

Mr. Roy Den Hollander  
Counselor at Law  
545 East 14th Street  
New York, NY 10009  
(212) 982-5836  
(212) 982-5943 (fax number)

## **HOW TO PREVENT AMERICAN BUSINESS PRACTICES FROM TRANSFORMING RUSSIA INTO A THIRD WORLD NATION**

The image America presents to the world is not the reality. Many people believe American business has made nearly everyone in America rich, has created a distribution of property that most Americans regard as fair, and has provided equal opportunity to all to make a million dollars -- all of these perceptions are untrue.

America is not the country many Russians think it is, and I doubt it is the type of country many Russians would want their country to become.

With the talent, education and sense of fairness of the Russian people and the land's resources, Russia can do much better than America. It certainly can avoid becoming just another third world, underdeveloped, banana republic.

### The Impact of American Business Practices

What is wrong with America is that it is grossly unfair. America's motto should be "From each according to his fragilities, to each according to his greed." A few facts about America will illustrate its inequities:

- The top 1% of families own 35% of all the wealth in America (over \$5 trillion) and 45% of all the financial wealth.
- A family in the top 5% makes 20 times more than a family in the bottom 20%.

- The average net worth of a family in the top .5% is \$9 million, while the average net worth of a family in the bottom 40% is zero.
- Between 1977 and 1989, incomes for Americans increased by approximately \$600 billion. Of that increase, the top 1% of families received 77%, or \$462 billion.
- In 1989, the average income for the top 1% of families was \$560,000, and for the bottom 20%, it was \$8,400 -- a 66 to 1 discrepancy.
- Taxes for a middle class family have doubled in the last 12 years.
- When inflation is taken into account, average weekly wages are now less than they were in the early 1960's.
- Since 1979, the group of people earning below poverty wages grew from 12% to 18% of the work force.
- 25 million Americans, 1 in 10, are now on food stamps.
- America is now ranked 56th among all the world's nations in immunizations and ranks behind Cuba in infant mortality.
- 40 people every working day die from occupational injuries, and 400 die each day from occupationally related diseases.
- There are an estimated 45,000 sites in America that are polluted with radioactivity. 20,000 are controlled by the Federal Government.
- 11% or 13 million workers are unemployed in America.

These facts show that much of America's wealth goes to a few rich families and most of the misery to the rest of American families.

What actually exists in America is a relatively small group of families controlling, through stock ownership and corporate offices, a relatively small number of large corporations that account for nearly one half of America's economic activity. These wealthy Americans are to my country what the Communist Party was to your country.

This economic dominance by giant corporations results in the power to monopolize markets, to collude with one another, to keep prices high, to break unions, to pollute the environment without paying adequate compensation, and unduly influence much of the life of most Americans. America's history has shown that corporations possessing vast economic power do not voluntarily agree to meet even the minimal standards of pollution control, worker safety, product safety, liveable wages, or taxes for the betterment of the community they are situated in. Since self-interest is the primary concern of America's wealthy corporate elite and self-interest in America is best protected with money, profit is the creed of the rich and the corporations they control. As a result, America's corporate elite opposes or dilutes most regulations that may lessen profits regardless of the benefit to the general public. This corporate opposition to business regulations has existed since the late 19th century, has been largely successful, and has resulted in a social order closer to economic Darwinism than to a fair market.

I do not mean that America has no effective regulations, but since all business regulations in America have been enacted in an environment in which a small number of families controlled vast amounts of wealth, these families have been able to delay for decades regulations controlling corporate activities which harm the general public. Furthermore, when it becomes expedient for propaganda purposes to enact a regulation, usually because of public outrage over

some abhorrent business conduct, the regulation is either too weak to deter the harmful conduct or it is not vigorously enforced.

The historical flaw in America differs only in degree with the flaw in your country before the August coup and the potential danger for your country since the coup -- so many have too little because so few have too much. America has its group of families who through their wealth exercise a disproportionate amount of influence over the political, economic and social life of the republic; the Soviet Union had the Communist Party which did the same. Now, however, for your country, there is a transition: the former rulers and managers are trying to maintain their positions of influence and privilege by becoming rich. In other words, some people in your country seek to create through a so-called free market, a small group of wealthy families that will rule Russia as a shadow government, just as a relatively small number of wealthy families run America.

For example, in Russia, producers such as the large farm collectives openly fix prices with the result that consumers are forced to pay high prices for questionable goods. Distributors also fix prices, such as the regional consortiums of dairies. In January, Moscow region's dairy association offered the Moscow milk processing monopoly milk at an inflated price. Later, a delegation of dairy directors from the Tver district offered milk at exactly the same price. Clearly, the dairy associations had agreed to fix their prices at the same inflated level. Price fixing will make the directors very wealthy in the long run. In the late 19th century, American Trusts did the same, helping to create the fortunes of Rockefeller, Morgan, Carnegie and other Robber Barons.

Russia's influential nomenklatura have already begun to amass fortunes, allying themselves with American businesses to export vast amounts of raw materials at prices below the world market. This will make some nomenklatura very wealthy and grateful to American businesses. In return, America will acquire necessary resources cheaply (America has 6% of the world's population but consumes 30% of the natural resources extracted each year). In addition, America will export manufactured goods and agriculture products that will be purchased by Russia with the hard currency gained from the raw material exports. Furthermore, America, through various agencies, will provide hard currency credit for the purchase of additional American goods and services. Of course, the Russian government will be the ultimate guarantor and therefore liable for the credits. The export of raw materials will not raise enough hard currency to repay these credits, and the lack of a modern industrial basis for creating wealth (which is prevented from modernizing due to the tightening of the money supply under the International Monetary Fund's plan) will leave Russia deeply in debt and stripped of its wealth. The result will be very similar to Latin America, which functions as a cheap source of raw materials for America, a key export market for American goods and services, and is a continent whose economies are predominantly influenced by American banks because of the large indebtedness of the countries. (The 100 largest banks in America control 2.3 trillion dollars in assets.)

In the end, Russia will have a small band of families who owe their wealth to their dealings with American businesses. These wealthy families will eventually control the government, and by then it will be too late to establish laws that ensure a fair, rather than free, market.

The time to act then is now before vast amounts of wealth, and therefore power, become concentrated in the hands of a relatively few families. Russia does not yet have an organized class of wealthy businessmen wielding extraordinary economic and political power that can block business regulations that ensure a more equitable distribution of wealth and protect the public from unchecked avarice. At the same time, and this is very important, these regulations need not destroy incentive, innovation, the ambition to achieve material well-being or deter productive foreign investment.

### Regulations for Ensuring a Fair Market

It is important to establish a capitalist system because it is the most effective means of creating wealth, but a successful capitalist system is not dependent on a handful of families owning 35% of the wealth the system creates. Regulations, such as the following, can assure both success and fairness.

An upper limit on the net worth for all families would avoid high concentrations of wealth and distribute your nation's wealth more equitably; however, it would not destroy incentive as does an economic system which guarantees certain minimum payments regardless of productivity. A net worth limit of one million or two million U.S. dollars per family should provide more than enough incentive for persons (now owning virtually nothing) to take risks, use their ingenuity and work long hours for the material rewards of success. Once a successful businessman, professional or any other worker reaches the net worth limit, he may retire with his wealth or continue working without material reward but still earning all the psychological benefits that come from exercising his talents and knowledge. The limit on net worth would make it possible for many more persons to participate in and contribute to the creation of wealth

in your country, avoid the growth of a monied ruling class and still offer material incentives to inventors, innovators and hard workers.

A windfall profits tax on American corporations that set up businesses in Russia. If an American corporation is in a joint venture with a Russian business, then have the windfall profits tax apply only to the American corporation's share of the joint venture profits. A windfall profits tax would tax profits over a certain amount at a much higher rate than the normal tax on profits. For example, if the normal tax on profits is 30%, a windfall tax might be 70% on profits over a certain amount. Windfall profits taxes mitigate the maximization of profits that are made at the expense of the consumer, labor, or the environment by corporations, such as monopolies and oligarchies using their market power to charge high prices that are not reasonably related to their expenses.

A corporation may also reap windfall profits when its expenses to produce a product does not reflect the true cost of the product. For instance, the cost of cleaning up pollution or compensating workers injured in the production of a product should be born by the corporation. If these costs are not part of a company's expenses, then it is reaping windfall profits. When the price of a product reflects its true cost, resources are being allocated efficiently. A consumer's decision to purchase a product or service depends on whether the consumer believes the money he pays is worth what he receives in return. If the consumer is unaware of the total amount of money he will have to pay for the product or service, then he cannot decide whether his purchase is wise or foolish. The consumer's ignorance would result in an inefficient allocation of resources because resources would be allocated to products and services that the consumer bought only because he was unaware of the true cost. For example, assume a motorist

has a choice between one liter of gasoline and one liter of methanol, assuming both are equal in performance. The price of the gasoline is 100 rubles and the methanol 200 rubles. The motorist will buy the gasoline. If the motorist knew, however, that he would later receive a bill for 150 rubles to pay for cleaning up the pollution caused by producing the one liter of gasoline, then the motorist would have purchased the methanol, and resources would be directed towards methanol production and not gasoline production.

American businessmen and their allies in the American government will bluff and bluster against a windfall profits tax and net worth limit. They will call the measures undemocratic and socialistic but windfall profits taxes are not unknown in America; they were used against oil companies during the 1970's Arab oil embargo. In addition, America previously had a progressive tax system that taxed the richest Americans' incomes at 90%, which clearly limited the growth of their net worth.

American businessmen will also threaten not to invest if such a tax exists, but they will be lying. An American corporation generally makes a profit of 5% to 7% a year. If a windfall tax were enacted in Russia that started at 12%, American corporations could still make an additional 5% to 7% over their normal profits. The 5% to 7% extra profit will be enough to attract American investments. Furthermore, the net worth limit can be restricted to domiciliaries or permanent residents.

For Russian companies and Russian partners in joint ventures, you could have a windfall profit reinvestment rule rather than a tax. This would simply require a Russian company to reinvest into its business profits over a certain amount rather than paying most of the profits out to the owners. This rule could also be limited to large capitalized companies so the small to

medium sized family businesses would not be interfered with, since such businesses are usually the sole source of income for their owners.

Anti-trust laws can be used to break up monopolies and oligarchies which, because of a lack of competition, charge inflated prices. By breaking up monopolies and oligarchies, competition will increase because there will be more corporations producing a product or providing a service. One or more corporations will try to increase business by cutting their prices, and in order to cut prices, they will have to increase efficiency. The net result is increased efficiency and lower prices.

One of the chief reasons why the IMF plan to reduce the money supply (by increasing bank reserves and raising the central bank's interest rate to 80%) has caused price inflation is because Russia's industries are monopolistic. The IMF knows the tightening of credit in a monopoly capital system will simply cause monopolies to raise prices and produce fewer products or services. In a competitive system, corporations will try to reduce costs and prices so they can continue to make a profit by selling their products and use those profits, instead of credits at high interest rates, to finance their business. Competitive corporations cannot raise their prices because their competitors will then attract their customers. An example of what happens when credit is tightened in a monopoly system follows: Yankee, Inc. makes widgets at a cost of 50 rubles each and sells the widgets for 150 rubles. Every month, Yankee, Inc. sells 10 widgets for a total income of 1500 rubles and a profit of 1000 rubles. The IMF raises interest rates so that each widget now costs 100 rubles to make. The additional 50 rubles is used to service the high interest rate debt. For Yankee, Inc. to make a profit of 1000 rubles a month, it would now have to sell more widgets or sell 10 widgets at 200 rubles each or 5 widgets at 400

rubles each. Yankee, Inc. will opt for the last two scenarios because there probably does not exist the demand for more widgets, but if a widget is a necessity, people will have no choice but to pay the higher price for the same number of or fewer widgets. If Yankee, Inc. had competitors who did not collude to fixed prices, then the competitors would cut their costs through increased efficiency and sell their products for less, thereby driving Yankee, Inc. out of business.

Before Russia can create wealth from its industrial base and provide its people with needed goods and services, the monopolies that now exist will have to be broken up into competing enterprises. Otherwise, production and services will continue to decline and prices to rise because monopolies can continue to make the same profit by providing fewer goods and services at higher prices. At some point, the prices will be too high for the people to pay; no matter how desperately in need they are, production will decline drastically (America's gross domestic product dropped by 50% from 1929 to 193<sup>3</sup>~~0~~), stagnation will set in, and Russia will be financially dependent on America and willing to sell its industrial base to American investors at rock bottom prices.

There is, of course, the concern that when large monopolies are broken up and the competing enterprises privatized, these enterprises will have to cut costs by laying off employees or go bankrupt. Some may go bankrupt anyway, but the result will still be high unemployment and social unrest. This will happen because privatized competitors will no longer be receiving subsidies from the central government to keep people working at unproductive jobs. Factor in that many towns are dominated by one large enterprise which uses part of the subsidies to fund the town's social services, and the elimination of these subsidies could lead to violent uprisings.

There is, however, a possible solution. Use the subsidies now paid to unproductive monopolies for a public works program. People laid off by privatized enterprises can be employed in a government program that puts them to work in jobs building your country's infrastructure: railroads, ports, airports, industrial parks, communication systems, etc. All of the modern facilities that an industrialized country needs. The program can also provide retraining so that laid off workers can find employment in a new capitalistic market. President Franklin Roosevelt set up such a program in 1933, which helped lift America out of its worst depression.

Other regulations that will help create a fair market include:

A prohibition against market allocation or division whereby competitors agree not to compete with each other in specific markets, which may be defined by geographic area, type of customer or class of product.

A prohibition against boycotting, which is an agreement among competitors not to deal with a supplier or customer. An example would be where General Electric, Whirlpool and Frigidaire (competing manufacturers) agree not to deal with any wholesaler of their products who does not follow their pricing policy.

A prohibition against unfair competition in order to prevent business from taking unfair advantage of their competitors. Such laws prohibit the unauthorized use of trade secrets, trade symbols, copyrights and patents. A business would be unlikely to invest resources in research and development unless its inventions, discoveries and processes were protected by patents and trade secrets. Additionally, a business would not devote time and money to marketing its goods and services if its trade symbols were not protected. Furthermore, without copyright protection, the publishing, entertainment and computer software industries would be vulnerable to having

their efforts pirated by competitors.

Federal securities regulation prevents fraudulent practices in the sale and purchase of securities and thereby fosters public confidence in the securities markets. There are two main statutes in the United States: 1) The Securities Act of 1933, which focuses on the issuing of securities; and 2) The Securities Exchange Act of 1934, which regulates the trading (buying and selling) of already issued securities. The 1933 Act has two main objectives: 1) to provide investors with necessary information concerning securities newly offered for sale to the public; and 2) to prohibit misrepresentation, deceit and other fraudulent acts and practices in the sale of newly issued securities. The 1934 Act's provisions: 1) require most publicly held companies to register with the government and submit periodic reports; 2) prohibits the use of fraud in selling or buying securities; 3) prohibits the directors, officers, employees and others from using information not available to the general public in buying or selling of securities (insider trading); and 4) regulates proxy solicitations and tender offers.

Reasonable environmental regulation allows a reasonable profit and saves the astronomical costs of cleaning up a polluted environment and providing medical care for people harmed by the pollution. Environmental regulations increase the cost to produce a product or service and that cost is passed along to the consumer. The consumer can then decide if he wants to pay the price for a product or service, and that decision will be a knowledgeable one because the environmental cost is included in the price. Without environmental regulations, the price of a product or service is less, but the consumer will end up paying in taxes the government's cost to clean up the pollution. In addition, it costs less to prevent pollution than to clean it up, even when discounting the future costs back to a present value.

Many of the businesses in Russia that seek investors have environmental problems. These problems reduce a business's value because an investor will reduce pro rata the amount he is willing to invest by the costs of the clean up.

Consumer protection regulations require businesses to produce products and provide services that do not present an unreasonable risk of injury to the consumer. In the 1970's in America, 20 million people were injured each year using consumer products, 110,000 permanently disabled and 30,000 killed.

Labor regulations can provide workers with the right to form, join and assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in concerted activities for the purpose of collective bargaining. Regulations can also prohibit employers from interfering with the employees' rights to unionize and bargain collectively, dominating a union, discriminating against union members, discriminating against an employee because he has filed charges against an employer and refusing to bargain in good faith with the duly established representatives of the employees.

Without such rules, workers would be at the mercy of employers. Workers could be dismissed without cause, and they would have no bargaining power to raise their wages because they would have to negotiate individually with an employer.

These are just some regulations that your government can enact which will attract foreign investment and encourage capitalism at home by allowing reasonable profits, but still prevent a class of wealthy rulers allied with American corporations from maximizing their profits by over exploiting Russia. Furthermore, such regulations will provide a predictable environment in which business can flourish but not abuse the environment, workers or consumers.