

A FAIRER FORM OF PRIVATIZATION

The present privatization scheme gives Russia's former bolshaya shyshka, who are the ^enow ^{stet}nouveau riche, undue advantage over workers and ordinary citizens. Under Perestroika and recent Government policies, the bolshaya shyshka amassed large sums of money. Since the privatization scheme provides for the transfer of large ownership percentages of state enterprises for cash and vouchers, these persons with large amounts of cash and purchased vouchers will buy large ownership percentages in Russia's enterprises. That means the nouveau riche will control much of Russia's means of production. Such control, of course, translates into vast economic, political and social power, similar to the power exercised by former bolshaya shyshka.

Replacing the present privatization scheme with worker-manager leveraged buy-outs would transfer the means of production into the hands of those who work in state enterprises while preventing the bolshaya shyshka from enshrining themselves as the new capitalist barons of Russia.

A leveraged buy-out would work as follows:

The workers and managers of an enterprise set up a limited partnership with the workers owning well over 50% of the partnership, perhaps 90% or more, and controlling a similar percentage of votes. The managers will own a small minority interest in the partnership and control a small minority of votes.

As a juridical person, the partnership purchases over 60% of the state enterprise from the Russian Government. The partnership agrees to pay the Government the purchase price over ten or more years with interest annually and secures its agreement to pay by issuing a purchase money mortgage or security interest on its portion of the enterprise to the Government. The mortgage or security interest acts as collateral for the Government. When the Government eventually receives full payment, the mortgage or security interest transfers back to the partnership.

In the event the partnership buys 100% of the enterprise or some other amount over 60%, it can sell shares in that amount to outside investors to raise capital for upgrading, streamlining and improving the enterprise's efficiency.

Furthermore, the partnership, which means the workers and managers, can legitimately avoid paying the Government by transferring its debt to the enterprise.

Since the partnership acquired a majority ownership interest in the enterprise and such an interest carries with it the power to make decisions for the enterprise, the partnership decides that the enterprise will assume the partnership's debt to the Government. This way the partnership no longer owes the Government the price for the portion of the enterprise it acquired. The partnership's liability becomes the enterprise's liability. But the partnership will still receive back the

mortgage or security interest it granted the Government when the enterprise pays off the debt to the Government.

The enterprise will then have ten or more years to pay back the Government. The enterprise pays interest and a portion of the principal annually with the possibility of a grace period during the first few years to allow the enterprise to start making a profit. When payments start, the money will come out of the enterprise's profits. When the enterprise does not make enough profit to pay the Government, the Government and the enterprise can reschedule the debt payments or the Government can force the enterprise into bankruptcy, seize a portion of the assets and sell them off in the market. When the enterprise makes no profit, it will quickly go out of business because it cannot pay its suppliers, workers or upgrade its operations. Its customers will turn to other competing businesses. Here also the Government can seize a portion of the assets and sell them for what it can get.

The enterprises that do make a profit will pay cash over the term of their debt to the Government. The Government may use these funds to finance Government programs that retain workers who lost their jobs because their enterprise went out of business. The Government may also use some of the funds to partially pay for infrastructure modernization projects that hire laid off workers. In addition, the Government may pay for some

Page No. 4

workers in enterprises that provide materials and services for modernizing the infrastructure.

Worker-manager leveraged buy outs will prevent the former bolshaya shyshka from maintaining control of Russia while assuring workers the power they have always been promised.