

Tainted Transactions: An Exchange

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 Aslund, 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.

Aslund 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.

Aslund 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."

* Aslund, 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 Aslund 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 Aslund 's business ventures in Russia, it was the head of the Interior Ministry's Department of Organized Crime that characterized Aslund 's investments in Russia as "significant."

* Aslund 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, Aslund 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 Aslund worked for HIID directly. In my book, *Collision and Collusion*, I did point out that Aslund 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 Aslund received from several sources were substantial.

Aslund '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 Aslund 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, Aslund 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 Aslund seemed to speak on behalf of these governments.

* Aslund 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. Aslund '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 Aslund '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 Aslund are also listed as members of the advisory council of Dabrowski's center.

* Aslund 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), Aslund presents himself as a senior associate at the Carnegie Endowment and makes no mention of any relationship with the Russian government.

* Aslund 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, Aslund 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. Ulyukhaev, 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/ Aslund '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 Aslund advocated were misconceived and harmful to Russia and to most of the other post-communist countries. Russia didn't "stumble", as Aslund 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 Aslund 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, Aslund 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.