

Privatization, Corruption, and Reform in Present Day Russia

REMARKS BY VENIAMIN SOKOLOV

Editor's Note: The following are remarks delivered at the Kennan Institute for Advanced Russian Studies at the Woodrow Wilson International Center for Scholars, 4 June 1998, during Veniamin Sokolov's visit to the United States, sponsored by the Center for the Study of Transnational Crime and Corruption, American University. Blair Ruble, director of the Kennan Institute, chaired the meeting.

Ruble: Today's presentation has already caught people's attention even before our speaker has uttered a single word. Most of you have received a copy of his op-ed piece in the *New York Times*. This event is cosponsored with our colleagues at American University, Louise Shelley and Vladimir Brovkin.

Veniamin Sokolov is the auditor of the Account Chamber of the Russian Federation, which is the only constitutional control body independent of the president and the government of the Russian Federation. He has held his post since April 1995. He gained visibility as one of the initiators of negotiations among President Yeltsin, All-Russian Bishop Aleksei II, and Supreme Soviet Chairman Khazbulatov in October 1993. He became engaged in political life over a decade ago: he served as second secretary of the Krasnoyarsk Regional Party Committee; he was a People's Deputy of the Russian Federation and chairman of the Republic Soviet of the Russian Supreme Soviet. But of equal importance for this institution, he is also a physicist by training. He earned a doctorate of physical and mathematical sciences. He worked at Novosibirsk's Academ Gorodok. He later was the rector of Krasnoyarsk State University and had a distinguished career at the Krasnoyarsk Physical-Technical Institute. He represents what the Wilson Center tries to memorialize: the bringing together of the world of ideas and the world of public affairs. He is also a graduate of the Moscow Physical-Technical Institute, one of Russia's leading institutions of higher learning. So it's a great honor to present to you Mr. Sokolov.

Sokolov: Thank you. First of all, I want to thank you for the honor you've shown me, not only by inviting me to speak, but also for the fact that all of you have taken the trouble to come here today. My aim today is made somewhat simpler by the fact that you've had the opportunity to receive a copy of my op-ed

piece in the *New York Times*. I am very grateful to the newspaper for providing my piece with such a marvelous illustration. It shows a Russian Cossack, riding on his horse and jumping over an abyss. But there is one serious detail at the bottom of the abyss: Its walls are on wheels, and there are a couple of figures down at the bottom that are trying to make the abyss wider.

I believe in the absolute necessity of reforms and changes, many of which have already taken place in Russia. They are not only necessary in terms of the internal development of Russian society, but also because of certain historical demands made on that society. Russia had to make the change from a totalitarian system to both a more democratic form of social organization and also to new forms of arranging our economic life.

Therefore, in 1985 the Russian people greeted Gorbachev's reforms with great enthusiasm. After they became disillusioned with the reforms initiated by Gorbachev, the people then greeted the more radical reforms of Mr. Yeltsin with the same kind of enthusiasm in 1991. But the results of those reforms and the specific forms that they took did not match the expectations among Russians in any way. As a matter of fact, what we are seeing now is the systematic and conscious destruction of the old economic system existing in Russia, leaving only new reforms, which are barely noticeable. It may well be that this last statement of mine could sound like a paradox of sorts and perhaps is not even understandable, but I will try to explain it and back it up. If you have read only the reports and books written by Chubais, Boiko, and Gaidar, you may be convinced that we have all the attributes of a market economy, such as private property, a securities market, inflation, and so on. Why is it then that people are living worse and worse and their incomes are falling lower and lower by the year? For 80 percent of Russia's population, the income of the average individual has fallen to a third or even a fourth of what it used to be, and the question of actual physical survival is a real one for most people.

For all practical purposes, there is no longer any scientific or scholarly work being done in Russia. It's all quite clear to you what our level of scientific and scholarly work used to be during the Soviet years. I am currently in the middle of a comprehensive evaluation of what we would call basic research and the creation of new technology in Russia, and it is precisely this evaluation that leads me to say that, for all practical purposes, there is no substantial research or technological progress going on in Russia. This year, after the signing of a new decree by Keriyyenko, the budget of the Ministry of Education for the Russian Republic, which by the way is responsible for supporting all higher education in the Russian Republic, has been cut so low that it is now less than the budget for Harvard University alone. Let me mention the question of privatization. If one takes a look at the official statistics and one checks out that they are based on reality—and I have to add that phrase because in Russia today, no one believes official statistics without such a further check—one comes up with the following figures: 49 percent of all enterprises have been privatized in Russia, which is of course in complete contrast to the situation in the Soviet Union, when 100 percent were state property. Today, only 33 percent are still owned by the state. The remaining

percentage of enterprises are in a state of transition; they are either share-holding associations or they are rented from the state.

One might already expect the emergence of a functional private sector, affecting the gross national product in a positive way and thus enabling people to begin living somewhat better. Alas, this has not happened. Instead, if one analyzes the work of all enterprises, including both state and private enterprises, their range of profitability is from 4 to 7 percent. This is so because these firms and enterprises do not have any working capital or investment with which to conduct normal economic activities. Regardless of whether they are private or state enterprises, they only have between 8 and 10 percent of the operational funds they

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need to function. This means that in the sphere of real production, those enterprises that are actually producing things are functioning primarily on a barter system. No money is circulating in the interaction of these enterprises and firms. Therefore, in this sphere of economic life, economic activity is expressed in the exchange of stone axes for

mammoth skins, as in the most primitive societies of the stone age. However, today it is not so easy to exchange airplanes for goods necessary for our day to day survival.

Then there is another factor. One may think that if there is no working capital or investment, one can just take credits from banks. But it is impossible for these enterprises, whether they be private or state owned, to make use of credits. And the explanation for this is quite simple. The profitability of firms ranges between 4 to 7 percent. What is the cost of credit now? The central banks have just raised it to 150 percent, and in the recent past, it has never gone below 23 percent. With these rates, no commercial bank has any interest investing in any kind of firm or enterprise. Understandably, banks will operate only in a speculative financial market. Our economic life is actually divided into two separate spheres. Goods circulate without any money to be used in the exchange. Classical economists tell us that ideally there should be goods produced, which in turn then produce money, later used to buy goods. In our economy, we produce goods to exchange for other goods, not for money. So we have replaced that classical financial formula (which states that money produces goods with which to produce money) with our own in which all goods have disappeared from the sphere of finance, and all we have is money producing money. These two spheres in no way ever touch each other. All of the attempts made by the International Monetary Fund or other international organizations, along with the Russian government, are aimed only at the sphere in which their money interacts with money. And this is precisely where we have the phenomenon of corruption.

Corruption is involved with all of the processes of privatization, and the question of how money circulates no longer has any relationship whatsoever to the market economy. The Chamber of Accounts has conducted a complete review and analysis of these processes, which we finished in 1996. One of our main conclusions of this audit was that privatization, taken as a whole, was carried out with a huge number of violations of law. If we were talking about violations of old Soviet law, then one could understand and justify this situation. But as a matter of fact, even the laws drafted by Mr. Chubais and Mr. Gaidar were violated, and therefore, one cannot find any economic rationale or any economic goals of these processes. As a matter of fact, at a meeting of the government last year, Mr. Chubais acknowledged this himself. I was there, and I heard the following words he said in mid-1997: "So far, privatization in Russia has only moved toward political goals. It's now time we start thinking about economic goals as well." His comments were not entirely correct; there were, in fact, economic goals. Let me give some examples of this. Mr. Berezovskii purchased 100 percent of the stock in an oil company for \$100 million. After several months, he sold 8 percent of that stock to various French firms for \$518 million. Another such example was when Mr. Potanin obtained a controlling interest in Norilsk Nickel (which is a major enterprise that I myself am very well acquainted with) for \$170 million. Now this may be only one factory that is part of a much larger entity established at the end of the Soviet period; however, this one factory is now worth \$10 billion.

I have yet another example which is also taken from a specific audit that I have been involved with because of my position at the Chamber of Accounts. At the end of last year, we did an audit of the privatization of the Russian State Insurance Firm. This is a huge insurance structure that encompasses all of Russian territory. What happened? The former director of this company, Mr. Reznik, decided to appropriate it. Mr. Reznik had submitted an application to the Ministry of State Property for this very purpose. Then a man named Mr. Kokh picks up a pen and signs off on it. Now I'd like to stress here that this is not an official government decision. No laws have been passed allowing this to happen. One individual just picks up a pen and signs off on it. If the privatization of the Russian State Insurance Firm had gone through, according to our calculations, the budget of the Russian Federation would have lost out on \$500 million annually.

There is also one other small detail: On the same day that Mr. Kokh signed off on the privatization of the Russian State Insurance Firm, he also wrote a letter to the Ministry of Finance. This was what the letter said: "In light of the privatization of the Russian State Insurance Firm, I request that you examine the budget for 1997 and provide the sums of money needed for the creation of a new state insurance structure." We were able to stop the privatization of the Russian State Insurance Firm, and thus we were able to stop the massive loss to the Russian budget. Mr. Reznik did not take this news calmly, and four times he went to arbitration court in an attempt to overturn our ruling. We won every one of those court cases. These examples show that in the course of privatization, not only was the law not observed, but neither was there any kind of economic rationale in view.

We have outrageous examples of corruption, which are basically connected with financial manipulations. We have come to this conclusion as a result of what we call a complete documentary audit of actions by the Ministry of Finance, which is totally lacking any kind of systematic accounting for incomes and outflows from the federal budget. Our conviction was further confirmed by the fact that we sent our conclusions to the president and the Ministry of Finance, and we received no answer whatsoever. We came to the conclusion that this is not the result of a low level of education or competency of members within the Ministry of Finance, but rather this is a result of a conscious decision and a conscious policy. This allows them to operate without any control and without any oversight. It allows them to do whatever they want with the money of the ministry simply to satisfy their own personal greed. One of the prime examples that I refer to in my op-ed piece is the example of the \$150 million credit given out by the Ministry of Finance for the supposed production and sale of MiG aircraft.

I can understand and would fully expect any one of the reactions to this rather gloomy picture that I have presented to you. One of the many questions I am asked is, "Do you see any way out of this situation?" My initial answer to this question, in the most general terms is, "Yes, there are all the serious prerequisites necessary for a way out of this situation." There is not only the huge potential we have left over from the Soviet period, but there are also new growths that have been struggling to arise during this new period, and that is what gives us hope of achieving a normal economic life and a normal public life in our society as well. Let me give you one example. I mentioned Norilsk Nickel in the context of illegal privatization that was tantamount to privatizing huge assets for nothing. Nevertheless, when we did our audit of Norilsk Nickel, we saw that when Unexim Bank acquired a controlling interest in the company, things changed for the better. And why did this happen? Because before there was nobody to run that firm; we had only scoundrels who were merely milking it. This bank, after acquiring a controlling interest, began to work seriously, and things began to get better. And Norilsk Nickel is not the only example of such a change.

We're now in such a critical situation that I think there are three possible ways out. If things go on as they are now, with the present leadership, two things could happen: first, everything will quietly collapse and we will have a complete cessation of economic life; even the state will collapse as it did at the end of the Soviet Union. Or second, the Russian people, driven to desperation, will turn to uprisings, and we will have a situation on our hands similar to that of 1917. This is possible not only because incomes of people have fallen several times, but also because for a large number of people there is a huge psychological insult and sense of humiliation inflicted upon them as well. These are not only old age pensioners who have completely lost their entire life savings. These are young, able people who find no place to apply their skills, their knowledge and their abilities in today's Russia. Neither complete collapse nor something that reminds us all of 1917 is a desirable variant. There must be some way to avoid them. One needs a third, alternate path in order to come out of the crisis, to create a normal civil society as is described in the present Russian Constitution.

I have two goals in my visit: first is to try to explain as fully as I can the complicated situation as it really exists, and second, to allow people to understand that there are forces in Russia that are ready to move forward—that do not want to go backward—if they find even a minimum of understanding from similar forces of good will over here, and hopefully, not only understanding, but even some support.

Ruble: Thank you. I couldn't help but think as you spoke that a number of points that you've made, I've heard other speakers make. And there have been criticism of three forms: the first form of criticism of your point of view is that this is only the early stages of capitalism. Every capitalist society has its robber barons. The details may be somewhat different in the Russian case than in the American case or the British case, but this is just what happens when capitalism comes into formation. The second criticism is that there's no proof, there's no evidence. These are just stories, and no one has been convicted in a Russian court of law. The U.S. government and scholars should not take these criticisms seriously until there is proof. And the third is that even if there is some truth to these stories, the larger reality is much more positive. For example, just this morning I received an official fax from an official Russian organization, explaining that there's some crime in Russia, but there's no such thing as organized crime in Russia. I was comforted in the knowledge that some people really haven't lost their jobs from the Soviet period, and they can still turn out these kinds of communications. How do you respond to these criticisms?

Sokolov: I know these three points of view; they are well known. Let's take the first one, that we're only in the early stages of the accumulation of capital. Let's first of all remember that when one talks about that early stage, they're usually talking about a period in which we're moving from something that is an equivalent to feudal society to a capitalist society. And at that time, the height of technological achievement was something like a windmill or a water mill and that was the state of technology. We had a high level of industry in the Soviet Union; there was a high level of scientific achievement; half the airplanes of the world were produced in the Soviet Union. There was space technology, there was communications technology, and I would even go so far as to say that the quality of life was at a level that allowed a comparison with that in the United States. So people who talk about the early stages of accumulation of capital are, in effect, suggesting that we should completely destroy the level of social achievement that we had and then go down the same path the United States did 200 years ago. I think that if one took

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either the Rothschild family or the Morgan family and gave them the problem of creating space technology, that it would not have been so easy. So that historical analogy does not really make any sense whatsoever, or if it does, then one has to admit that if we're talking about a transition from the previous society to a market society, then obviously it has to be done taking into account the technological and scientific industrial level of the society that already exists.

That nobody has been convicted is the second category of criticisms. That's a fact. But that fact doesn't mean that this mass of criminal violations haven't taken place. It points to the lack of an independent judiciary. For instance, the Chamber of Accounts last year did 1,500 audits. Ten percent of that number, about 150, were transferred officially by us to the Procurator General's office. And in only 10 percent of those cases transferred did the Procurator General's office take any further action. And only a few cases ever reached the stage of appearing before a court. What this story reveals is that we don't have a normal legal system, and that's not surprising in a country where the largest violator of law and of the constitution is the president of the country himself.

Finally, in terms of the third criticism, which says that there is some positive movement, I'm not saying that there isn't. I even gave you a couple of examples myself. But if you're going to talk about a general tendency, which that third type of criticism implies, then these cases of moving forward should be shown to be based on some official government policy. But I would say that it's exactly the opposite: Any kind of positive moment is despite government policy.

Question: A great deal of money that is sent out of Moscow never reaches the areas that it is supposed to go. It seems to disappear into thin air. What are the ways in which it can be traced? Are you tracing it?

Sokolov: There's one thing that people have to understand. In the cases where large sums of money are supposedly sent out to far distant regions, most of the money disappears not en route to the region; it disappears in Moscow itself. Of course, one can say that some parts of the sums disappear—the case of Nazdratenkot in Vladivostok and Rutskoi in Kursk. There are all kinds of ways, but it's primarily in Moscow. What are the channels? Where do you want to find the trails? Go look in commercial banks; go look at the operation of the Treasury; go look at the Ministry of Finance; go look at various other ministerial structures. The main problem is that this whole process is being directed and controlled by the Ministry of Finance of Russia. And the Ministry of Finance and the other areas that I've mentioned have no system of internal controls. I have to say that the only independent oversight structure in Russia is the Chamber of Accounts, where I work.

Question: You've painted a gloomy picture. No one is going to deny it. But it seems that there are also honest people such as yourself. I have two questions. The first is a general question. If one looks at Russian history in the nineteenth and twentieth centuries, there has always been a strong bureaucratic element in Russian society and an illogical tax or fiscal policy. However, before the revolution there were systems of control at various levels and self-government at the

local level, where there is less corruption. Second, does the Chamber of Accounts ever examine whether or not the laws correspond to the real economic situation? For example, how does the tax burden for the average citizen relate to the poverty line?

Sokolov: Thank you. I will now answer the first question. You are correct that even now the closer a government structure is to the local level, the less corruption we see. And that's why I am constantly stressing the role of the top levels of the Russian government. That's where corruption in Russia flows from. I have had conversations four times within the course of this one week at the World Bank. One of the topics that was discussed was that there has to be from here the demand made on the Russian government that there be some kind of system of control. Granted, the oversight and control of expenditures in Russia is our problem, but there has to be a mutual attack on this problem if it's going to be solved; there has to be a demand made from here to the Russian government as well. You put your finger exactly on the certain historical Russian tendencies of a negative nature that are very true and I do not argue with you about that. I should say that the mentality of the current president in Russia can be described quite simply: I do whatever I damn well please. And the Russian expression is associated with the old Russian merchant attitude toward his ability to act and whether or not he's under any constraint.

In reply to the second question about taxation, your example hits the nail on the head. Allow me to give you some numbers. When the Soviet government first fell under serious criticism about ten years ago, one of the arguments was that wages accounted for only 35 percent of the cost of goods in the Soviet system. The goal of the transition to a market economy is that the 60 to 70 percent of the cost of production of any goods should be reflected in wages, so that any worker who is receiving wages from producing these goods should be able to pay taxes on which the government can exist. At this very moment, wages account for no more than 8 percent of the cost of the production of any goods. So it's immediately clear that individual citizens cannot pay taxes in such a system.

Question: One of the questions that has puzzled me is how people become billionaires, dollar billionaires, in a period of about five years or less when the economy as a whole is collapsing. This is a vast transfer of wealth from the many to the few. I can think of only two mechanisms, one of which you touched on, which was the management of the privatization system. But the second would be the control of the tax revenue stream. And I'm wondering if this huge debt that has been accumulated is merely a design to facilitate this transfer of wealth.

Sokolov: If I understood your questions correctly, then I think that I don't even have to answer them, because the answers are in the questions. You described the situation. That's exactly the way things are.

Question: You are representing an official institution of Russia; you're here in the United States; you mentioned being at the World Bank. You also mentioned that you presented documentary evidence of the Russian government and you pre-

sented that same evidence to the International Monetary Fund or to individuals in the U.S. government. The IMF, at least on paper, is pledged to suspend all lending if there is proof of corruption.

Sokolov: I have not had the opportunity to present material to the American government, and I did not come here at this time with that goal. As far as the World Bank is concerned, I have shared with them my findings, and everything that I have described here is a result of the official work of the Chamber of Accounts. I presented to the World Bank the results of audits of two loan contracts between the World Bank and the Russian government. As part of our examination of one of those World Bank loan contracts—for the sum of \$90 million—we came to the

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conclusion that that loan had absolutely no economic effectiveness whatsoever. In fact, one could even say that it had a negative economic effect. It was connected with serious violations of law, and we transferred that information to the Procurator’s office in Russia. We discussed some mutual systems of control and strengthening oversight systems, aimed at

the stage when the loan contract is being designed, before it has been signed; the implementation of a loan contract after it has been signed; and then an analysis of the effectiveness of the contract after it has run its course.

Question: You said that there are people like yourself who understand the need to pull the Russian economy out of a critical situation. Can you be more specific about specific people, groups, parties, or movements that could convince us that we should support such measures?

Sokolov: I can’t name for you either individuals or specific political groupings that would be in total agreement with the situation I’ve outlined and the possible solutions to it. For example, the Communist Party would agree with certain parts of my criticism of present policy, but they certainly would not agree with my proposals for getting the country out of this situation. The Our Home is Russia Party might not agree with the criticism of the present situation, but they could agree that the third path is the one to take in order to help Russia. The situation in the Russian political sphere, or in the sphere of social consciousness, is that we are really in the stage of the formation of a political situation, but this is only the initial stage. We have not yet reached the stage in which we clearly have new political forces. But average citizens, such as miners, teachers, students, have clearly exhibited their political attitude toward the present situation.

It is much more interesting to examine one other group in contemporary Russian society, the so-called businessmen who personify the new Russian capitalism. This phenomenon is something that is comparatively new; it’s a phe-

nomenon that appeared during the last year. The most obvious and clear example of this are the public statements of Mr. Berezovskii and of others who share his views. What does he represent? These are people who have come to the understanding that the continuation of present policies is untenable. One version of events is that the social upheaval will wipe them away along with everything else. Or, as a result of the financial crisis that is constantly growing, they could lose all of their capital and become completely bankrupt. Therefore, although it may sound paradoxical, this group too comes to an understanding that this policy can no longer go forward and has to be radically changed. They have come to the conclusion that enough is enough; we can't have any more embezzlement and stealing. We can't have any more financial fraud. We have to begin to create a clear and transparent and law-observing economic system. And in connection with the interaction of these different groups, one can see a quite interesting political process that is now beginning to take place.

And I would repeat to you what I said at the very beginning. I did not come here merely to give you a gloomy picture of what is going on. If you remember what the terms were that I used, I wanted you to understand the seriousness of the situation and the possible means of solving it. That was the goal of my visit.

Question: What role have the Americans played, if any?

Sokolov: I would answer you by referring back to the political cartoon that went along with my article in the *New York Times*. There are two figures at the bottom trying to widen the abyss, and it seems to me that one of the figures is the personification of the Russian government and the other is the personification of the American government. And if I am to use the same reference to the illustration, then I would think that the goal of people of good will would be to stop this process and to begin a process that would allow this abyss to grow smaller rather than larger.

Question: We know of your ties to Krasnoyarsk, which leads me to take advantage of that unusual resource here. I wanted to ask if by any chance you had spoken with the new governor of the Krasnoyarsk region, and if you have any impression of his understanding of the political and economic problems that you have described to us so well.

Sokolov: I am acquainted with both the previous governor and the present governor. When I was the rector of Krasnoyarsk University, the previous governor was my dean. Unfortunately, I have to say that he is an example of a weak and incompetent person. And I am glad that you asked me about the present elections because the results were not evidence that people were voting for Mr. Lebed; they were voting against the present regime.

Question: What is your advice to an American businessman contemplating investing hundreds of thousands of dollars in Russia in the next few months? Should he keep his money in his pocket or proceed with his plans?

Sokolov: Last week, I was invited to speak before a group at the Flemmings

Investments firm. It is well known that this firm controls billions of dollars of assets, and they are very interested in anybody that can tell them anything about the situation in the Asian and Russian markets. At that meeting, they said the following: The situation is very, very good for us. The prices of Russian stocks are falling and it's time to buy.

I asked them what they were planning to advise their own investors if a complete crash takes place in Russia, and they replied that they would just sell to other investors. I then asked them where they thought they'd be able to find buyers. When I continued to lay out the big picture as I saw it, these people began to have second thoughts. One of the basic problems is that even people of a high professional level do not understand the situation that I described to you, in which there is a complete lack of connection between the two spheres of our economy (production and finance) and the consequences thereof. Here in the United States you have nothing like that.

Question: My question was about, in the other sphere, the realistic one.

Sokolov: You've gotten me into a very complicated and contradictory situation with the second part of your question. Of course, people in Russia, and I myself, are very interested in having new investors who will come to Russia and invest in new technology, especially if they bring not only funds but also aims of investing in new technology and new means of production. And this should be encouraged because it signifies real investment in the development of the Russian economy. But I have to add that in order for this to happen there has to be a radical change in other circumstances. Otherwise, people will come and invest in the real economy and then be in a situation where they're sitting and waiting for the moment when those investments begin to actually operate. I had an occasion, in the course of my auditing work, to examine a factory near Moscow where the Zinger firm had made a serious investment. To make a long story short, this firm is having huge problems, although they have invested and they really are trying their best to make that firm work. There's another factory that is also located on the outskirts of Moscow that produces machinery used in road construction. Half of the firm is owned by the Dutch and the other half by Russians. This enterprise can exist only because it has American investors and has found American buyers for the production of the equipment. In Russia, there is no demand, no qualified buyer for the products of this firm. There is no internal market in Russia. That is the main result of government policy.

Question: My question concerns a comment made earlier regarding the 1,500 audits conducted last year, only 10 percent of which were turned over to the Procurator-General's office. What happened to all the other audits? Were those also released in some public form to the press? Were they turned over to the Russian parliament, and does the Russian parliament have any kind of serious follow-up investigations or hearings on the results of these reports?

Sokolov: Every one of our audits is published and made a part of public records, except for the small number that deal with defense-related matters. They're

also given to the parliament and to the government. We were able for many of them to get measures adopted, but I can't say that this relates to all of them.

Question: What are the role and the conditions of both small and mid-sized businesses in Russia? What are their future prospects?

Sokolov: A Ministry of Small Businesses exists, as well as funds for the support of small businesses. They publish journals and so on. But I would say that in Russia, small businesses exist only in the areas of trade.

If you allow me to tell you just one quick story—This is a story from the history of the creation of the Soviet atom bomb, but it reflects quite well the current economic situation in Russia. Mr. Kurchatov, who was the person who directed the scientific part of the development of the atomic bomb, had at the first stage to show that a reactor could be built and that chain reactions could be produced. The person in charge of this project was Lavrenti Beria, the head of the NKVD. Mr. Kurchatov had to report to him at every stage of development. One day he called Beria to say, “Lavrenti Pavlovich, we've got a chain reaction and we've got neutrons.” And then Beria said, “Good. I'll be out there immediately so that you can show me.” At that point, Mr. Kurchatov grabbed his head in despair and exclaimed, “How the hell am I going to show this man a chain reaction and how am I going to show him neutrons?!” So he thought of the following trick: He found in the adjacent room an instrument panel that was connected to nothing. He took a young physics graduate and said to him, “You sit down at that control panel, and when I come in with Comrade Beria, I want to see you turning those knobs and I want to see the needles move.” They came in, Mr. Kurchatov told his story, the needles moved, and Mr. Beria was happy. He went back to Moscow having seen that the reactor was working. It's a saying that the Russian government now shows representatives of the American government and international lending institutions that their market economy is working, and they do it exactly the same way that Kurchatov showed Beria.

Thank you for your attention.

Ruble: I have to say that Russia should forego Potemkin villages in order to have a successful economy. Earlier this week we had a spokesperson from the U.S. Treasury Department whose recommendations are not very dissimilar from yours. There have to be clear, well-defined rules for the legal and economic game in Russia. And there has to be transparency. I'm pleased to see that some government agencies in Russia are already working on this problem. And I wish you and your colleagues success.