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Mini Teaser: Jeffrey Sachs, Anders Aslund, Marek Dabrowski, Peter Reddaway, Igor Aristov, Wayne Merry, Michael Hudson, David Ellerman, Steven Rosefielde, Janine Wedel

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Jeffrey D. Sachs, director of the Center for International Development, Harvard University:

Janine Wedel, for the umpteenth time, repeats her phony diatribes against me ("Tainted Transactions: Harvard, the Chubais Clan and Russia's Ruin", Spring 2000). Please permit me to correct the record.

Despite Dr. Wedel's weird insinuations that I had no advisory role with the Russian government, I was an official adviser to that government, but only for two years and two months, from December 1991 to January 1994. I worked closely with Anders Aslund during this period. President Yeltsin officially designated us as advisers during a meeting with us on December 13, 1991, and we received offices in the Council of Ministers during 1992 and in the Ministry of Finance during 1993. During the period until the end of 1992, Aslund and I

mainly advised acting Prime Minister Yegor Gaidar, and in 1993 we led a unit within the Russian Finance Ministry advising Deputy Prime Minister Boris Fedorov. (The most bizarre and entertaining fiction is Dr. Wedel's additional suggestion that I somehow secretly worked with the IMF during 1992.)

During this entire period, there were notoriously heated divisions within the Russian government, and between the Russian government on one side and the Duma and Central Bank on the other. The reformers, led by Gaidar and Fedorov, did what they could to pursue needed reforms, but very often they were blocked. Unlike my experience in many other countries, such as Poland, little of what I recommended was actually enacted. It wasn't pleasant being blamed for high inflation and other ills that resulted from the very opposite of the advice that ?slund and I were giving (such as when the Central Bank ran a disastrous hyperinflationary monetary policy in 1992 and 1993), but it was still worth the effort of supporting the brave reformers fighting an uphill battle. ?slund and I publicly resigned in January 1994, days after Gaidar and Fedorov left the government. We were concerned about the takeover of the government by the "industrial lobby", with a foreshadowing of the mega-corruption that was to follow, especially in the disgraceful state giveaways of the lucrative natural resource enterprises, mainly during 1994-96. I was also particularly distressed by the lack of appropriate Western advice and assistance, a point that I made repeatedly in writings and speeches at that time and afterward.

Somehow in this maelstrom some people came to assume (or at least claimed to assume) that whatever happened was what I had recommended, even though I was publicly and privately critical of the lawlessness and lack of reform progress. For a few people this has continued despite the fact that I have not advised the Russian government for

six years or even been to Russia for five years. Wedel writes in just this nonsensical vein. For many years I have publicly and repeatedly denounced the scandals of privatization such as the "shares for loans" deals, and published articles and books describing and criticizing the lawlessness and corruption in Russia (including *The Rule of Law and Economic Reform in Russia*, 1997).

Dr. Wedel deliberately and systematically mixes personal references to me, the Harvard Institute for International Development (HIID) and other Western advisers, so that she can rope me into her phony conspiracy theories. The HIID projects she refers to were directed by Professor Andrei Shleifer at Harvard, and I had no role in those projects. She seemingly can't understand that I had a completely separate project, and that I resigned from advising the Russian government as of January 1994. One and one half years later, I became director of HIID in July 1995, and Professor Shleifer's project was one of sixty or so ongoing HIID projects around the world. During the period in which I directed HIID (1995-99), I stayed completely away from any personal involvement in any Russian advisory work, consistent with my public resignation in 1994. Moreover, when dubious practices in Professor Shleifer's project came to the attention of the U.S. Agency for International Development (USAID) and myself in the spring of 1997, USAID and I worked together to close the project immediately.

Dr. Wedel writes darkly that "it is unclear who paid Sachs and his team." As I have explained repeatedly to her, and to anyone else that had the slightest interest, I received my academic salary for my work in Russia, with my leave time from Harvard University covered mainly by the United Nations University in Helsinki in early 1992, and thereafter by the advisory project supported by the Ford Foundation and the Swedish government during 1992-93. USAID supported a small

amount of my summer academic salary, probably a total of a month or two. Of course, I never invested a penny in Russia, or in any other country in which I have served as an economic adviser. Nor did I engage in any consulting services for private businesses or investors involved with the Russian economy.

Dr. Wedel also accuses me of somehow improperly promoting myself to the Russians as a person "facilitating access to Western money." As any mildly interested observer of the Russian reforms would know from my writings and speeches, I strongly believed and publicly argued in 1992 that the West should provide large-scale assistance to Russia to support the early days of market reforms and stabilization, something the West manifestly declined to do. There was nothing sinister, surreptitious or secretive about any of this: I simply believed (and continue to believe) that timely Western help in 1992 and 1993 could have played an important role in helping real reforms and democratization to take hold, but of course it did not come. The Russian reformers and I knew that the chances for the needed large-scale support were not high, but we felt the effort was worth making anyway.

Wedel's twisting of facts and outright misrepresentations go on and on. What I find hard to understand is how *The National Interest* could publish this nonsense without even doing an iota of fact-checking.

Anders ?slund, senior associate, the Carnegie Endowment for International Peace:

A decade after the collapse of the communist system, history has demonstrated that those post-communist countries that aggressively pursued market economic and democratic reforms are rapidly improving the lives of their citizens. In her article in *The National Interest*, Janine Wedel ignores this reality and seems more intent on

denigrating those who have advocated and actively promoted such radical reform. She appears to lack an analytical framework, and her assertion of facts is inaccurate.

The stars among the post-communist countries are Poland and Estonia, which are generally acknowledged as the most radical market reformers. According to the European Bank for Reconstruction and Development, they also have the least corruption. Russia attempted a radical reform, but unfortunately it stumbled. Even so, Russian citizens are better off than Ukrainians, who saw a much later reform and less privatization, not to mention the poor Belarusians, who suffer under a frightful dictatorship in a Soviet theme park. Market reform and democracy go together in the post-communist world. Russia's problem is not too radical reform, but too little reform.

For the past decade, Janine Wedel has been going after leading advocates of radical market economic reform and privatization in former communist countries. Since the shortcomings of her gossip journalism are so obvious, nobody seems to have bothered to answer her as yet, but when a respectable magazine, such as *The National Interest*, publishes an article of hers, this mixture of lies, half-lies, sly allusions and sheer misunderstandings needs to be exposed.

In 1990 she started pursuing Jeffrey Sachs and David Lipton for having destroyed the Polish economy through their "ideology . . . of radical privatization and marketization", which soon turned Poland into a stunning success. Poland's President Alexander Kwasniewski recently bestowed a high Polish order on Sachs and on Lipton in gratitude for their services to Poland.

What is her alternative? In her book, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998* (1998), she

revealed her ideological preferences by repeatedly citing the old-style Soviet communist Leonid Abalkin with sympathy in his criticism of liberal reformers. She seems to advocate U.S. assistance to such communists: "In short, donors, by equating Western-oriented Russians with reform agendas and traditionalist or communist Russians with anti-reform agendas, created stereotypes."

Wedel is patently contradictory. She criticizes Western consultants for their "[l]ack of the understanding of the Russian cultural context", but the particular persons she assails know Russia well. She attacks the major Western economic advisers in Russia for being both ineffective and too influential. You cannot have it both ways.

Similarly, she regrets large amounts of aid to consultants, but she has focused on one institution, namely, the Harvard Institute for International Development, which received less than 1 percent of total USAID assistance to Russia. She ignores the many other general contractors for USAID that received much more money.

The major problem, however, is Wedel's inability to evaluate the accuracy of her sources. She mainly relies on interviews, going around talking to admittedly many people, but she only records vicious and tendentious allegations often made by single individuals. She makes no attempt to check their truthfulness, ulterior motives or even whether her interviewees can know what they say. The Soviet Union was an empire of lies, and systematic lying remains common. Wedel seems unaware of this, revealing her limited understanding of the Russian cultural context.

Sometimes, though, Wedel seems aware of her absence of evidence, but instead of retracting she adds, for instance, ". . . as well as a number of additional reports and sources in Russia, Ukraine, Sweden and Washington."

In a review of *Collision and Collusion in Comparative Economic Studies*, Jozef van Brabant, an economist who has persistently opposed radical market reform, concluded: "The book is marred by all too many other inaccuracies some of which are attributable to the author's ignorance."

From a personal perspective, I can say that Wedel's portrayal of my work is simply wrong. She alleges: "Wislund seemed at once to represent and speak on behalf of American, Russian and Swedish governments and authorities." This statement is absurd. I left the Swedish foreign service in 1989. I served as economic adviser to the Russian government from November 1991 until January 1994. I have never been employed by the U.S. government. Although my employments have varied over time, they have never involved conflicts of interest, and I have always made clear what I am doing.

Wedel also complains that "he always presented himself [in op-ed articles] as an objective analyst, despite his many promotional roles." When working with the Russian government and later the Ukrainian government, I always mentioned that. Some may disagree with me, but I have hardly ever been accused of being unclear about what I stand for.

Wedel claims: "Wislund was also involved in business activities in Russia and Ukraine", and in her *Demokratizatsiya* article: "He had 'significant' business investments in Russia." The truth is that while advising any government, I have never been involved in business activities or invested in that country, though I have given lectures and briefings on the state of their economies.

She complains that two of my associates, who worked for Chubais, set up an investment bank after having finished their work for Chubais.

So what? High U.S. Treasury officials often come from and go to investment banks.

In her Demokratizatsiya article, Wedel claimed: "I helped to deliver Swedish government monies to the [Russian Privatization Center]." I would have been happy to do so, but I did not. Wedel writes that I attended a dacha in Arkhangelskoe when the Gaidar team prepared its government program there, but I have never visited that dacha. Nor is it true that my assignment in Ukraine "explicitly included public relations on behalf of that country."

In public appearances, Wedel has asserted that I have made a huge amount of money on USAID, but USAID has never financed any advisory work of mine. Nor have I worked for HIID, which she also has alleged. My work in Russia was financed by the Swedish government and the Ford Foundation through the Stockholm Institute of East European Economics.

This is a long list of allegations that I know to be wrong because they involve me personally. There is no reason to believe that she is more truthful about anything else, as Wedel's text abounds with inaccuracies. Aleksander Bevez has never headed the Gaidar Institute. Maxim Boycko replaced Alfred Kokh as chairman of the State Property Committee, not the other way around, as Wedel reports. Jeffrey Sachs and David Lipton were rarely in Moscow together, and so on.

Many of these facts can be easily checked. Most of Wedel's claims have been made three or four times in almost identical wording, as she is in the habit of republishing the same article many times, so it is not a matter of typographical errors.

In short, Wedel's main shortcoming is that she lacks the faculty to distinguish truth.

Marek Dabrowski, former first deputy minister of finance of Poland, currently vice chairman of the Center for Social and Economic Research, Warsaw:

I found Janine Wedel's article deeply wrong in its description and interpretation of East European and Russian transition processes, and of the role of foreign aid to this region.

My impression is that the author intentionally and consciously manipulates facts and sources of information in order to support her conspiracy theory and address far-fetched and certainly unfair personal insinuations against key Russian reformers such as Yegor Gaidar and Anatoly Chubais, and leading Western experts trying to help Eastern Europe and Russia such as Jeffrey Sachs, David Lipton and Anders ?slund. Her style of writing and methods of work remind me of the worst instances of Communist Party propaganda, which I had occasion to experience not so long ago as an East European national.

The best example of such practices is footnote 33 of her article where she quotes me as the source of the opinion that "... Å...slund was engaged in public relations activities. His assignment in Ukraine, where he was funded by George Soros, explicitly included public relations on behalf of that country, according to other Soros-funded consultants who worked with ?slund there."

It is true that I worked with Anders ?slund in Ukraine (and in Russia), but I did not formulate such an opinion, and, what is more important, I never gave Wedel permission to use any fragment of our two conversations as the source of quotation in her publications.

Wedel met me once in 1995 with the purported reason to ask me about a paper I had presented on foreign assistance to transition countries. It seemed a normal academic conversation. Then, she called me on the

phone several months later. When she started to put her questions, I quickly realized that she was in the grip of some conspiracy theory, and she tried to provoke me to speak against Jeffrey Sachs and David Lipton. She was not ready to listen to my answers because she knew better what the "truth" was, and she wanted me only to confirm her crazy interpretation of events. At the beginning I tried to convince her that she was wrong, but when I realized that this was a hopeless task, I stopped the conversation. I asked her never to call me again, and not to use any part of our conversation in her work, a request she has not respected.

Peter Reddaway, professor of political science, George Washington University:

Janine Wedel's powerful article focuses mainly on the negative effects of "transactorship" on Russian-Western relations. These contributed to other problems that, taken together, mean that the West has helped to create in Russia a much bigger long-term problem for our foreign policy than most observers have yet grasped.

In my view, the attempted imposition of shock therapy (or "the Washington consensus") on Russia by Boris Yeltsin and the West has been a textbook example of doctrinaire social engineering. It has been based on a mixture of ignorance and arrogance. As I have argued since before the process began in 1991, such an approach was bound--given the legacy of Russian and Soviet history--to be, at the least, premature and dangerous. Russia is not Poland or Estonia. No matter what tricks Yeltsin and his foreign backers used, it was politically impossible to fully apply shock therapy in the Russia of the early 1990s. Any government that might have tried to do so would have provoked chaos and fierce opposition--and been thrown out. Governments do not deliberately commit suicide. The repeated

complaints of people like Jeffrey Sachs and Anders ?slund that Yeltsin and Yegor Gaidar "lacked the political will to go the whole way" demonstrate, at best, political naivety. At worst, the complaints look like an attempt to divert attention from the incompetence of the advice given by these individuals to the Kremlin, the IMF and Western governments.

The second part of the tragedy is that when, by 1994, it was crystal clear that the "reforms" were not working, the IMF, the G-7, Sachs, ?slund and others continued--for four more long years--to pressure Yeltsin into largely futile efforts to push ahead with them. This compounded failure. For most Russians, such doctrinaire obstinacy put an end to the hopes of better living conditions that had been aroused by the fall of communism.

The pattern was this: the West kept offering loans in return for Kremlin promises to reduce inflation and the budget deficit, privatize industry, appoint Anatoly Chubais to run the economy, circumvent the parliament through presidential decrees, and so on. However, as Dmitri Glinski and I will show in our forthcoming book, *The Tragedy of Russia's Reforms: Market Bolshevism Against Democracy* (2000), not only did these Western recipes fail to stabilize the ruble, halt the steep plunge in investment, and get workers paid on time; they also created a humiliating dependency on the West's aid and foreign policy, promoted crony capitalism, fostered massive crime, corruption and capital flight, eroded state capacity all around, and destroyed what basis remained for achieving a modicum of social justice.

The devastating effect of all this in terms of values is that the majority of Russians, who a decade ago saw democracy and free markets as beacons of hope, now see before their eyes ugly perversions of

these institutions, and wonder if they just won't work in Russia. Opinion polls repeatedly show profound doubt and even despair about Russia's future. They also show that anti-Americanism has permeated the whole society and is probably now deeper than at any time in Russia's history. A substantial majority believe that the United States and the West have weakened Russia deliberately, in order to exploit and humiliate it.

Encouragingly, a few of Dr. Wedel's "transactors" -- for example, Pyotr Aven, Konstantin Kagalovsky and David Lipton -- have in varying degrees rethought and recanted the neo-Bolshevik social engineering that is the main cause of this tragic outcome. Others -- notably Sachs and Å...slund -- have not. Å...slund, indeed, tries to publicly ridicule people like the former chief economist of the World Bank, Joseph Stiglitz, who dare to criticize either him or the now exploded "Washington consensus." Also silent as regards rethinking and self-criticism are the main architects and implementers of U.S. policy toward Russia: Strobe Talbott, Lawrence Summers and Al Gore. Their successors will, tragically, be left with a major, nuclear, long-term "Russia problem."

Igor Aristov, head of the Department for Competition Protection of the Financial Markets, Ministry for Antimonopoly Policy and Entrepreneurship Support, Russia:

It was very useful to learn the details about the Chubais Clan and its illicit activities from Janine Wedel's article.

It is not possible to overestimate the significance of such an article. For me personally this information is also very important because Russian tycoons have used illegal financial inflows for private purposes and against the national interest of Russia. To foresee their future intentions we need to understand the structure of their informal relations. Recent scandals have revealed the

importance of monitoring closely their transactions, property, money and debts to international organizations. Thank you very much for the article.

Wayne Merry, director of the Program on European Societies in Transition, the Atlantic Council of the United States:

Janine Wedel makes a major contribution to the "Who lost Russia?" debate by pulling back some of the protective covering on how the U.S. government sought to impose its economic ideology on post-Soviet Russia. During my years in the political section of the U.S. embassy in Moscow (1991-94), I also saw close up the basic flaws of our Russia policy. First came ignorance, as purveyors of "the Washington consensus" unleashed their dogma on a country they did not understand and, worse, did not wish to understand. Then came arrogance on many levels: the belief that "the Washington consensus" embodied ultimate economic truth (its manifest failures notwithstanding); responding to any doubts about the dogma with accusations of heresy and disloyalty; the view of Russia as an economic wasteland (how it had managed to build all those missiles conveniently ignored) and as a laboratory to refine economic theory (heedless of the banners carried on the streets of Moscow by some of the laboratory animals demanding "No More Experiments").

Next came authoritarianism, as Washington encouraged a willing group of Russian "reformers" to implement our policies by presidential decree rather than face the compromises of the legislative process, and to create extra-constitutional and clandestine structures of administration to avoid parliamentary oversight or media exposure.

Lastly came hypocrisy, as Washington officials claimed to be "shocked, shocked" when the government-sanctioned corruption and theft of public property in Russia could no longer be hidden. They

then piously demanded that Russian governance be all the things the Treasury and IMF had insured it would not be: honest, accountable, transparent, law-based, public-spirited.

Thanks are due to Dr. Wedel for her efforts to document this failed policy process but, sadly, she has so far seen only the tip of the iceberg--what remains "classified" is much worse.

Michael Hudson, president of the Institute for the Study of Long-term Economic Trends:

I would like to give a perspective on Dr. Wedel's theory of transactors as an economist who has worked most of my life for U.S. international banks and money managers, addressed the Duma on numerous occasions, and consulted for U.S. government agencies on U.S.-Russia relations.

I have observed transactorship, and the insider dealings it entails, first-hand. "Average" U.S. investors were not in a good position to profit from the corruption that underlay Russia's stock market boom. One of the leading fund managers (for whom I worked in 1989-90 to help organize the first global sovereign-debt fund) refrained from the outset from riding this roller coaster. The firm's managers didn't trust the visibly corrupt investment climate and, not being insiders, they saw that "arms-length" speculation probably would end in disaster.

Institutional investors from firms that did enter the market explained to me that the safest money to be made was by those who had inside contacts. Money managers who didn't want to invest directly in the risky Russian stock market consigned funds to companies such as Brunswick, which put on promotional shows around the country, in which Anders ?slund and others tried to convince institutional

investors that they had an inside track. It was no secret that Russia's market had no legal overseer like our SEC, but that was the very point of investing in Russia!

Based on discussions I had with U.S. global investors during the 1990s, I think I am in a good position to point out why many of them preferred to see major Russian companies pass into just a few corrupt hands. If a few Russian insiders could buy out Russian oil fields and other firms at only 1 or 2 cents on the dollar, they probably would be willing to sell their takings to U.S. and other international investors for 2 to 4 cents. This would enable them to double their money, while providing foreigners with what they wanted: inexpensive ownership of Russia's potentially lucrative mineral wealth and public utilities, as well as its real estate (or, more specifically, its land).

Thus, one reason the U.S. government welcomed the Chubais-HIID mode of "reform" was because of pressure from large investors. If Wall Street investment bankers wanted to take an investment position in Russia, they could do so most easily--and at a much lower price--if only a few "oligarchs" gained ownership of Russia's prize assets. However, if the Russian government or other parties retained control over these assets, they would not be sold as rapidly, and probably would be sold at a higher price.

And so a symbiosis developed between the largest U.S. investors and Russian oligarchs. The largest U.S. investors realized that the kleptocrats for their part wanted to transfer their fortunes abroad. This is what all thieves want to do, for a simple reason: if they keep their money at home, it can be seized by true market reformers. Hence, Russian appropriators sought to move their money to Cyprus,

Switzerland and other offshore banking centers, topped by the United States.

To do this, they needed security from Western prosecution. The traditional way to achieve this is to go into partnership with well-placed Westerners. Partnership agreements accordingly were sealed by selling part of their stock ownership to Western investors. Such sales in fact were the only way in which the privatizers were able to realize financial value for their control, for there was no purchasing power within Russia itself to buy their shares. To raise money off the shares they had obtained, Russians needed to sell abroad.

This was well recognized by international investors. It explains why they turned a blind eye to the abuses by Chubais and other insiders, for they knew that they themselves would be the beneficiaries.

Was the subsequent economic devastation directly intended, as a means of "hurting Russia" and thereby disabling it from posing a future threat to the United States and other countries? I believe not. Rather, it was the consequence of the game plan by Western investors (mainly in the United States) to get rich quickly off Russia. The shrinkage of the Russian economy in consequence was a form of "collateral damage", not the intention of the programs themselves. It is the same sort of damage caused by IMF austerity programs imposed on hapless Third World debtors.

My conclusion is that the U.S. government is guilty of gross negligence as to the consequences of the reformers' privatization plans it backed. It didn't mean to kill Russia. It just wanted to take its money and property. Russia's economy got killed in the process. I suppose you might call this second or third-degree murder, not first-degree murder. But that is all that Wedel's article claimed, in my reading. What is ironic is that the "free-market" strategy that has been followed excludes from the market precisely the

arms-length investors that U.S. policy has claimed to attempt to attract as the mainspring in allocating Western capital funds.

David Ellerman, economic adviser to the chief economist, the World Bank:

...My only "problem" with Professor Wedel's article is that it attempts to tell the story in such detail that it will allow those who intellectually sponsored what is, in my personal opinion, one of the biggest debacles of the last half of the twentieth century to continue to avoid analyzing the forest by bickering over the details of the bark on the trees.

Steven Rosefielde, professor of economics, University of North Carolina, Chapel Hill:

Janine Wedel's "Tainted Transactions" makes an important contribution to the "Who lost Russia?" saga by investigating the nexus between "radical" economic transition theory and Western foreign assistance....A few facts and comments might prove illuminating.

First and foremost, it needs to be stated bluntly that there is no scientific theory of how to transform a command economy efficiently into a well-functioning competitive market system. Theorists cannot even demonstrate the necessity of general equilibrium with a production sector under perfect competition, so there certainly isn't a shred of justification for suggesting that Yegor Gaidar's and Anatoly Chubais' radical reforms should have produced good results. The policies they adopted, often called "shock therapy", were analogous to removing the control rods from a nuclear reactor, and insisting that the ensuing chain reaction would create a better power system.

The Soviet/Russian basis for this strategy dates to the late eighties when Stanislav Shatalin, Gregory Yavlinsky and others developed their infamous 500 Days program, which promised perekhod--transition to competitive

free enterprise by the end of 1993. They weren't sincere. Shatalin disclosed his real agenda at Duke University in 1991 when he declared that, "It didn't matter if the transition took 500 days, or 500 hundred years, as long as it destroyed Communism!" The debate between the "shockers" and the "gradualists" was never really about economic "optimality"; it was a rhetorical struggle between a generation of young Turks egged on by Gorbachev, who saw radicalism as a highway to political power, and the old reformist economic guard like academicians Oleg Bogomolov and Yuri Yaremenko, who--like Western Nobel laureates Kenneth Arrow; Paul Samuelson and James Buchanan--understood the necessity of building legal and market structures before leaping into the abyss. The failed putsch in August 1991, and Gorbachev's refusal to allow the military to arrest and execute Yeltsin later that fall when Russia, Belarus and Ukraine seceded from the Soviet Union, enabled the radicals to triumph, as their predecessors had during War Communism and the Stalin era. Their Luddite politics not only instantaneously brought about an economic implosion that has caused 5.4 million premature adult deaths through 1997, but opened the Pandora's box of vicious criminality, just as anyone conversant with the history of Gulag and Soviet mafias would have predicted.

The Western transactors Wedel discusses in her article--the IMF, World Bank, U.S. Treasury, USAID, European Bank for Reconstruction and Development, OECD, EU and the Western private sector--could not have prevented this debacle, even if they hadn't misbehaved in the ways Joseph Stiglitz describes in the April 17 & 24, 2000 issue of the New Republic. Only Chubais, Maxim Boycko and Alfred Kokh--successive chairmen of the Russian State Property Committee and members of the "transactors circle"--could have mitigated the plunder and disorder, had they not been so thoroughly corrupt. From this perspective, it makes little difference whether some Western economic theories were partially or wholly congruent with those of Russia's homegrown radicals. Had Jeffrey Sachs, widely considered an arch advocate of "shock therapy", been a closet conservative, as Joseph

Stiglitz now suggests, Yeltsin's vendetta against the Communist Party still would have driven him to recklessly destroy the remnants of central planning and the ministerial system without first preparing the way for a smooth market transition.

The damage caused by Western proponents of "shock therapy" and others who misunderstood the conditions required for empowering Adam Smith's invisible hand was less than that caused by Yeltsin's rash decrees. It is the sum of the tens of billions of dollars that "transitionists" of all stripes coaxed Western leaders into diverting from America's, Europe's and Japan's deserving poor to Kremlin thieves, plus the negative global welfare costs of consolidating Yeltsin's system of anti-productive elite privilege. The new economic model that has emerged is similar to the regime contrived by Hjalmar Schacht for Hitler: a marketized variant of a command economy that allows leaders to utilize a broad array of regulatory instruments, including direct arms procurement contracting, to enrich a narrow clique and rearm, in whatever mix Putin desires. It is precisely in this sense that Russia has been lost, and that those found guilty by the verdict of history of abetting the process through economic myth-making, politicking and moral turpitude should feel profoundly ashamed.

Wedel replies:

JEFFREY SACHS' and Anders Aslund's letters contain a series of unsupported counter-assertions. Both deal in significant part with issues that are not addressed in, or material to, my National Interest article. The article presents the theory of transactorship, a mode of organizing relations among nations. Both Sachs and Aslund are stunningly silent on this central issue: neither attempt to refute either the theory or the critical body of facts supporting it. The principal point of the article is that a group of self-interested actors and advocates from both the United States and Russia, supported by Western aid and promoted by high U.S. officials to whom they were closely linked,

managed to co-opt U.S.-Russian economic relations and helped to bring about the fiasco that followed. It is not at all "contradictory" to conclude that Western economic advisers in Russia were both "influential" and "ineffective." The Harvard-Chubais transactors, including Sachs and ?slund, were most influential precisely in recommending and implementing policies that turned out to be highly counterproductive. The outcomes of their activities ran directly counter to the stated aims of the U.S. aid program in Russia.

Sachs seems not to understand that the issue is the multiple and conflicting roles that the transactors assumed (with ambiguous loyalties, ambitions and income sources), not the specific official title they held at any given time. Sachs restates that he advised Yegor Gaidar, which I do not dispute, and does not deny his other roles: his transfer of loyalty from Gaidar to Gaidar's nemesis, Ruslan Khasbulatov who was seen in the West as a retrograde communist; and his offer of access to Western aid to Khasbulatov, while urging, in his role as an American economist, that vast amounts of such aid be sent to Russia. Sachs seems to deny that he was in correspondence with the IMF while at the same time advising Gaidar. However, one memorandum that I have in my possession was written by Sachs and David Lipton (who became a Treasury undersecretary), dated May 11, 1992, and directed to key Russian decisionmakers at the IMF. It shows that Sachs and Lipton were privy to internal discussion within the Fund and were proffering advice within that context without any mention of their role advising the Russian side.

?slund and Sachs portray me as a conspiracy theorist "going after leading advocates of radical market reform." On the contrary, I have been trying, as an anthropologist, to understand the roles being played by key actors involved in the aid process and in guiding economic transition. If those studies have resulted in uncovering unseemly activities, that is a consequence of what the actors have done, not of any analytical bias. I have

no personal antagonism toward any of the key figures involved, nor did I approach the analysis with any ideological agenda.

As a researcher, I have pieced together the story based on hundreds of documents, U.S. General Accounting Office (GAO) reports and interviews. I have been studying Eastern Europe as the centerpiece of my professional work for more than twenty years. As an anthropologist, I am especially aware that people I interview don't always tell the truth -- and not only Eastern Europeans. I always cross check critical information and confirm key points with multiple sources.

Slund and Sachs make a number of specific allegations. The facts are as follows:

* Regardless of the percentage of U.S. assistance to Russia flowing directly to the Harvard Institute for International Development, the U.S. government delegated virtually its entire Russian economic aid portfolio -- more than \$350 million -- for management by HIID. Part of this was used to design, implement and promote the disastrous voucher privatization program. In a 1996 report, the GAO found that HIID had "substantial control of the U.S. assistance program." The advisers were also influential under other guises. Project documents submitted by Jeffrey D. Sachs and Associates, Inc. to the Finnish government state: "The [Sachs] team has had an extensive interaction with the [Russian] State Committee on Privatization and has helped in the design of the mass privatization program legislation recently enacted by Parliament."

* Slund, as I state in the article, has been involved in business activities in countries while consulting with their governments. He says he was an adviser to the Russian government beginning in the early 1990s. He continued to advocate on behalf of that government throughout the decade, during which he was also linked to Brunswick. Brunswick began as a Moscow-based brokerage firm and evolved into an investment bank, the

Brunswick Group. While ?slund claims that he only gives "lectures and briefings", he attended an April 1997 banking conference in New York sponsored by Brunswick Securities Ltd. as a representative of Brunswick. He promoted the Russian stock market to institutional investors and money managers, according to Michael Hudson, who also participated in the conference. Hudson adds that the minimum acceptable investment was between \$400,000 and \$500,000. As to the significance of ?slund's business ventures in Russia, it was the head of the Interior Ministry's Department of Organized Crime that characterized ?slund's investments in Russia as "significant."

* ?slund appears not to understand that the problem of conflict of interest is no less real where an expert works in serial for conflicting interests rather than at the same time. The American investment bankers he refers to could well end up in jail if they were to use their Treasury Department contacts in violation of conflict-of-interest and revolving door laws and rules that limit the free use of connections. Thus, ?slund sees no problem that the two close associates whom he introduced to privatization minister Chubais, and who helped to design and implement voucher privatization, then started Brunswick Brokerage to help sell vouchers and other assets to Western investors. But there is a problem.

* Nowhere in my article do I say that Sachs has investment activities in Russia.

* Sachs makes much of the distance between his project and that of his Harvard colleague, Andrei Shleifer, who continues to be under investigation by the U.S. Department of Justice. However, Sachs, Lipton and Shleifer are listed as the "three senior members" of the Russia advisory project conducted by Jeffrey D. Sachs and Associates, Inc. As I state in the article: "In time, Sachs and Shleifer emerged as rivals and ran largely separate operations in Moscow." However, "they shared the transactorship mode of

operating and many contacts in the Chubais Clan", as well as many Western contacts.

* I have never written that ?slund worked for HIID directly. In my book, *Collision and Collusion*, I did point out that ?slund collaborated with Sachs on HIID's unsolicited proposal to advise Ukraine, the details of which are specified in the 1996 GAO report mentioned earlier. I have never said that he has made a huge amount of money on USAID. However, the grants that Sachs and ?slund received from several sources were substantial.

?slund's advisory project was awarded \$642,857 in 1991-92 from the Swedish government. Sachs received \$322,728 in salary and fees (not including expenses) for a WIDER Institute-sponsored project billed to Jeffrey D. Sachs and Associates, Inc. The project, the total cost of which was \$2,036,122, was funded by the Finnish Ministry of Foreign Affairs and the Sasakawa Foundation.

* Not only do I not claim that ?slund was officially on the payroll of the U.S., Swedish and Russian governments simultaneously, but I wrote that he was a "private" citizen who nevertheless "participated in high-level meetings at the U.S. Treasury and State Departments about U.S. and IMF policies." In addition, he "played a leading role in Swedish policy and aid toward Russia" and "was understood by some Russian officials in Washington to be Chubais' personal envoy." (For example, ?slund was highly influential with Sweden's Prime Minister Carl Bildt, who promoted him in Washington and included him in a high-level official delegation to the White House.) I report that ?slund seemed to speak on behalf of these governments.

* ?slund suggests that there is nothing wrong with serving as an adviser to a country while presenting himself as a disinterested observer. He denies that his role in Ukraine included public relations. ?slund's team member, Marek Dabrowski, is not my only source on the matter. In my interview with Dabrowski of November 27, 1997, he stated that ?slund's "kind of

advertising" and "campaigning" creates a "conflict of interest." Contrary to what Dabrowski now alleges, my conversations with him were friendly and, indeed, on the record. I have cited Dabrowski as a source before in print on this subject, and he has never previously disputed its accuracy. I do not know why he has responded now with such a personal attack, but it is a fact that Dabrowski's center has received substantial funding from USAID (and much USAID economic assistance passed through HIID). Both Sachs and ?slund are also listed as members of the advisory council of Dabrowski's center.

* ?slund claims that in writing articles he "always mentioned" his work for the Russian or Ukrainian government. That is simply not the case. For example, in his article "Russia's Success Story" in *Foreign Affairs* (September/October 1994), ?slund presents himself as a senior associate at the Carnegie Endowment and makes no mention of any relationship with the Russian government.

* ?slund characterizes my work as "repeatedly citing the old-style Soviet communist Leonid Abalkin." But I did not cite Abalkin at all in my article and he is cited but twice in my book, *Collision and Collusion*, among some 1,750 interviews.

* Finally, ?slund raises a series of irrelevant and diversionary points. He denies being somewhere--Arkhangelskoe--where I never said he had gone. If he is implying that he was not involved when the Gaidar team prepared its program, then that is contradicted by his own writing (see, for example, his book *How Russia Became a Market Economy*, p. 2). In a similar vein, the order in which Kokh and Boycko chaired the Russian Privatization Center is wholly irrelevant to the issue of their corruption. It was the deputy head of the Gaidar Institute, Dr. Alexei V. Ulyukaev, who said, in a taped interview with Anne Williamson, that "Sachs was never an official adviser to the government, that's his own illusion" [my emphasis]. Sachs and David Lipton had a close working relationship, as evidenced in numerous joint

publications and in Lipton's position as vice president of Sachs' consulting firm. However, it was a Russian representative at the IMF who said that "Jeff and David always came [to Russia] together", a point that others have made as well.

As to Sachs/ ?slund's more general comments, former World Bank Chief Economist Joseph Stiglitz is among a growing number of economists who believe that the policies that Sachs and ?slund advocated were misconceived and harmful to Russia and to most of the other post-communist countries. Russia didn't "stumble", as ?slund characterizes it; it was inundated with counterproductive advice from people like himself.

With regard to Poland, although its economy has grown, this success was achieved not by following a radical transition program, but, as Harvard Professor Marshall Goldman has shown, by rejecting key parts of it. Further, high-level corruption has become so institutionalized that the World Bank has urged Poland to begin fighting it. I have not accused Sachs, as ?slund writes, of "having destroyed the Polish economy." On the contrary, I have pointed out that Sachs' role in the Polish transition was largely promotional, a point confirmed by the Polish government in the Financial Times (June 15-16, 1991).

Finally, ?slund manages to cite the only negative review (that I know of) to try to discredit my work. In fact, *Collision and Collusion* has been widely reviewed in places such as the Wall Street Journal, the Washington Post and Foreign Affairs, and the reviews have been overwhelmingly positive. Former National Security Adviser Zbigniew Brzezinski wrote of the book: "Very critical and troubling analysis of the shortcomings of Western aid policy, particularly to Russia. The implications of Wedel's critical assessment need to be seriously taken into account." The other letters printed above share that view, and I thank their authors for their support.

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