

Nomenklatura Looters

So what caused Russia's economic collapse—theft, in one form or another. Russian government officials and their business partners used foreign and domestic wealth not for investment to grow the economy, but to grow their overseas bank accounts.

Unlike capitalist systems, the Russian government continues to own large portions of major businesses, sometimes as high as 51%, years after the much ballyhooed privatization process run by Anthony Chubias. Privatization simply allowed a number of well connected individuals to obtain significant ownership interests alongside the usually larger government share. Together, the two groups exercise dictatorial control over the assets, finances and management of key companies, which are usually huge monopolies.

Most of the monopolies receive subsidies from the federal, regional and local governments in the form of credits and tax breaks. The tax breaks are of a curious type: the government just does not enforce collection. Besides government subsidies, a monopoly's capital comes from sales revenues and often a lot of bartered goods. Around 70% of Russia's gross domestic product is barter.

In order to funnel off a monopoly's wealth, its owners set up a number of closed corporations to act as middlemen for obtaining the company's inputs and selling its outputs, including the barter goods. When a monopoly purchases inputs, it pays an exorbitant price to the middleman. When the monopoly sells its products or goods obtained through barter, the middleman pays the monopoly's cost or creates an account payable that is often never paid, then sells the goods at the higher market price. It is no accident that the rewards from such a business scheme accrue to the middlemen. For those companies are owned by the monopoly's executives, the government bureaucrats that oversee a particular industry, and the businessmen, or oligarchs, that acquired an ownership interest in the monopoly through the privatization process. Since the oligarchs paid fire sale prices for their shares, they can make much more looting a monopoly than turning it around.

The people handling the day-to-day operations of the various middlemen corporations are all those 20 and 30 year old guys who are always bragging about being successful multimillionaire and billionaire businessmen. These cellular phone Russians are not entrepreneurs but the beneficiaries of simple nepotism. They are the relatives and family friends of the old nomenklatura. That good old boy and girl communist network that ran the Soviet Union into the ground and remained in tact after it collapsed. Today's Russian yuppies continue to pretend to be the new power in the country, but, in fact, they are only fronts for the old line bureaucrats and former communists who still run the show.

Russia's businessmen and bureaucrats (perhaps the terms should be collapsed into bizcrats) invest their looted gains overseas at the rate of \$12 to \$15 billion a year. When a significant amount of the capital that flows into or that exists within an economy leaves without being invested in the creation of wealth, that economy is never going anywhere.

And when foreign and domestic momentum investors realized new capital was not continuing to flow into Russia to buoy the stock and government bond markets, they cashed in their investments and went overseas causing the inevitable and repetitive financial collapses that occur in economies with endemic corruption.