worker progress administration (WPA) programs. President Franklin Roosevelt set up WPA programs during America's depression in the 1930's, when 25% of the work force was unemployed. Roosevelt used deficit financing to pay for the training and salaries of unemployed workers. The Federal Government put the unemployed to work modernizing America's infrastructure and in companies that supplied materials for the modernization. The upgrading of railroads, bridges, roads, communications, etc., facilitated and created business transactions that resulted in increased productivity and profits. The taxes from the increased profits helped service the Government's debt incurred to finance the WPA programs.

USAID Fact Sheets

Health Program

America has one of the most inefficient and costly health care systems in the world. 12.3% of America's income goes for medical care as compared to 9.2% for Canada. Canada's health care system covers everyone for primary and emergency care and is administered by the provincial governments. America has a confusing costly tangle of health care administered by private insurance companies, doctors, hospitals and Government that leaves over 30 million Americans without any medical insurance coverage. Canadians, like Americans, are not appointed doctors but choose them. Since there is only one insurer in Canada, there is far less paper work, which reduces costs. 96% of Canadians over the age of 15 receive care within seven days of requesting it. Next to America, Canada has the most ample supply of intensive care units and diagnostic machinery in the world. The U.S., however, is over supplied with marginally effective high technology.

Canada budgets the amount it wants to pay for health care, while America's costs run out of control. From 1981 to 1991 consumer prices in America rose 50% -- medical costs rose 114%. The American health care system should not be used as a model, unless you want to make health care professionals very rich.

Privatization

Assuming USAID's technical assistance will support Russia's voucher system of privatization, the issue is whether the voucher system will aid or harm Russia as a whole.

When the Communist Party ruled Russia, the nomenklatura did not need pockets full of rubles or dollars to enjoy a privileged life style. Now they do and thanks to Yegor T. Gaidar's policies they now have bank accounts full of rubles and dollars. Prior to August 1991, the nomenklatura ruled the party that ran the state that owned Russia's enterprises. In effect the nomenklatura owned Russia. When Gaidar's current privatization program ends, the nomenklatura will once again own Russia.

Gaidar's policies, at best naive, have caused one of the largest and quickest transfers of wealth in history from the many to the few. The few, of course, are the nomenklatura, and with their new stolen wealth will soon buy more than Mercedes Benzs and BMWs -- they will buy controlling interests in Russia's enterprises.

Gaidar's initial adherence to the International Monetary Fund's tight credit policies in Russia's monopoly economy drove up prices dramatically on goods and services during the first three quarters of 1992. Russian citizens were forced to deplete their savings in order to purchase the necessities of life at inflated prices.

At the same time, the lack of regulatory controls and lax enforcement allowed government bureaucrats and enterprise bosses (together the nomenklatura) to steal state assets or acquire assets at low state subsidized prices and sell them to Russia's citizens at inflated prices.

Nomenklatura, or as we in America would call them -- mafiosos, directed overseas importers of state products to deposit payment in overseas bank accounts controlled by the nomenklatura. Enterprise managers and institute directors sold state products at subsidized prices to associate mafiosos who in turn resold the products at a higher price and divided the profits with the directors and managers. Because the monopoly nature of Russia's economy strictly limited the number of competing manufacturers, a few mafiosos in any one industry could divert enough products to brokers that supplies to state stores dwindled, leaving citizens no choice but to spend their savings buying from mafioso brokers.

Enterprise managers also embezzled revenues from the sales of state products and services. One department store manager withheld sales revenues and used the money to purchase the store from the

government; restocked the store mainly with imported goods and raised prices. Other enterprise bosses simply sold their company's product at inflated prices and pocketed the proceeds.

Bureaucrats, also considered a type of mafioso in America, used funds from ministry budgets to set up private commercial banks. Naturally they or their fellow travelers in larceny controlled the banks. These banks provided credits at reduced interest rates to a bureaucrats personal account or some type of trading activity. For example: importing Western and Asian consumer goods, drug trafficking, money exchange, purchasing Russian products at subsidized prices from nomenklatura managers at state enterprises and re-selling at inflated prices. In most cases the bureaucrat and the bank never intended the credits to be repaid, providing the bureaucrat a gift of state funds. In America such criminal activities are called "sweetheart" loans.

Failure to prosecute bribery allowed bureaucrats to fleece honest citizens and legitimate businessmen of their savings. Because without government approval, people were prevented from doing nearly everything from driving a car, to selling a few items for food money, to obtaining a license for a productive business venture.

In the end Gaidar's policies and lax regulation and enforcement allowed the apostles of greed to transfer the savings of Russian citizens into their pockets. Russia now has a class of ruble and dollar rich mafiosos and a huge class of impoverished citizens. Long lasting and influential wealth, however, requires more than bank accounts stuffed with rubles and dollars; it requires ownership of the means of production. That is where Gaidar's other policy, privatization, comes into play. Through privatization the old Communist nomenklatura, now the nouveau rich bourgeoisie, will buy up Russia's enterprises and enshrine themselves as Russia's robber barons.

Many of the poor, which now includes most Russian citizens, will sell their vouchers because they have no choice; they need the money now that their savings are depleted. The wealthy mafiosos will buy the vouchers and with their illgotten gains buy up most of Russia; thereby creating a relatively small class of capitalists who own much of Russia because they were allowed and encouraged to expropriate the life savings of most of Russia's citizens.

Some argue that Russia needs a small wealthy capitalist class to exert proper control over managers and workers. Once again old authoritarian communist thinking is at work. In a competitive market managers and workers will do their job or they will be out of a job, because the enterprise will have gone bankrupt.

The small class of the rich can be deterred in their theft of Russia by making the privatization vouchers non-transferrable and eliminating the restriction that vouchers can be used to purchase only a minority interest in an enterprise. This would assure every man, woman and child a stake in the means of production that will create Russia's future and mitigate the control of Russia's future by its past nomenklatura.

Pluralism Initiatives

Historically A.I.D. has only provided assistance to political organizations with policies that benefit American businesses. In the past in Central and South America and Asia, such assistance was provided organizations that supported dictatorships and limited the peoples choice by engaging in various dirty tricks to sabotage parties more interested in their nation's prosperity than the prosperity of American businesses.

Housing Program

Under the Reagan and Bush Administration, the U.S. Government has slashed subsidies for low and middle income housing. Such subsidies provided housing developers tax incentives and paid a portion of the rent for qualified individuals and families. The reduction in subsidies has decreased the development of low and middle income housing while at the same time forcing many people out of their apartments because housing has become costly. The result: America now has one million homeless people out of a population of 255 million.

Another pitfall of A.I.D. assistance may be a concentration on the landlord's power; i.e., facilitating the ownership and development of multi-family housing at the expense of the tenants. There needs to be a balance between landlord and tenants' rights. Without sufficient regulations, landlords will fix rents at inflated levels, refuse to rent apartments in order to create an artificial housing shortage to drive up prices, demand bribes to rent an apartment and bribe politicians to maintain a free rather than fair housing market.

Many states have extensive housing regulations aimed at providing housing at a reasonable price but also allowing a profit. Perhaps the best solution, however, is to allow everyone to own their own apartment or house; thereby eliminating the potential abuses by a small wealthy and politically influential class of landlords.

Financial Sector Reform

It is important to remember that America's tax policies favor the rich ^{1/2}% of the population. Tax laws are one of the Federal Government's (which is largely controlled by the rich) key methods of protecting and increasing the wealth of rich Americans. When all taxes, federal, state, local and excise, are taken into account, America has a regressive tax structure. That means the middle class and poor pay a greater percentage of their income in taxes than the rich.

American advisers to Russia's Central Bank will most likely promote the financial policies of the International Monetary Fund, such as tightening credit to reduce inflation. The problem is that tightening credit in a monopoly or oligarchy economy causes inflation to increase to the point of stagflation.

I hope these comments will be of some assistance. If you have any questions please contact me or Oksana.

Best Regards,

ROY DEN HOLLANDER

RDH:lv

Enclosure