

U.S. Foreign Aid and Foreign Policy: Building Strong Relationships by Doing It Right!

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Foreign aid policies cannot be more successful than their implementation, which inherently involves people and institutions. But people have their own interests and cultural frameworks, and institutions are inevitably grounded in culture and politics. Inattention to the agendas of individuals involved on both sides of foreign aid to Central and Eastern Europe played a major role in its shortcomings. A recent court decision holding two Harvard university scholars guilty of defrauding the U.S. government while running a flagship project to reform the Russian economy underscores the pitfalls in outsourcing traditional functions of government to small, well-connected groups that are not fully accountable in serving the public interest. Drawing on the author's experience studying informal systems and networks over several decades, this article illuminates the importance of foreign policy and aid relationships—how they are set up, who wins and who loses, and how their lack of accountability can contribute to the derailment of nation-building and constructive relations among countries.

Keywords: foreign policy, foreign aid, institutions, culture, transactorship

The United States has been giving foreign aid for nearly 50 years: First there was the Marshall Plan to rescue Western Europe from communism. Then we threw billions to developing countries as we sought to lure them into the anti-communist camp. We were never very good at this. Billions have been lost to corruption and wasted on misconceived projects.

But we keep trying. The current Bush administration has expanded foreign aid, with assistance now earmarked for nation-building efforts in such places as Iraq and Afghanistan. The record of U.S. aid to Central and Eastern Europe, and especially to Russia, during the 1990s offers important lessons and perspectives that are directly relevant to those nation-building endeavors. Drawing from my 10-year study and book, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, I present my most pertinent findings.

When the Communist East Bloc collapsed in 1989 and the Soviet Union broke apart in 1991, Cold War confrontation, at last, seemed over. We decided to remake

Author's note: This paper is drawn largely from the talk I delivered at the University of Louisville on April 2, 2001, in conjunction with the Grawemeyer Award for Ideas Improving World Order. The prize was awarded by the University of Louisville in 2001 for my book, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (New York, NY: Palgrave, revised edition 2001). Supporting documentation for this paper can be found in the book. I wish to thank Rodger Payne for his invaluable comments on the paper.

our former enemies in our own image as capitalist democracies. Friendly, cooperative relations could be bought with money and “be-like-us” technical advice.

Less than a decade later, that view appeared palpably naive. To be sure, some effective aid projects were developed following the early years of aid misadventure. Some assistance provided by the European Union (EU) to the Central European nations in recent years has been helpful, as those nations entered into pre-accession negotiations with the EU. However, in many other cases, foreign aid has failed, and may even have been counterproductive. Economic reform assistance to Russia is a case in point.

My training as an anthropologist has led me to ask questions, the answers to which could make a real difference in how billions of dollars of foreign aid programs are implemented and what their real impact is on the people they are intended to help. Foreign aid policy makers debate how much to spend and what to spend it on. They ask “What’s in our national interest?” keeping in mind that they must sell the program at home. As an anthropologist who has studied relationships among people and societies, I have examined the people—on both sides of the equation—who are helped by foreign aid. On the donor side, because aid is outsourced to private firms and nongovernmental organizations (NGOs), who gets the contracts, and how are the contracts set up? On the recipient side, will the aid have any effect, and if so, how will it rearrange local political, social, and economic structures?

A major theme of my work on foreign aid is that it is relationships, both between Easterners and Westerners and among Easterners, that shaped the outcome of nearly all grant aid to the region. This is true whether it was technical assistance through person-to-person contact, grants to NGOs in the recipient nations, or economic reform through assistance to a single political-economic group. All of these strategies were used, and although they differed significantly, in all of them it was crucially important exactly who participated and how these participants connected to their counterparts and compatriots.

Aid policies, like any policies, do not exist in a vacuum. They cannot be more successful than their implementation. That inherently involves people and institutions: people, with their own interests and cultural frameworks; institutions, grounded in culture and politics. The lack of attention paid to the agendas of the real people involved on both sides of foreign aid to Central and Eastern Europe has played a major role in its shortcomings. The current American administration would do well to consider the mistakes of the past in devising its strategies for nation-building in Iraq.

If my work on assistance to Central and Eastern Europe accomplishes anything, I hope it will urge an examination of how we conduct and implement international relations and foreign aid and what outcomes it produces. In particular, I hope to draw attention to the importance of relationships: how they are set up; who wins, who loses; and how the choice of representatives influences social and political organization on the recipient side. The structure of relationships among individuals crucially shapes the effectiveness of billions of dollars of foreign assistance and the relationships of nations.

Studying Through

My research on foreign aid to Central and Eastern Europe focused primarily on priority projects in priority countries, as seen by the donors. Because the main priority of the donors was to build market economies—often, to privatize what they considered to be inefficient state-owned enterprises—I concentrated on economic projects. I began my empirical research in the Central European countries of Poland, Hungary, and Czechoslovakia, which were viewed as the most likely to succeed among the transitional countries and which were the first to receive aid. When the aid story moved east to Russia and then Ukraine, both considered crucial to the donors’ strategic and political interests, so did I.

In all these places, I examined aid issues by studying actors and processes on both the donor and recipient sides with aid as the common thread. I used a method that anthropologists have called “studying through,” the process of tracking policy discourses, prescriptions, and programs and then linking them to those affected by the policies. The connections that I explored—for example, among members of a Russian “clan,” representatives of a Harvard University Institute, and U.S. government officials—required that I develop access to and trust among a variety of informants who were familiar with the same project or set of projects. Following issues that involved actors in multiple settings required that I trace policy connections and that I move back and forth between the donor and recipient sides of the aid chain and observe how the two sides link together.

As can be seen by this case, “studying through” can be rather messy. It requires a lot of tracking and cross-checking. It also helps to have verification from other scholars and independent investigators.

In the course of my study, I found common ground not only with fellow anthropologists but also with political scientists, economists, public administration specialists, and government investigators working on pieces of the same puzzle. This may be an indication that cross-fertilization of methods increasingly is called for in studies of global issues and interactions.

From Triumphalism to Disillusionment

The story I tell in *Collision and Collusion* began in 1989 right after the communist East Bloc fell apart. At the time, I had spent about 6 years in Poland and had described the inner workings of its complex, ingenious society. It was a society in which an elaborate system of informal distribution of goods and services paralleled and often overshadowed the official economy; a society in which the state and its rules were treated more as inconveniences to be overcome than as opponents to be destroyed; a society whose informal practices had rearranged it in profoundly uncommunist directions.

So when visitors from the West came to Poland in 1989–1990 to look at the “miracle” of the end of the Cold War, I suddenly found myself in the role of informal broker between local people and their would-be Western partners. I witnessed firsthand many misconceptions and unrealistic expectations on both sides.

The years 1989 and 1990 ushered in an era of excitement in Central and Eastern Europe, a period of high hopes and great expectations. People hoped the “transition to democracy” would be simple and swift. Not surprisingly, as the idea of transition came into vogue in the West, carpetbaggers, political tourists, business scouts, bargain hunters, and hundreds of instant experts went East. Much like America’s westward push in the mid-nineteenth century, the environment of adventure and newfound opportunity attracted joint venture seekers, dealmakers, and often, people who were willing and able to “play on any team,” be it communist, capitalist, or criminal.

Some steadfast and persistent advisors made useful contributions. But a few highly visible, jet-setting economists whom I call “econolobbyists” appeared to be more concerned about public relations and their own publicity than they were about dispensing serious policy advice. Through their promises and elusive relationships with their hosts, these econolobbyists created a negative image of consultants that persisted throughout the aid saga.

In the West, the econolobbyists wrote op-ed pieces and delivered speeches calling for aid, thereby helping to define the “reform” agenda. They were perceived as having the influence to effect market reforms in the East.

In the East, the econolobbyists’ value was seen in their ability to deliver Western money and access and to help policy makers “sell” controversial reforms. Both at

home and abroad, the econolobbyists effectively leveraged their supposed access to money sources and influence with policy makers. When the reform dream morphed into an uncertain and—for many people—painful reality, however, the econolobbyists typically moved on. They were scarcely to be found after the transition roller coaster had passed the peak of Triumphalism and Disillusionment had begun to set in.

The period I call Triumphalism existed in both the East and the West. It was characterized by big dreams and schemes to effect rapid and positive economic change. It drew impetus from an idealized remembrance of the Marshall Plan that had helped to rebuild European economies devastated by war—and which was held up as a shining model of what could be 50 years later. However, although the Marshall Plan served as a rhetorical and ideological reference in the discourses of both West and East, aid to Central and Eastern Europe bore little resemblance to it.

Whereas the Marshall Plan consisted largely of capital assistance, aid to Central and Eastern Europe came largely in the form of technical assistance. The Marshall Plan was funded and directed by the United States; whereas aid to the post-communist countries was contributed by many other nations as well, including Germany, the United Kingdom, other Western European governments, and the EU, not to mention loans from the international financial institutions. Where the Marshall Plan had been high level and focused, aid to Central and Eastern Europe was a lesser priority and dispersed.

Aid to the region also differed significantly from the Third World model: It was thought that the countries of Central Europe could be brought up to “our [Western] standards” within a few years, in part because of their citizens’ high educational and literacy levels. (They tended to be seen as our poorer cousins.) Therefore, higher priority was placed on the task of transforming the Second World: Aid agencies were reorganized, with foreign ministries playing a large role in the new effort.

Technical assistance to the countries of Central and Eastern Europe involved sending thousands of advisors and supposed experts on just about everything to the region. It did not take long before the local people had had enough of the fly-in, fly-out consultants and the so-called “introductory visits” of those who never returned. An example from the early days were the aid-paid advisors, who would come to lecture on how to build democracy by giving a talk on the Danish or the French constitutional system.

The Poles soon coined a derisive term, the “Marriott Brigade,” for the consultants who came and stayed in Warsaw’s only 5-star hotel at the time and then proceeded on to Budapest and Prague. This launched the second phase of East–West aid relations—which I call Disillusionment.

A Polish aid official suggested that the main benefit of the Marriott Brigade was not their expertise, but the hard currency—the payments to hotels, restaurants, taxis, and translators—that they inadvertently contributed to the local economy. A Slovak aid official told me, “The Western consultants collect information, get the picture, then they go home. . . . We are solving the West’s unemployment in this way.”

The Disillusionment experienced in Central and Eastern Europe was duplicated a few years later as the focus of Western aid—and many of the same programs and consultants—moved east. The same despairing language that officials used in Central Europe was repeated almost verbatim in Russia and Ukraine, despite considerable cultural differences.

In other words, the same dynamic of East–West contact, initial euphoria, and later disillusionment was echoed in each country. Within a year or so of its arrival, the Marriott Brigade had alienated many of the people it was trying to help.

From Disillusionment to Adjustment

Emerging from the experience of frustration and resentment on both sides, a period of adjustment began to take shape in Central Europe around 1994 as donors and recipients began to work out how they could use each other to mutual advantage. Adjustment brought with it some effective technical assistance that was characterized by two conditions.

The first was that long-term resident advisors were sought and then integrated into the host institutions that invited them. An example is the U.S. Treasury Department program in which consultants worked closely with their hosts on issues like debt relief and lived for long periods in the recipient countries.

The second condition was impartiality. Effective technical assistance was politically neutral and did not advantage one political or interest group over another. That way the aid was perceived as nonaligned and as working on behalf of the recipient country generally, not as propping up a particular partisan group. One successful program, sponsored by the U.S. Congressional Research Service, supported the new parliaments of the region in developing impartial systems of information that all parliamentarians, regardless of political affiliation, could use.

The utility of foreign aid notwithstanding, some areas of Central Europe are muddling through passably or even better. Some countries have entered the EU. Some of the assistance, which after all created traffic between East and West and promoted relationships, no doubt served this process.

Anti-Adjustment

The Adjustment phase did not occur everywhere. With regard to U.S. aid to Russia, Disillusionment morphed into anti-adjustment.

After the breakup of the Soviet Union, the United States had an opportunity to build a positive political and economic relationship with the new Russia. Instead, bad policy, ill-conceived strategy, and poor implementation managed to turn one of the most promising rapprochements of the last century into a debacle that will haunt us for years to come. Indeed, much of our approach to Russia over the past decade is a case study in how *not* to do foreign policy, aid, and international relationship building.

The overall approach and way the relationship was structured left us little chance of success. The policies of supporting Russian President Boris Yeltsin at all costs and supporting radical “reform” as the all-purpose solution to American political and economic relations with Russia, despite a lack of Russian popular support, are now widely acknowledged to have failed. The ideology—that of radical privatization and marketization, applied in this instance in a cold-turkey manner to a society with no recent experience of either—is well known. The way in which advice and aid were given is much less familiar, but it is a vital part of the story.

Theoretically, aid from the United States to Russia was to help nurture the bilateral relationship, to build bridges to our former arch-enemy. But, instead, aid has been blamed for helping to blow up those bridges and contributing to Russia’s economic decline. The reforms have left many Russians worse off. Many of them blame Western aid and advice, and some believe that the United States deliberately set out to destroy their economy.

In studying U.S. aid to Russia, I found that the *relationships* forged between the donor and the recipient representatives were crucial to aid outcomes. The particular players and groups that served as bridge builders between the sides—and the relationships they formed among themselves—fundamentally affected aid results. My research suggests that the manner in which the United States and Russia interacted with each other through their aid representatives shaped outcomes in ways that were contrary to the stated goals of the U.S. aid program.

What I call the “transactorship” mode of organizing relations between sides evolved. A small, informal group of individuals—whom I call transactors—came from either the United States or Russia. Transactors may share the stated goals of the sides they supposedly represent, but they also have additional goals. Unfortunately, those other goals may undermine, advertently or inadvertently, the primary goals of the sides they are supposed to represent.

Although transactors formally represent different parties, they work together for mutual benefit. Ultimately, the transactors become more loyal to each other than to the parties they supposedly represent. The representational juggling in which the transactors engage is one of the features of transactorship.

During the 1990s, the cozy manner in which American advisors and Russian representatives—that is, the transactors—interacted and the outcomes of their activities ran directly counter to the stated aims of the U.S. aid program in Russia. Key transactors in this program are today being sued by the U.S. government for “using their positions, inside information and influence, as well as U.S. Agency for International Development (USAID)-funded resources, to advance their own personal business interests and investments and those of their wives and friends.”¹

In Whose Service?

In the late 1980s and early 1990s, as the vast Soviet state was collapsing, several Western economists from Harvard University offered their services and access to Western money to a group of young Russians, which has since become known as the “Chubais Clan.” The group’s leader, Anatoly Chubais, was to become the main architect of economic reform and an indispensable aide to Yeltsin throughout the 1990s.

Supporting the team was Lawrence Summers. He had deep-rooted ties to the Harvard men and would play a pivotal role in designing U.S. and international economic policies at the U.S. Treasury. In 1991, Summers was chief economist at the World Bank, but he would become under secretary of international affairs, deputy secretary, and secretary of the Treasury, and is now president of Harvard University.

The United States directed most of its economic reform assistance through a Harvard University institute and thus put one of its most important foreign policy initiatives largely in the hands of a private entity. Representatives from the Harvard Institute for International Development (or HIID) were to be the bridge builders, supplying the bricks and mortar to construct the economic relationship with Russia. They secured aid contracts from the USAID to do so.

Citing “foreign policy” considerations, Harvard-connected officials in the Clinton administration largely bypassed the usual public bidding for foreign aid contracts. The result was that the Harvard group managed virtually the entire Russian economic reform aid portfolio—at least \$350 million—in addition to the \$40 million it received directly.

As the U.S. General Accounting Office reported in 1996, the Harvard Institute was given “substantial control of the U.S. assistance program.” Delegating so much aid to a private entity was unprecedented, to hear U.S. aid procurement officers tell it. And this was much more than foreign aid; it was foreign policy in a crucial area.

Seizing the opening of economic and political flux, the Harvard and the Chubais groups saw to it that they became the designated representatives of their respective sides. While at the Treasury Department, Lawrence Summers served as the key architect of misconceived U.S. economic reform policy toward Russia since 1993. He promoted the Chubais group, dubbing them the “dream team.” The Clinton administration promoted the Chubais Clan from soup to nuts, from boosting the

¹United States Attorney, District of Massachusetts, “United States Sues Harvard and Others for False Claims Relating to USAID Programs in Russia,” *Press Release*, U.S. Department of Justice, September 26, 2000.

“reformers” through U.S.-financed public relations firms to putting Chubais on Harvard’s U.S.-aid-funded payroll. Administration officials even rushed to Chubais’ defense following the Russian economic crash in August 1998, after he admitted that he had “conned” the International Monetary Fund (IMF) out of a loan of \$4.8-billion, all of which mysteriously disappeared in short order.

We cannot separate the interests of the Harvard Institute group from those of the Chubais Clan. In many areas, they largely became one and the same. They—the Chubais-Harvard transactors—formed an informal and extremely influential partnership that would shape the direction and ultimate results of much Western policy and economic reform aid to Russia.

Overlooking other reform-minded groups and crucial players on the Russian scene, the Western media helped to promote the mystique of the Chubais Clan as *the* “Reformers”—enlightened and uniquely qualified to carry Russia down that bright road to capitalism and prosperity, and to represent Russia. But to Russians, the Clan’s primary source of clout was not its leadership, ideology, or reform strategy. Rather, its uniqueness lay in its standing in and access to resources from the West. As the Russian sociologist Olga Kryshstanovskaya explained it, “Chubais has what no other elite group has, which is the support of the top political quarters in the West above all the USA, the World Bank and the IMF, and consequently, control over the money flow from the West to Russia. . . [It has] transformed itself into the most powerful elite clan of Russia.”²

Indeed, high U.S. officials bolstered the Clan’s standing as Russia’s chief broker with the West and the international financial institutions and helped the Clan to exact hundreds of millions of dollars in Western aid and loans. This virtual blank check sent a message of unrestricted license, while neglecting the development of a legal and regulatory backbone for Russia’s nascent market economy.

Transactorship

The *modus operandi* I discovered in “studying through” Western economic policy and aid to Russia departs considerably from most U.S. diplomatic and foreign aid practices elsewhere on record thus far, including those I observed in Central Europe. This phenomenon, which I call transactorship, has three distinguishing features, all of which served to undermine the aid community’s stated goals in the U.S.–Russia case.

The first feature is that the transactors form an exclusive group comprising members from each side. By virtue of their access to power on either side, members ensure that the group is given broad authority to carry out its foreign policy goals. The group creates its own alternative structure that includes informal channels of communication and action, which are in effect closed off to other potential players. This structure both uses and supplants the formal institutions, organizations, and processes of the governments that the transactors represent. By bypassing legitimate institutions, such as legislative and judiciary bodies and bureaucracies that might encumber or oppose their activities, the transactors short-circuit the process to ensure the outcomes they desire.

The Harvard Group and the Chubais Clan skillfully skirted governmental bodies that might have stood in their path, created new bodies, and secured influence on their respective sides. The U.S. delegation of its Russia economic assistance portfolio to the Harvard Institute built on a tradition in which much work of government (including development assistance) is outsourced to private contractors. Yet, putting one of its most important foreign policy initiatives at the time—Russian

²Olga Kryshstanovskaya, “The Real Masters of Russia,” *Argumenty i Fakty*, no. 21, May 1997, reprinted in *Johnson’s Russia List*, by David Johnson, Washington, D.C.: Internet newsletter.

economic reform—in the hands of a private entity was a departure from established practice, especially in the area of foreign assistance.³

Meanwhile, in the political, legal, administrative, economic, and social flux that accompanied the collapse of communism in Russia, clans had wide latitude and were subject to few restraints. The Chubais Clan acquired broad powers, ostensibly to carry out the complex tasks of economic reform, and controlled the ministries responsible for privatization and the economy. The Harvard–Chubais partners operated in part through presidential decrees, some of which were even drafted by the Harvard Institute’s on-site Russia director and his associates. Rule by decree allowed the transactors to circumvent both the Duma, the elected Russian parliament, and reform groups who lacked the Western imprimatur and access to Western funding.

There was a similar anti-democratic quality to the network of aid-funded organizations created and run by the Harvard–Chubais transactors, which brings me to the second distinguishing feature of transactorship: “flex organizing.” Flex organizing is a mode of operating in which actors and organizations can shift roles back and forth. They can change whom they represent—whether, for example, a state or a private organization—according to the role that best serves their personal and group agendas in a given situation.

The Harvard–Chubais partners were adept at such multiple and shifting agency. They accomplished many of their goals through “flex organizations.” Although nominally private, these chameleon-like entities, which were supposedly set up to conduct economic reforms, often carried out functions that should have been the province of government.

An example is the “private” Russian Privatization Center, which negotiated loans with the international financial institutions on behalf of the Russian state and received loans from these institutions, although the institutions typically lend to governments and not to private entities. As a model “flex” organization, the Center could and did switch its status and identity, depending on the situation. It was sometimes private, sometimes state; sometimes bureaucratic, sometimes market-focused; sometimes Russian, sometimes American.

The Russian Privatization Center was a crucial part of the Chubais–Harvard executive function. According to Russia’s Chamber of Accounts, the rough equivalent of the U.S. General Accounting Office, the Center had more control over some secret privatization documents and directives than did the State Property Committee (GKI), the Russian government’s privatization body. The GKI was responsible for drafting, coordinating, and supervising the privatization program, as well as for managing the assets and shares of strategic and large state-owned enterprises and joint stock companies.

The Harvard–Chubais partners exhibited highly developed “transidentity capabilities,” another form of flex organizing. In transidentities, *individuals* (rather than entities, as in flex organizations) changed their roles and whom they represented to best serve their personal and group agendas in a given situation. Regardless of whether the donor or recipient side had originally designated a particular individual as its representative, that individual could represent whichever side he wished, depending on the circumstances. The *same* individual could represent the United States in one meeting and Russia in another.

For example, Harvard’s on-site director in Moscow appeared to be acting interchangeably as a representative of the United States, Russia, and his girlfriend’s

³That portfolio involved “the conduct of foreign relations and the determination of foreign policy,” which, according to regulations issued by the U.S. Office of Management and Budget, is an “inherently governmental function.” (Office of Management and Budget, Office of Federal Procurement Policy, *Policy Letter 92-1 to the Heads of Executive Agencies and Departments*, Washington, D.C., September 23, 1992.) Such functions are to be carried out by government officials, not contractors.

companies. As a representative of the United States, he acted as Harvard's chief representative in Russia and also had formal management authority over other U.S. contractors. In addition to representing Harvard and the United States, he was authorized to sign off on some high-level privatization decisions *on behalf of the Russian state*, according to the Chamber of Accounts. A U.S. official investigating Harvard's activities said that the Harvard director "played more Russian than American."

The Harvard–Chubais transactors had their counterparts on the international circuit where econolobbyists interchangeably or simultaneously represented different countries; pursued promotional, business, and financial interests; and received monies from multiple and sometimes undisclosed sources for identical or similar projects—all under the cloak of scholarship and/or philanthropy.

And that brings me to the third feature of transactorship: institutionalized deniability. This feature of transactorship flows from the shifting and multiple agency inherent in flex organizing. Deniability means that, because actors and organizations can change their agency, they always have an "out." They can evade culpability for actions that might be questioned by one of their parties by claiming that their actions were in the service of another party.

For example, because Harvard's on-site Moscow director was given signature authority over certain privatization activities, he could, if questioned by U.S. investigators, legitimately claim that he conducted those activities "as a Russian" and thus, with respect to those transactions, should not be constrained by U.S. norms or regulations. Likewise, if the Russian Privatization Center came under fire for its activities as a state organization, it could legitimately claim to be a private one.

Flex organizing and transidentities, understandably, call to mind the notion of conflict of interest. But they serve to *obfuscate* conflict of interest. Unlike a lawyer who represents a client who has embezzled funds from a bank on the one hand, and represents the bank on the other—a clear-cut conflict of interest, in flex organizations and transidentities, the roles are ambiguous. In conflict-of-interest situations, an actor can deny the facts but not the conflict, if the facts are true. But with flex organizing, it is not clear what the conflicts are because roles and structures are themselves ambiguous. Having adopted unclear and overlapping roles (and set up ambiguous state–private structures), actors can plausibly deny responsibility for activities carried out under one hat, while saying they were wearing another.

Whither Accountability?

There are five problems with the transactorship mode of organizing relations that I have observed in the U.S.–Russia case. The first is that it served to undermine democratic processes and the development of transparent, accountable institutions. Operating by presidential decree and through the shadowy, opaque mechanisms of flex organizations was clearly anti-democratic and contrary to the aid community's stated goal of building democracy. By systematically bypassing the democratically elected Duma, U.S. aid flouted a crucial feature of Western civilization: parliamentarianism. It sent the message to Russians that the United States does not stand for democracy.

The second problem is that the transactorship mode of organizing relations often frustrated true market reform. Without public support or understanding, decrees are a weak basis for building a market economy. Some reforms, such as lifting price controls, could be achieved by decree. But many others depended on changes in law, public administration, or mindsets, and required working with the full spectrum of legislative and market participants, not just one clan. Without support from parties to the reform process, reforms were likely to be ignored or even subverted in the process of implementation.

Lack of transparency was blatantly evident in the way in which the transactors conducted economic reforms. Secrecy shrouded the privatization process, significant parts of which were funded by USAID, and which overall has been a disaster for the Russian people. Privatization was supposed to spread the fruits of the free market. Instead, largely in the hands of the Harvard–Chubais transactors, it helped to create a system of tycoon capitalism run for the benefit of a half dozen corrupt oligarchs. The incentive system encouraged looting, asset stripping, and capital flight. A privatization effort that turned out to be more about wealth confiscation than wealth creation nurtured the “crony capitalism” for which we now criticize Russia.

The third problem with the transactorship mode of organizing relations is that the latitude of the transactorship relationship—with its flex organizing and trans-identities—encouraged transactors to maximize their personal opportunities in many areas. The prestige and access that the Chubais–Harvard transactors had by virtue of aid facilitated their influence in other areas, such as the Russian securities market and the Gore–Chernomyrdin Commission, both in Russia and internationally, and allegedly also helped enrich the transactors.

Chubais and some of his associates have been implicated in suspect banking and bribery schemes. In 2000, the U.S. government sued Harvard University, the Harvard project’s two principals—Andrei Shleifer (Summers’ protégé and coauthor) and Jonathan Hay, and their wives.⁴ As noted earlier, the suit alleged that the principals misused “their positions, inside information and influence, as well as USAID-funded resources. . .to advance their own personal business interests and investments.”⁵ The investments, which the defendants did not deny, included securities, equities, oil and aluminum companies, real estate, and mutual funds⁶—many of the same areas in which they were being paid to provide “impartial” advice to help develop the Russian economy. In June 2004, a federal court in Boston ruled that Shleifer and Hay conspired during the 1990s to defraud the U.S. government while supposedly representing U.S. interests.

The way in which the U.S.–Russia relationship was structured inevitably encouraged an unaccountable system of operating precisely at a time when donors and the international financial institutions should have been demanding safeguards such as property rights and the sanctity of contracts.

The fourth problem with the transactorship relationship is the lack of accountability, what I call “institutionalized deniability.” Transactorship affords maximum flexibility and influence to the transactors, while burdening them with only minimal accountability to the sides they are supposed to represent. For example, if the Harvard Institute’s Moscow director was asked by U.S. authorities to account for privatization decisions and monies, he could say he made those decisions as a Russian, not as an American.

The fifth problem is that transactorship is reminiscent of some features of communism that the international community should have taken care *not* to reinforce. Political aid disguised as economic aid feels familiar to Russians raised in the communist practice of political control over economic decisions—the quintessence of the (discredited) communist system. Aid funneled through the Chubais Clan was political aid thinly disguised as economic aid. As Harvard project director Andrei Shleifer acknowledged with his coauthors in a 1995 book funded by Harvard, “Aid

⁴The wives were dismissed from the case.

⁵United States Attorney, District of Massachusetts, “United States Sues Harvard and Others for False Claims Relating to USAID Programs in Russia,” *Press Release*, U.S. Department of Justice, September 26, 2000.

⁶*Ibid.* For details, see United States District Court, District of Massachusetts, “United States of America, Plaintiff, v. The President and Fellows of Harvard College,” Andrei Shleifer, Jonathan Hay, Nancy Zimmerman, and Elizabeth Hebert, Defendants, Civil Action No. OOCV11977DPW, September 26, 2000, p. 30; and, for example, Thanassis Cambanis, “US Seeking \$102M from Harvard, Pair,” *Boston Globe*, June 27, 2002.

helps reform not because it directly helps the economy—it is simply too small for that—but because it helps the reformers in their political battles.”⁷

U.S. officials stood by this approach. In a 1997 interview, the U.S. aid coordinator to the former Soviet Union said, “When you’re talking about a few hundred million dollars, you’re not going to change the country, but you can provide targeted assistance to help Chubais.”⁸

The key underlying problem is our government’s foolish decision to permit the organization of foreign relations through an unaccountable nongovernmental entity which, in turn, provided legitimacy for a group of self-interested insiders from both sides. Under the guise of economic reform and in the name of democracy, we exported a form of politics that resembled the informal and powerful patronage networks that once virtually ran the Soviet Union.

When the ruble collapsed so dramatically in 1998 and it became clear that the Harvard–Chubais partnership had failed, there was no one waiting in the wings to replace it. U.S. policy became, at best, “muddle through,” and Russia turned to more decisive leadership. Today, after more than a decade of “reform,” Russia is far from the democratic and prosperous American ally that U.S. policy makers had envisioned. Many Russians now believe that the United States deliberately set out to destroy their economy.

Lessons and Cautions

The U.S.–Russia case provides cautionary lessons for nation-building efforts and the conduct of government and business across international boundaries.

First, the way in which institutions interact through their agents, the relationships that the agents form among themselves, and the monitoring and accountability structures in place, significantly affect the outcomes. In the United States, the Harvard team took advantage of the tradition of “government by third party.” For the past half century, “the bipartisan policy has been to grow government through a *private* workforce.”⁹ Indeed, the federal government today writes paychecks for millions more contract and grant employees than for civil servants.¹⁰ With “private” employees delivering services ranging from the management of nuclear weapons and the space program to the development of government budgets and policies, the laws in place to protect taxpayer-citizens from official abuse often do not apply to nongovernmental employees who perform governmental services.¹¹

Government by third party was a necessary, but not sufficient, condition for an American role in this case of transactorship. The prestige afforded Harvard, and the privileges that its principals received through their contacts in the administration, facilitated both the practical advantages and the authority and legitimacy that were crucial to the success of the Harvard transactors in the Western policy and aid community.

Starry-eyed rhetoric about “rule of law” is disingenuous when we promote policies and consultants that systematically bypass democratic process. It is self-defeating when the means of reform instead mirror and reinforce the very clannish

⁷Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia*, Cambridge, MA: MIT Press, 1995, p. 142.

⁸Interview with Ambassador Richard L. Morningstar, U.S. aid coordinator to the former Soviet Union, February 11, 1997.

⁹Personal communication with Dan Guttman, a legal analyst specializing in American governance, June 3, 2003.

¹⁰Paul Light, *The True Size of Government*, Washington, D.C.: The Brookings Institution, 1999.

¹¹For a discussion about the tension between accountability and autonomy of “private” government contractors, including legal decisions, see Daniel Guttman’s “Public and Private Service: The Twentieth Century Culture of Contracting Out and the Evolving Law of Diffused Sovereignty” (*Administrative Law Review*, vol. 52, no. 3, 2000, Washington, D.C.: Washington Law Review, American University, pp. 901–908). Guttman’s article also outlines the kinds of conflicts of interests that arise between private employees and their public overseers (pp. 896–901).

and opaque political culture that America purports to reform. Such behavior breeds cynicism on the part of recipients of U.S. foreign policy and assistance about democracy, law, and the United States.

Second, what amounts to delegating foreign policy authority to a private entity, no matter how prestigious, creates opportunities for unsanctioned activities. Although U.S. prosecutors charged that the investments of the Harvard advisors violated federal conflict-of-interest regulations, defense lawyers contended that these activities did not defy the university's agreements with the U.S. government.¹² Harvard economist Andrei Shleifer, project director of the Harvard Institute's program in Russia, maintained that he was a mere consultant on the project (although he, together with Harvard's on-site director in Moscow, ran it), and that there was no conflict of interest.¹³

When their policies were called into question, U.S. and Harvard principals often suggested that their grand intentions would justify the means to achieve them. As a U.S. official investigating the conduct of the Harvard Institute observed: "The [Clinton administration's] excuse [for any alleged or perceived wrongdoing] always was: those [Harvard] guys, we need them; they're the experts."¹⁴ USAID Deputy Administrator Donald Pressley acknowledged after the U.S. Justice Department filed its law-suit: "We had even more than usual confidence in them [Harvard advisors]."¹⁵

The "econolobbyists" who moved from one transition country to another promoting quick prescriptions after the fall of communism—and subsequently worked to deflect attention away from any culpability—have provided a model of how not to do business. It is necessary to scrutinize the track records, interests, and roles of those who step forth as brokers on *both* sides.

Third, we must obtain independent information about the representatives of the nations with which we are dealing, including how they fit into their society and the extent to which they are viewed as legitimate. We must anticipate and take into account the effects of our policies on the long-term politics and public opinion of the other side. We should not lock ourselves in to one group of brokers as the sole source of information and contacts.

Fourth, the delegation of policy agendas to prestigious nongovernmental entities is no substitute for doing our cultural and historical homework. If we want a certain set of results, we have to take into account how our policies will be shaped and perceived by the societies that are the recipients of the policies. This is an old lesson, but providing billions of outside dollars to internal partisan groups can easily backfire. When it does, as in the U.S.–Russia case, it is natural to blame the other side, even when we have contributed to the conditions that foster the actions we are condemning.

Finally and most importantly, when the U.S. Department of Transportation hires Ford or GM as a contractor, both parties are subject to U.S. rules and common cultural expectations. But when we delegate foreign nation-building, we are entering uncharted terrain. The only control, check, or even information we have on the other side is through our representatives. When they have incentives to engage in representational juggling, and can shift their allegiances to achieve their own objectives as expediency dictates, we are without ready solution to the problem of accountability.

¹²See, for example, Thanassis Cambanis, "US Seeking \$102M from Harvard, Pair," *Boston Globe*, June 27, 2002.

¹³See, for example, United States District Court, District of Massachusetts, "United States of America, Plaintiff, v. The President and Fellows of Harvard College," Andrei Shleifer, Jonathan Hay, Nancy Zimmerman, and Elizabeth Hebert, Defendants, Civil Action No. OOCV11977DPW, *Memorandum in Support of United States' Motion for Summary Judgment Against Defendants Harvard, Shleifer & Hay*, June 21, 2002, p. 40.

¹⁴Interview with Phil Rodokanakis, former senior agent in USAID's Office of the Inspector General, January 25, 2001.

¹⁵Interview with Donald Pressley, aired on Monitor Radio, May 22, 1997.

Implications for Nation-Building

The war and occupation of Iraq has brought with it new foreign policy challenges. Thus far, the Bush administration's brand of nation-building has transactorship written all over it.

On the U.S. side (filling the Harvard role) is an influential group of "neoconservatives" who have been active in formulating and implementing U.S. policy toward Iraq and the Middle East. Members of this long-standing tight-knit core group of less than a dozen players are connected to each other through government, business, lobbying, think-tank, and media organizations and activities, as well as family ties—much like both the Harvard and Chubais circles. The group's members occupy key positions in the administration's Iraq and Middle East policy inner circle, both within and outside of formal government.¹⁶

Like the Harvard group in Russia, the neoconservatives active in Middle Eastern affairs positioned themselves to emerge as our country's chief decision makers with broad authority in the region. Some of the most influential and central members of the core group hold positions in the administration. Paul Wolfowitz, deputy secretary of defense, and Douglas Feith, under secretary of defense for policy, serve under Donald Rumsfeld, who shares many of the same neoconservative ideals. The administration appointed Richard Perle to head the Defense Policy Board, a once obscure advisory group. A key player in the neoconservative core group, Perle served as a foreign policy advisor during George W. Bush's presidential campaign.¹⁷

Representing the Iraqi side (in the role of the Chubais Clan) was the Iraqi Governing Council. Ahmed Chalabi, an Iraqi-born British citizen (living in exile until the American occupation of Iraq last year) played a pivotal role in the U.S.–Iraq relationship and sat on the Iraqi Governing Council until it was disbanded. Like the Chubais Clan, Chalabi et al. were largely selected to represent Iraq by the American side. Whatever influence Chalabi had in his native land derived largely from his clout with and access to American decision makers and money. A businessman distrusted by the CIA and the State Department, and wanted for allegedly defrauding the Jordanian government,¹⁸ Chalabi was long connected to key neoconservative figures in the United States. In the mid-1980s Chalabi met Richard Perle, who, through his position with the American Enterprise Institute, a think tank, invited Chalabi to a number of AEI conferences where he met now-Vice-President Dick Cheney, Paul Wolfowitz, and Donald Rumsfeld.¹⁹

At present, features of transactorship seem especially clear on the U.S. side, as documented in a variety of reports and ongoing investigations. The neoconservative group appears to operate, at least in part, by bypassing otherwise relevant structures and processes of governance such as key intelligence gathering and policy processes and supplanting them with its own entities such as the Office of Special Plans (OSP) that it set up. This ad hoc Pentagon-based group of analysts and policy advisors provided intelligence reviews based upon information supplied by other intelligence agencies and sources, such as the Iraqi National Congress headed by Chalabi.²⁰ Information gathered by the OSP typically was not shared with

¹⁶See, for example, Seymour M. Hersh, "Lunch with the Chairman," *The New Yorker*, March 17, 2003, <http://www.newyorker.com>; Elizabeth Drew, "The Neocons in Power," *The New York Review of Books*, vol. 50, no. 10, June 12, 2003; and Sam Tenenhaus, "Bush's Brain Trust," *Vanity Fair*, July 2003, pp. 114–169.

¹⁷Seymour M. Hersh, "Lunch with the Chairman," *The New Yorker*, March 17, 2003, <http://www.newyorker.com>.

¹⁸Robert Dreyfuss, "Humpty Dumpty in Baghdad," *The American Prospect*, vol. 14, no. 5, May 1, 2003; Fahim, Kareem, "Iraq's Man Who Would Be King: Recalling Ahmed Chalabi," *The Village Voice*, 9 April 2003, <http://www.villagevoice.com/issues/0315/fahim.php>.

¹⁹Elizabeth Drew, "The Neocons in Power," *The New York Review of Books*, vol. 50, no. 10, June 12, 2003.

²⁰The OSP was influential in shaping U.S. policy and American opinion towards Iraq. OSP intelligence reviews on Iraq reportedly relied on information from other intelligence agencies and data provided by the Iraqi National Congress, an exile organization led by Ahmed Chalabi (Seymour M. Hersh, "Selective Intelligence," *The New Yorker*, 12 May 2003, <http://www.newyorker.com>).

counterparts in other relevant government units or agencies, nor were its assessments vetted by them. Cross-agency cliques reportedly enabled the group to limit information and activities to its associates across agencies.²¹

With Perle—who advised President Bush on foreign policy and defense matters during the Bush campaign—as its chairman early in the administration, the Defense Policy Board has some of the characteristics of a flex organization that can circumvent otherwise relevant governmental structures and processes. The Board evolved from a little-known organization to one with wide influence. Perle used it as a platform from which to call for military action in Iraq and the overthrow of Saddam Hussein, thus countering resistance from other agencies, including the State Department.²² The Board's structure afforded Perle more flexibility and hence influence in a variety of domains than he might have had as a mere government official (he turned down a position in the administration).²³ It allowed him and others in the circle to retain their private business interests while holding a not-quite-public office that provided them access to defense planning and top-secret intelligence information.²⁴ Perle resigned as chairman of the Board in March 2003 amid allegations of conflicts of interest and from the Board altogether a year later.

As was the case with the Harvard transactors, the government, business, think tank, and “independent” analyst affiliations of members of the neoconservative core group often overlap, reinforce, and conflict with each other. The leeway afforded powerbrokers that move between government and business may be growing. Under the present administration, “government by third party” has been accelerated: With the administration bent on privatizing government, more and more is being outsourced, including military, foreign aid, and nation-building activities. As in the Harvard case, noncompeted awards justified on national security grounds are being granted for work in Iraq to administration insiders, this time with tens of *billions* of dollars at play.

The supposed firewall between business dealings and access to inside information sometimes appears to have melted, as individuals playing multiple roles sometimes pass it along.²⁵ For example, Richard Perle is reported to have advised companies and their clients on business dealings using sensitive government information to which he was privy through his position on the Defense Policy Board.²⁶ Along with his not-quite-private position on the Board, he has several business involvements, the most significant of which are with defense contractors.²⁷ Here his roles as

²¹See, for example, Seymour M. Hersh, “Selective Intelligence,” *The New Yorker*, May 18, 2003, <http://www.newyorker.com>, and Jim Lobe, “Insider Fires a Broadside at Rumsfeld’s Office,” *Asia Times*, August 7, 2003, regarding the Pentagon’s OSP and cross-agency cliques.

²²See, for example, Seymour M. Hersh, “Lunch with the Chairman,” *The New Yorker*, March 17, 2003, <http://www.newyorker.com>.

²³*Ibid.*

²⁴See Andre Verloy and Daniel Politi, “Advisors of Influence: Nine Members of Defense Policy Board Have Ties to Defense Contractors,” *The Public-I*, March 28, 2003, <http://www.publicintegrity.org>; and “The Bush 100: Snapshot of Professional and Economic Interests Reveals Close Ties Between Government, Business,” *Center for Public Integrity*, <http://www.publicintegrity.org/cgi-bin/WhosWhoSearch.asp?Display=List&List=All>.

²⁵Government-business connections that have attracted much attention are those of Vice President Dick Cheney. He is connected to core neoconservatives such as Perle and Wolfowitz through former and current government service and memberships in organizations, and a key player in U.S. policy toward Iraq. As the former CEO of Halliburton, Cheney’s continued financial connections to the corporation and its subsidiary Kellogg, Brown, and Root (KBR) have been brought to the fore once again with reports of noncompeted contracts awarded to KBR in the wake of military and reconstruction activities in Iraq. KBR is alleged to have overcharged the U.S. government for contracted services in Iraq (Dana Milbank and Jackie Spinner, “Company Overcharged U.S. in Iraq, Bush Says,” *The Washington Post*, 13 December 2003, p.A19). Reportedly, Cheney continues to receive a deferred salary from Halliburton and retains stock in the company (Joe Nichols, “Dick’s Special Interest in \$87 Billion,” *The Nation*, 15 October 2003, <http://www.thenation.com/thebeat/index.mhtml?bid=1&pid=1010>).

²⁶Ken Silverstein and Chuck Neubauer, “Consulting and Policy Overlap,” *Los Angeles Times*, May 7, 2003.

²⁷Perle is chairman of the venture-capital firm Trireme, which invests in defense and homeland security companies (Seymour M. Hersh, “Lunch with the Chairman,” *The New Yorker*, March 17, 2003, <http://www.newyorker.com>).

businessman, quasi-government official, think-tank fellow, and pundit converge—and sometimes conflict.

For example, Perle wrote an op-ed in the *Wall Street Journal* praising a possible Pentagon plan to lease tanker aircraft from Boeing.²⁸ The article did not mention that the deal would have been worth \$20 billion to Boeing and would have cost the Pentagon millions more than buying the tankers outright. Additionally, Perle failed to disclose his own financial ties to Boeing, notably the company's \$20 million share in *Tireme Partners*, an investment capital firm where Perle is a principal.²⁹ Boeing is the largest investor in *Tireme*.³⁰

As in the U.S.–Russia case of transactorship, flex organizing provides the neo-conservative inner circle with deniability. If Perle, for example, is accused of being too close to official government decision makers, he can shield himself with other identities—his association with the American Enterprise Institute, or that of “author,” for example.³¹

As was so clearly evident in the Harvard-Chubais case, deniability leads to lack of accountability. Not too far down that path may lie corruption, vitiated governance, and mismanagement of billions of dollars intended to build nations, not personal fortunes.

One thing the players themselves are likely to acknowledge is that the transactorship mode of organizing relations flourishes in a world of increasing “globalization” and delegation of authority by states to nonstate actors. A globalizing world provides greater incentives for more people to play multiple, conflicting roles that overlap both government and business and that enable them to bypass the constraints on either institution. U.S. assistance efforts both in Russia and Iraq are thus cases of a wider phenomenon of representational juggling of key powerbrokers who wear government, political, business, and other organizational hats to best suit themselves, but not necessarily the institutions they supposedly serve.

With regard to transparent governance, both the Harvard and the neoconservative cases illustrate what can go wrong when vital state functions are contracted out to players who operate on both sides of the public-private divide. The contractors, whose chief goal is to make money, have incentives to operate on their own private agendas. As the United States hands over ever more of its key functions to contractors—including parts of foreign and military policy and implementation—the practices of transactorship and flex organizing have a future in various incarna-

com). He has held positions with other companies, some of which do or invest in defense-related work, such as Geobiotics, AppNet, and DigitalNet Holdings (Verloy, Andre, and Daniel Politi. “Advisors of Influence: Nine Members of Defense Policy Board Have Ties to Defense Contractors.” *The Public-I*, March 28, 2003, <http://www.publicintegrity.org>; Hollinger International Home Page: <http://www.hollinger.com/mgmt/mgmt.htm>). He is a member of the Board of Directors of OnSet Technology (Onset Technology web page: http://www.onsettechnology.com/ab2_profile.htm). He also has served as an advisor for International Advisors Incorporated (IAI) from 1989 to 1994, an international lobbying firm created by Douglas Feith and Paul Wolfowitz in 1989 (Seymour M. Hersh, “Lunch with the Chairman,” *The New Yorker*, March 17, 2003, <http://www.newyorker.com>). Further, Perle is currently a director of Hollinger, Inc. and the President and CEO of Hollinger Digital, Inc. Hollinger owns and operates newspapers throughout the world, including *The Chicago Sun-Times*, *The Daily Telegraph* (London), and *The Jerusalem Post* (Hollinger International Home Page: <http://www.hollinger.com/mgmt/mgmt.htm>). Perle is a director at *The Jerusalem Post* (Benador Associates Biography, Richard Perle. <http://www.benadorassociates.com/perle.php>).

²⁸Interestingly, Perle did not learn of the tanker deal through his affiliation with the Defense Policy Board. Through his role as resident scholar at the American Enterprise Institute, Perle was in attendance when Boeing briefed AEI on the tanker deal (Jim Wolf, “Pentagon Advisor Faulted Over Boeing Role,” *Reuters*, 5 December 2003, <http://www.reuters.com>).

²⁹David Hilzenrath, “Perle Article Didn’t Disclose Boeing Tie,” *Washington Post*, 5 December 2003, p. E01.

³⁰William D. Hartung, “The Booming Defense Business,” *The Los Angeles Times*, 10 December 2003. Reprinted on <http://www.commondreams.org/view03/1210-03.htm>.

³¹For example, in an appearance of January 7, 2004 on the Charlie Rose show, Perle was identified as affiliated with the American Enterprise Institute and as an “author,” alternately. No mention was made of his role on the Defense Policy Board. Perle was promoting his new book, *An End to Evil: Strategies for Victory in the War on Terror*, and appeared jointly with his coauthor, David Frum.

tions. The shrinking globe we now inhabit has become a playground for cozy elites in a borderless world.

Where in this brave new world is there a place for accountability to electorates and parliaments? Where do representation and democracy enter the picture? What are the consequences to these institutions when the same person or organization represents multiple sides without disclosing multiple allegiances? The U.S.–Russia case and the current American venture in Iraq both provide cautionary lessons. When global elites see themselves as members of an exclusive and highly mobile club that writes its own rules without any checks, those rules can supplant the actual rule of law. And this is a real threat both to liberal democracy and to market-based economics.