

## Weimar and Russia

### Intro:

In the July 1993 issue of The Journal of Democracy, just three months before Boris Yeltsin ordered the storming of the White House and the dissolution of the Supreme Soviet, the late Galina Staravoitova wrote an article on Weimar Russia and commented:

"The danger of an extreme-nationalist revolution is real, as the state of things in Russia comes more and more to resemble the plight Germany's Weimar Republic faced in the 1920's. The widespread persistence of imperial thinking, the humiliation of a proud people, discrimination against its members living in bordering states, and the continued broadcasting of the concept of a "divided" nation all helped to pave the way for fascism. In the case of "Weimar Russia", we may add to this economic deterioration, indifference and misunderstanding on the part of the West, and the sinister union that extreme right wingers have formed with ex-communist hard-liners."

On November 21<sup>st</sup> of last year, Ms. Staravoitova, an ardent democrat and Duma deputy, was cut down by a bullet in the entry to her apartment on Canal Gribodeyevaya in St. Petersburg.

This evening I want to expand a little on Ms. Starvoitova's comparison of present day Russia with Weimar Germany. But first let me touch upon how Russia's most recent economic crisis has impacted on its people.

### A. Conditions in Russia today

1) On August 17, 1998 Russia declared a 90-day moratorium on both public and private obligations to foreign creditors and announced that its domestic debt was in default. The Russian government also in effect devalued its currency by easing the exchange rate between the ruble and the dollar. Eleven weeks later the Primakov government announced that it would try to renegotiate \$3.5 billion in foreign debt due in 1998 and \$17.5 billion in foreign debt due in 1999, hinting that if such renegotiations were not successful it would have to default.

2) The ruble has fallen from 6 to the dollar to 23. This has meant that the salaries of persons living on fixed incomes, pensioners and state employees, have been reduced by more than two thirds in a few short weeks.

3) Foreign imports of food have been cut back by a staggering 45% and in some cases as much as 80% as foreign suppliers now require advance payment before releasing shipments. The decrease in imported food coupled with the summer drought in the Russian heartland has resulted in a harvest that is only 60% of normal, and on October left Russia with food reserves, originally estimated to last about 3 months, later revised to two to three weeks. This resulted in the US

donating \$1.5 in food in grain reserves and extending another \$1.5 billion on low interest credit for the purchase of grain.

In remote areas such as northeastern Siberia.. the reserves were much less, and countries like Norway have been trying to ship food to at least the western areas of the far north.

4) Official unemployment has risen to 12%, and since August hundreds of thousands of persons in Moscow have been laid off. The number of persons living below the poverty level has risen to between one-third and two-fifths of the total population, a 100% increase since Jan. 1, 1997, according to a recent report of the Duma committee for labor and social policy. As of the beginning of 1997 the mean salary was \$190 per month, and the mean monthly pension was \$60/mo. As of late fall the mean salary was \$60 per month and the mean pension \$25/month.

5) 6NP decreased by 5% in 1998, and inflation rose by 84%. The decrease in 6NP is on top of a 40% decline since the end of 1991. This precipitous decline compares with the strong gains in GNP during the same period in the most robust economies in Eastern Europe, Poland, Czech Republic, and Hungary.

6) Unrelated to the current economic crisis but directly affecting quality of life are environmental statistics. According to the Russian Federation's equivalent of our office of Surgeon General, more than 50 million Russians live in areas where air pollution is ten times above the recommended norm; another 60 million live in areas where pollution is six times above acceptable norms. One quarter of the drinking water does not meet sanitary standards, including the drinking water in at least 8 regions, especially those on the Volga River.

7) Banks refuse to pay dollars to customers holding dollar accounts and have drastically limited the ability to withdraw rubles. Funds that are still transferred to Russian banks often fail to reach the customer's account. Most banks are insolvent, in part due to bank obligations to foreign investors. In the last week of 1998 the Russian Commercial Court adjudicated Tokobank bankrupt and ordered its assets distributed to creditors. Imkombank is reported ready to file for bankruptcy.

8) Insurance companies who were compelled to invest from between 10 and 100% of their premiums in government bonds have been rendered insolvent by the bond default. No longer can insurance companies pay out on health and life insurance policies, adding to the public health problem that already existed. If Russians in hospitals are to receive any medicine, they must buy it themselves.

## B. The Immediate Causes of Present Crisis

1) The decline in world prices for oil and gas, a major source of foreign exchange for Russia. Because of the decline in world energy prices earnings from oil exports in the first six months of 1998 were \$5.6 billion as compared to \$7.3 billion for the

comparable period the previous year, notwithstanding that the quantity of exports remained the same.

2) A world wide panic by investors from the rich nations, seeking to liquidate their holdings in emerging markets.

C. Longer term causes of crisis:

1) The inability of the executive and legislative branches to reach any compromises on the government's reform program, especially in the area of tax reform, critical to improving tax collections and the situation involving the budget deficit.

2) Increasing government borrowings to accommodate the failure to collect adequate tax revenues.

In 1994, after a massive ruble devaluation on October 11, Viktor Geraschenko was replaced by Tatiana Paramonova as acting chairman of Russia's Central Bank. Paramonova obviously with political support from some segments, stopped the practice of printing money and brought inflation eventually down to a rate of 7.5% per year.

With the anti-inflationary steps of the Central Bank and other reform undertakings by the Yeltsin government, in the spring of 1995 the IMF made its first commitment to provide financial assistance in a package of \$3 billion. However, Russian consumers were still wary of depositing their savings in banks. The IMF funding along with the resort to private financing through government bond issues became the cash replenishment facility in lieu of printing money. However, while this change kept inflation under control, the amount of money available through government bonds was a far less plentiful source of money for the supporting unprofitable enterprises than had been the former system of ruble emissions and subsidies. Further, IMF loans were expected to be paid back. IMF funding was limited and subject to many conditions which Russia had to comply with or make a pretense of complying with in order to obtain the next installment or tranche.

The IMF attributed the failure to collect tax revenues, at least in part, to the reform government's failure to push through a tax revision law that lowers the confiscatory rate and closes the loopholes for special interests. Russian scholar Richard Pipes attributes the failure to pay taxes to cultural tradition-"Russians are not accustomed to paying income taxes which were unknown under czarism and Communism"-and to the inability of the Yeltsin government to collect taxes-"either from enterprises or individuals because it lacks the political will and the bureaucratic personnel." NY Times 8/29/98, op. Ed.

The result has been a rapid build up, from the spring of 1994 until August of 1998, of short term debt to about \$70 billion which has been added to that portion of the indebtedness of the Soviet Union which Russia assumed bringing total indebtedness to about \$160 billion.

3) A banking system that has been propped up by the Central Bank and has failed to perform lending functions customary to banks.

Russia's current banking system was born in 1991 with the enactment of laws establishing a banking system and a central bank. Start up banks were authorized with extremely small capital requirements, and the Central Bank, in addition to other powers was authorized to be a lender of last resort. No limitations were imposed on self-dealing and loans to shareholders. As a consequence, the managers, of many newly privatized concerns set up their own captive banks, which were then exploited to obtain loans from the Central bank to support unprofitable operations. The Central Bank, particularly under its second director, Viktor Geraschenko, resorted to printing money to permit these subsidies. Influence and contacts, rather than profitable performance, were the determining factors in obtaining these subsidies. The pocket banks turned around and lent funds to their master, the industrial enterprises who owned them, at below market interest rates.

As a result of the new emissions of money to support these subsidies, inflation shot up eventually reaching a rate of more than 1,000% per year. Inflation inhibited consumer deposits as an engine to generate money turnover to use as loans, thus requiring more subsidies from the Central Bank. Further, because of high inflation rates, loans made to third parties were only short term, thus chilling capital formation for new enterprises. Capital accretion has declined continuously for the last seven years, even last year when GNP reportedly increased by a little less than 1 percent.

Also inhibiting consumer deposits was the ordinary justifiable fear of confiscation. Confiscation had occurred in 1990 and in July 1993 Chairman Geraschenko, in an attempt to tame inflation, declared that all ruble notes dated before 1993 would no longer be accepted.

Meanwhile, the banking laws were not significantly changed to ward off self-dealing and conflict of interest loans. Further, while a bankruptcy law was finally approved, it was so cumbersome and complicated and provided so many opportunities for delay, that it was in reality ineffective.

4) Tolerance of a barter system that has distorted the value of goods and the laws of supply and demand.

After the Russian government, with IMF prodding, instituted strict controls on the emissions of new rubles, the Nomenklatura, who were managing unprofitable enterprises, found a new way to subsidize their operations through adoption of a barter system. Goods were paid for by netting out accounts between companies and by payment of goods in kind. Another device was simply to hold up the cash payment of wages by deferral or by payment of wages in goods manufactured by the employer.

Two Russian observers, Clifford Gaddy and Barry Ickes in a recent article in Foreign Affairs described one example of how the barter system works today:

"On March 23, the governor of Chelyabinsk province, **Pyotr Sumin**, declared the construction of a subway system in the city of Chelyabinsk to be one of the most important construction projects in the region. The project is being financed by the tax debt of construction companies to the federal, provincial, and local governments. Construction companies in Chelyabinsk were deeply in arrears on their taxes to the local and federal government. At the same time, the federal government owed Chelyabinsk funds but was late with disbursement. The local government was more or less forced to accept the construction companies' offer of a big project in lieu of payment, while the federal government canceled the companies' tax ? arrears in lieu of a federal contribution to Chelyabinsk. The end result is a subway. It does not matter that in Chelyabinsk, as throughout Russia, hospitals and schools are in disrepair and that teachers, nurses and doctors are not being paid. When goods are delivered in kind as tax offsets, it is a seller's market." Gaddy & Ickes, supra at p. 62-63.

Not only did this barter arrangement distort the market rules of supply and demand by providing the residents of Chelyabinsk something that was less essential than other projects or other goods and services, but it also distorted the price of the goods and services which are otherwise established by the laws of supply and demand. Through barter arrangements companies can set artificial prices, which in turn permit them to report paper profits which really do not exist, thus enabling unprofitable companies selling obsolete and unwanted goods to survive.

5) The failure to conduct an open privatization program that led to virtual control by a few oligarchs of much of the Russian economy with the following results:

- a) diversion of asset value to nonproductive uses;
- b) failure to adequately finance such companies with the resulting **obsolescence** of means of production;
- c) absence of domestic competition.

6) Corruption which has led to the **reallocation** of resources to nonproductive uses.

Just as the banking system favors those businesses that have connections and disfavors start up enterprises by withholding needed capital, so the system of corruption has hit hard the small entrepreneur. The small entrepreneur is the one least likely to be able to pass on the "tax" he pays to his local gang protector, and it is estimated that between 70 and 90% of Russian businesses must make this payment to survive.

D) **Comparison** between Russia Today and **UJaimar** Germany (1919-1933)

- 1) Both nations lost substantial territory, Germany by the Treaty of Versailles, Russia by the breakup of the Soviet Union, leaving substantial numbers of ethnic Germans and ethnic Russians living in contiguous countries and subject to

perceived discrimination by the population of ,\* the mother nation. This loss of territory and perceived discrimination of native countrymen has been exploited by extreme politicians of both countries.

By the Treaty of Versailles, Germany lost Alsace-Lorraine to France, Upper Silesia and West Prussia to Poland, thus creating the Polish corridor between East Prussia and the rest of Germany. In all 13% of the land mass of pre-war Germany was ceded to surrounding countries, involving a substantial loss of raw materials, including 68% of its zinc ore resources and 26% of its coal resources. Also according to the Versailles Treaty, German territory west of the Rhine was to be subject to international control and occupation. Following German failure to deliver a shipment of timber to France as part of Germany's obligation for reparations, French troops in 1923 occupied the Ruhr for about one year.

German resentment over the terms of the Treaty of Versailles was aggravated by the Treaty's War Guilt Clause declaring that Germany was responsible for causing World War I and also by strict limitations on its standing army and on rearming. The German military, including Weimar's last president, Paul von Hindenburg, claimed that Germany "had been stabbed in the back" by postwar politicians, Socialists and Jews, who signed and ratified the Treaty.

Twenty years later Adolph Hitler exploited the perceived plight of ethnic Germans as a pretext to rejoining a truncated Austria to the Third Reich, to marching into the Sudetenland and collapsing the Czech government, and to Germany's rightful claim to the Polish corridor as the justification for the Nazi invasion of Poland.

After the breakup of the Soviet Union in the fall of 1991 ethnic Russians comprised over 40% of the population of Latvia and Kazakhstan, and over 50% of the population of Crimea which Nikita Krushchev, himself an Ukrainian, declared to be a part of the People's Republic of Ukraine. The former Crimean president based his political fortune on a platform of reunification with Russia. Many in Russia itself feel strong emotional and historical ties to the Crimea as Russian soldiers expended their blood to take it from the Turks in the 18<sup>th</sup> Century and to defend it from the invading British, French and Turks in the 19<sup>th</sup> century.

As of 1994 about 40% of the population of Chechnya constituted ethnic Russians, and one of the justifications for the Russian invasion of Chechnya in that year was the protection of ethnic Russians.

Mikhail Gorbachev's unpopularity in Russia today is primarily due to the fact that the Soviet Union broke up on his watch. One of the accusations in the impeachment proceedings pending against Boris Yeltsin in the Duma is that he committed treason by signing the accord that dissolved the Soviet Union. The expansion of NATO to include the Warsaw Pact nations of Poland, Hungary and the Czech Republic has also fed into Russian nationalist sentiment that the West is deliberately trying to weaken the Slav nations.

2) Demobilization in both Weimar and Russia and the civil society's inability to assimilate veterans has contributed to a climate of political violence in both Weimar and in Russia.

in Weimar after the Armistice, many soldiers remained in the **Freikorps**, a paramilitary organization comprised of former soldiers who were not really subject to governmental control. The Freikorps helped put down **leftwing** revolts in Berlin and Bavaria in 1919 and inaugurate \* harsh reprisals after once establishing control. **For instance**, after the **Freikorps** took the Marxists, **Karl Leibnecht** and Rosa Luxemburg, prisoner in **the Spartacus** uprising in Berlin, they immediately executed these Reds. The assassination of **Kurt Eisner**, the Socialist Prime Minister of Bavaria by a former army officer the same year was another example of the animosity towards left wing politicians felt by demobilized veterans.

Many of the Freikorps as well as former junior officers later joined **Feme** organizations, secret societies committed to violent political solutions. Many would also join Ernst **Rohm's SA**, the Nazi Party's paramilitary phalanx. In the early years of the Weimar Republic political assassinations by members of these organizations included the Social Democrats' Jewish foreign minister, Walter **Rathenau**, Matthias **Erzberger**, the Center Party's early leader who joined **the SD's** in ratifying the Versailles Treaty, and Hugo **Haase**, the leader of the Independent Socialists.

The English historian, Paul Bookbinder, has observed:

"While these acts occurred largely in the period from 1920 to 1924, their effect reverberated throughout the **fourteen-year** history of the Weimar Republic and laid the foundation for the climate of violence which contributed to its collapse." Bookbinder, Weimar: The Republic of the Reasonable, p. 103.

Generally, the Weimar police, unlike their later Russian counterparts, solved these murders and brought the perpetrators to trial. But the conservative Weimar judiciary meted out ludicrously light sentences. Of 354 political murders committed by right wingers, the **r** average sentence was four months in prison and none received capital punishment.

After the collapse of the Soviet Union and the withdrawal of troops from Eastern Europe, Russia was left with large numbers of demobilized veterans whose assimilation the West tried to cushion by building housing and other amenities. But many joined paramilitary organizations or hired themselves out as bodyguards. Some undoubtedly hired themselves as murderers for hire. The recent assassination of **Galina Staravoitova**, a Duma deputy and candidate for the governorship of St. Petersburg has shocked her fellow democrats and drawn worldwide publicity. She is the seventh Duma deputy to have been murdered, one in a robbery, one by his wife, and five for motives that have not been determined. Her democratic colleagues charge that she was murdered because she was about to expose corrupt practices by the Communist Speaker of the Duma or by the governor of St. Petersburg. While President Yeltsin has announced that he personally is supervising the investigation, so far nothing has turned up. Cynics are betting that just as in the case of **Dimitry Kholodov**, the young journalist who was on the verge of exposing corruption in the sale of arms in the Ministry of Defense and who lost his life for his trouble in 1995, nothing will come of **this** investigation. At Ms. **Staravoitova's** funeral in St. Petersburg last November some of her democratic colleagues, including two former Prime Ministers and two Deputy Prime Ministers, have issued renewed calls for all democratic forces in Russia to come together. So

far their call has gone unheeded by the leader of the largest democratic party in the Duma, the Yabloko Party.

3) In both Weimar and Russia, the democratic/centrist parties failed to work together, thereby opening the way for the extremists.

From 1924 to 1928 the largest democratic party in Germany, the Social Democrats, remained in opposition, waiting for the time they could achieve an absolute majority in the Reichstag. When they did return to power after the elections of 1928 and the leader of the Social Democrats, Herman Muller, became chancellor, the Social Democratic government lasted only two-years until 1930. Muller's coalition with the second largest party, the Centrist party, foundered over the issue of how to meet the challenge of rising unemployment. The Social Democrats advocated tax increases to fund generous unemployment insurance payments while the Centrist advocated no new taxes and reduced benefits. President Paul Von Hindenburg backed the latter position and selected Centrist party leader Heinrich Bruning as the new chancellor after Muller's government fell on a no confidence vote.

After the fall of the Muller government, the Social Democrats, ever more alarmed by the rise of extremists as the Communist party, the Nazi party, and other nationalist parties garnered a greater percentage of the vote with each election, supported the Bruning government on many legislative votes. However, in the end the Social Democrats could no longer support the deflationary policies of the Bruning government. In 1930, 98 bills were passed by the Reichstag and only 5 by presidential decree; by 1932, 5 were enacted by the Reichstag and 66 by Presidential decree. This last situation paralleled the prime ministry of the Russian reformist governments of Yegor Gaidar in 1993 and of Sergei Kiryenko until September 1998 where the norm was the decree in lieu of a legislative act.

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These reform prime ministers were without a constituency in the Duma, and thus were totally dependent on the support of President Yeltsin. When the heat in the kitchen became too much for a weakened president and when his minions were touched by scandal, he felt he had no alternative but to dismiss his political servants just as the pre-communist Tsars had done.

In 1932 Von Hindenburg dismissed Bruning and replaced him with the arch-conservative, Franz Von Papen, a Hindenburg favorite who had no constituency in the Reichstag. When, a few months later Von Hindenburg, a landowning Junker from Prussia and Von Papen crossed over subsidies to farmers in Prussia, Von Papen was replaced by the former Army chief of Staff, Kurt Von Schleicher, who lasted only five months to give way to Hitler, the leader of the largest party in the Reichstag.

Russia's once largest democratic party, Russia's Choice which Yeltsin's first reformist prime minister, Yegor Gaidar, founded after he was forced out of office in 1993, disappointed Western pundits and came in second in the December 1993 elections behind Zhirinovksy's misnamed Liberal Democratic Party. In the 1995 elections Russia's Choice fell just short of the necessary five percent required for representation in the Duma. Gaidar had made several overtures before the

elections to the leader of the largest democratic party in the Duma, the Yabloko Party headed by Gregory Yavlinsky, but all of them were rejected.

After the funeral of Galina Staravoirova, Gaidar and his reformist successors again called for unity among democrats. It is generally thought that there is no ideological difference between the Gaidar reformists and the Yabloko party, but nevertheless the outlook for the Democratic parties to join forces remains bleak.

"It is impossible for us to unite with people whose record in government discredited the ideas of democratic and market reforms in the eyes of the Russian people", observed recently one Yabloko deputy recently, Sergei Mitrokhin.

While the Communists and the extreme right parties are the primary force behind the Duma's impeach Yeltsin proceedings, a Yabloko representative, Ye^ena Mizulina, serves as deputy chairwoman of the impeachment committee.

The same story also seems to hold at the local level. I am a member of an organization which sponsors a free speech forum in Volgograd, formerly Stalingrad. The Russian director of the Volgograd Forum commented on the local political scene after local elections last month:

"...the present Regional Duma elected five years ago ended its term and the new elections took place on December 13. The elections results were most unfortunate for reformist candidates. None of them won a seat, while Communists got 14 mandates out of 16. The reformists lost because in each constituency they had from five to ten small party or group candidates against a single leftist one. Thus in many constituencies sixty to seventy percent split reformist votes could not beat 25-30 per cent left wing votes.

"Altogether there are 32 seats in the Regional Duma, but every two and one-half years one half of the house is re-elected. Now communists have 23 seats and the two-thirds majority in the house which is enough for them to make any changes in the Regional State they want and certainly, their decision will be backed by the Communist governor Nikolai Maksyuta. The other nine seats are occupied by big company bosses who got into the Duma mainly to lobby their own interests.

"In fact, within the boundaries of the Volgograd Oblast in all important government and legislative bodies we have returned to one-party system because Communists also have the absolute majority in the City Councils of Volgograd and Volzhsky as well as most mayors."

- 4) Anti-Semitism is becoming mainstream in Russia Just as it did in the years before Hitler's rise to power.

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Many of the reformist ministers Yeltsin appointed were Jews: the last prime minister, Sergei Kiriyenko, the two previous deputy prime ministers, Anatoly Chubais and Boris Nemtsov, and according to one paper, so were the first

reformist prime minister, Yegor Gaidar, and his pro-western foreign minister, [Andrei Kozyrev](#).

When I was in Russia three years ago, anti-Semitism appeared to be on the fringes, in hate [mongering](#) articles in extreme right wing publications such as [Kolokol](#) or "The Bell" where I read again an article about the "Protocols of the Learned Elders [of Zion](#)." The protocols were published by [the Tsarist](#) police at the end of the 19<sup>th</sup> century as proceedings of a Zionist meeting in Basel, Switzerland. They purported to document a Jewish conspiracy to dominate the world. They are generally regarded to have been forgeries.

But now in Russia the cause of anti-Semitism appears to have taken up by Duma deputies. Recently, the Communist Chairman of the Duma's committee on security, [Viktor Ilyukhin](#), introduced a motion in the Duma protesting the domination in the government of the representatives of Jewry. In a press conference held last month, the leader of the Communist bloc, [Gennadi Zhyuganov](#), who incidentally will be speaking in Cleveland next month, said he would not support the motion inasmuch as Gorbachev, Yeltsin, and Chernomyrdin, who are Russian, have brought even more harm on Russia than the Jews Chubais, Gaidar and Kozyrev.

Again Viktor Ilyukhin has claimed that the chaotic market reforms carried out by Yeltsin's government since 1992 have decimated Russia's population and therefore qualify as genocide, according to the Boston Globe. "The large-scale genocide would not have been possible if Yeltsin's entourage and the country's previous governments had consisted mainly of members of indigenous peoples rather than members of the Jewish nation alone," [Ilyukhin](#) said recently. Besides treason, one of the impeachment articles against Yeltsin, is genocide by allowing [living standards](#) and the average Russian's life span to decline.

Another Communist deputy, Albert [Mashakov](#), in speeches both in Moscow and the Volga River city of Samara announced that Russia's economic woes were the fault of the "[Zhidy](#)" - a slur for [Jews-and](#) that certain of them should be found and jailed. A resolution introduced in the Duma condemning [Mashakov's](#) remarks failed to pass as Communist legislators argued in the debate that Jews in the government and the news media "were aligned with outsiders in a campaign to undermine Russian nationalism and sap the country's strength."

Two of Russia's most prominent economic oligarch's are Jews: Boris [Berezovsky](#), who controls Russia's largest TV station and [Aeroflot](#), and Vladimir [Guzinsky](#), who controls Most Bank and several TV stations and newspapers. Berezovsky is also formerly chairman of the National Security Council and is now Russia's representative to the CIS.

As in Russia anti-Semitism had taken root in Germany in the 19<sup>th</sup> century. It was exacerbated after World War I by the charge that Jewish Socialists were the ones that had "negotiated" and "ratified" the Treaty of Versailles. This general hostility was aggravated by the resentment of small shopkeepers that Jews controlled the large department stores that were directly competing with them and by the fact that Jews had contributed to Weimar cultural arts which Protestants ministers thundered from their pulpits were leading Germany to moral decay and disintegration.

Also several of Germany's right wing political parties, besides the Nazis, contained vehement anti-Semites, namely the German Nationalist People's Party and the German People's Party. Thus Hitler found a receptive climate of at least moderate anti-Semitism when he introduced his brand of virulent anti-Semitism. And one of the Nazi fanatics who provided an intellectual underpinning for Hitler's brand of anti-Semitism was Alfred Rosenberg, a Baltic German and the son of a shoemaker. Rosenberg had grown up in the Imperial Russian province of Latvia and brought with him to Germany "The Protocols of the Learned Elders of Zion".

5) In the economic sphere, parallels exist between contemporary Russia and Weimar Germany, but also distinct differences.

Russia began the period essentially as a command economy and has struggled ever since to make the transition to a free market economy and give up old attitudes. Germany began the period as a market economy albeit one whose heavy industry was concentrated in a few large combines.

Both societies experienced hyperinflation, caused by printing money to cover budget and other deficits, Germany in 1923 and 1924 and Russia from 1990 to 1994. But Germany in 1924 tamed hyperinflation by getting control of its deficits and by issuing a new currency to replace the Reichmark, then valued at 4.2 trillion to the dollar. The Dawes plan ratified by the Reichstag in 1924 also contributed to currency stability and started Weimar on four years of growth and prosperity.

Likewise, during the years 1994-98 the Yeltsin government achieved its most visible success by controlling budget deficits and taming inflation. However, with the August 1998 devaluation of the ruble, inflation has started again and finished the year at an annual rate of 84%, most of it incurred after August.

Inflation causes severe economic dislocation, hitting hardest those who are on fixed income, government functionaries and pensioners. The memories of the hyperinflation years by these functionaries as well as by small shopkeepers and farmers rendered these classes vulnerable to the siren call of the Nazi Party a few years later.

For both societies productivity fell dramatically after cataclysmic events: Germany's economy dropped precipitously after World War I, and Russia's started falling even before the dissolution of the Soviet Union. From 1991 to 1997 Russia's GDP dropped by 40%, rose slightly less than 1% in 1997 and declined again in 1998 by 5%. The economy is expected to decline by another 5% in 1999.

In contrast Germany's economy picked up in 1924 and by 1927 productivity had returned to prewar levels. By 1929 the Weimar economy was the second largest in the world, behind only that of the United States. Contrast this with the Primakov proposed budget for 1999 which contemplates expenditures of \$29 billion and a probably unrealistic deficit of 2.5% with the US budget for the same period contemplating expenditures of \$1.7 trillion and a budget surplus of around \$70 billion.

Both societies faced major world economic depressions: Germany the Great depression of 1930, and Russia the Asian flu in the summer of 1998 which swept on to Latin America. In both cases these depressions were exacerbated by an

overextended debt which either went into default or was cancelled resulting in the withdrawal of foreign loans and foreign investment.

Germany's debt problems began with World War I, the cost of which it financed through borrowing, instead of through tax increases. At the outbreak of World War I Germany's national debt was 200 million marks, at the end 51 billion marks. During the war the cost of living had risen by a factor of 12 as compared with a factor of 3 in the US, 4 in the UK and 7 in France.

The Treaty of Versailles obliged Germany to make reparations payments in goods as well as currency in the total amount 132 billion marks at the rate of 1 billion marks per year plus 26% of annual export earnings. When Germany defaulted on this obligation in 1923 by a failing to deliver timber to France/the French and the Belgians marched into and occupied the Ruhr. Under a plan negotiated with the Allied financiers headed by the American banker, Charles Dawes, reparations payments were reduced to 1 billion marks per year for 1924, to increase over 5 years to 2.5 billion marks and were payable to an American agent. The agent was to monitor Germany's capacity to repay and distribute the funds to the European allies in a manner that would not damage Germany's external payments position. American banks were to loan Germany 800 gold marks as an initial boost to help with the payments. The loan was to be secured by German railroad stock and by the dedication of certain percentages of customs and tax receipts. The troops in the Ruhr were to be withdrawn.

The Reichstag approved the plan over the fierce opposition of the nationalist deputies who complained of American control over the German economy, and private American loans and investment followed on the heels of the plan,

However, as German trade deficits grew, as the monitoring provisions in the Dawes plan failed to be effective, as the increasing annual payments began to bite, and as Germany faced the prospect of debt service over another sixty years, Germany and the Allies agreed that something had to be done. An Allied Reparations Commission headed by the American, Owen Young, chairman of General Electric, negotiated the Young plan whereby the annual reparations payments were settled at 2 billion marks over 59 years, the mortgage on railroad stock was discharged, economic controls lifted, and League of Nations security forces were withdrawn from the Rhineland.

Another English Weimar historian, E. W. Feuchtwanger, has written of the Young plan in his history, From Weimar to Hitler:

"Whatever immediate advantages Germany gained from the Young plan they were overshadowed by the psychological incubus of a debt that was to continue for another sixty years. This was exploited in the full by the nationalist opposition.... Within two years reparations were suspended and a year later ended. It would have been wiser if France, Britain and the United States had made the saving of the precarious German democracy their first priority, but they were themselves restrained by inescapable domestic exigencies."

Russia's debt is certainly a psychological incubus that can be exploited by Russia's Communists and nationalists. With this year's revenues from tax collections budgeted at \$24.1 billion to cover all governmental expenses including

debt service and interest payments, and with foreign currency reserves down to \$12.3 billion, it is hard to see how Russia will ever be able to service a combined pre and post Soviet foreign debt of \$160 billion.

In August 1998 with its currency reserves dangerously low and under strong pressure from Russia's oligarchs and managers, the Kiriyenko government declared a 90 day moratorium on its debt service. As in 1930 after the fall of the Muller government and as before pressured by their own creditors, American banks and American investors pulled out of Germany, so these banks and investors have now pulled out of Russia.

In 1999 Russia is scheduled to make debt service payments totaling \$17.5 billion, including \$4.5 billion to the IMF, but the Primakov government has included only \$9.5 billion in debt payments in its proposed budget now being considered by the Duma. On December 30 of last year Bank America confirmed that Russia had failed to meet a debt payment of \$380 billion on old Soviet debt to private banks and had failed to obtain the requisite 95% approval for an extension of the payment date.

David Sanger the NY Times reporter who wrote the story on Russia's debt default suggested two possible explanations: 1) that this is a negotiation tactic to bring the recalcitrant banks in line; 2) that the Primakov government has determined that it has little chance of obtaining any further Western bank loans for a long time, and with no relationship left, it has made a determination to halt further loan payments.

Will Russia now embark on a new path leading to economic autarky and arranging its relations with its neighbors by intimidation and force, as Germany did in 1933, or will it remain tied to the umbilical chord of the global economy and subject to the economic and political restraints that that chord entails?

6) Economic and political unification with Belarus and its potential consequences.

One straw in the wind is the December 25 declaration by the Presidents of Russia and Belarus, Boris Yeltsin and Alexander Lukashenko, of closer economic ties between Belarus and Russia. A first step will be unification of their respective currencies, customs regulations, laws regulating monopolies, and labor and securities laws. The citizens of each country will be granted equal access to educational institutions of both.

Like the German-Austrian customs union proposed by the Bruning government in 1932 and opposed by the Allies whose memories of the threat of the Central Powers in World War I were still fresh, the West has opposed both economic and political unification between Belarus which is a dictatorship and a command economy and Russia which is at this moment a quasi democracy and an economy in transition. Sixteen months ago Russia's pro-western deputy prime ministers, Anatoly Chubais and Boris Nemtsev, blocked economic unification.

A political unification will play well to the Russian electorate as Russia will obtain the right to station troops across the Bug River from NATO forces in Poland and afford Russia greater security that it will not be held up in transporting its natural gas through a pipeline across Belarus to Western Europe. Unification with

Belarus will encourage those who feel humiliated by the breakup of the Soviet Union and raise their hopes that Ukraine may be next.

When I started this paper I comforted myself that there were two major differences between Russia and Germany. First, Russia was economically very weak, albeit the custodian of some very lethal weapons and persons who knew how to use and develop new ones. Second, the Russian Communist and nationalist leaders were generally a dull lot without a charismatic leader and a strong party behind him as there was in Germany in the early 1930's.

But now I am not so sure. Alexander Lukashenko, the president, or rather more accurately the dictator of Belarus, is young, charismatic, and a master political tactician. I was in Minsk in November 1996 when Lukashenko seized absolute power, and dissolved the Parliament and reconstituted the Constitutional Court to make these institutions subordinate of his wishes. He used tactics similar to those used by Hitler, whom Lukashenko admires, in 1933 when Hindenburg named him chancellor- dissimulation, intimidation, and pretense to legality through resort to plebiscite

It is thought that Lukashenko very much wants to become President of the unified countries and he has assiduously courted the Communist leaders in Russia in the past few years. Some have even indicated support for his candidacy for presidency of Russia. If he runs and wins, he will have at his disposal, just as Hitler had after he was selected chancellor on January 31, 1933, broad presidential powers to declare a state of emergency, to dissolve the Duma, and to rule by decree.

