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## RUSSIA'S ECONOMIC STABILITY AND THE FUTURE OF AMERICAN ASSISTANCE

**ANCHORS:** RAY SUAREZ

TALK OF THE NATION (2:00 PM ET)

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RAY SUAREZ, host:

This is TALK OF THE NATION. I'm Ray Suarez.

There's something more than a little ironic about the dismay in the West over the condition of Russia and the search for ways to prop up the sagging economy, assist in the fight against organized crime and integrate a large and increasingly politicized military into the modern world. For 40 years, the United States and Western Europe stared across the Fulda gap at the Warsaw Pact countries and spent untold billions of dollars getting ready to repulse an invasion. At the same time, the United States spent countless billions more countering the Soviet Union's efforts to win friends and allies across Asia, Latin America and Africa.

When it comes to Cold War, it seems, winning can be as expensive as fighting. Billions in investments--soft loans and technical assistance--has flowed east from some of the world's richest countries. Technical advisers have dismantled nuclear warheads and tried to find gainful employment for a restless pool of top-flight scientific talent. And the West has fruitlessly tried to track fissionable materials floating around the old Warsaw Pact.

For all the arguments over how to help Russia and how much to help, it turns out some of the aid was getting processed in Moscow, moving from hand to hand and right out of the country again. Millions never went to give a struggling factory a much-needed breathing room, never helped convert an industry to peace-time use, never taught young professionals modern accounting practices or helped set up small enterprises. Nope, it lined the pockets of the already wealthy and powerful and headed to their holdings in the West. Recent accusations against the highest echelons of the Kremlin have come of involvement in a vast money-laundering scheme connected with the Bank of New York. The accusations have risen all the way to the office of the president.

Could officials as high as Boris Yeltsin be involved in clamping their jaws shut on the hands trying to feed them? And what do potential donors and investors do now? Continue plunking down cash and praying for an end to the widespread corruption of the post-Soviet system? Or let the wild West capitalism of Moscow sort itself out, pick its own princelings and insiders, winners and losers, and only then head over with a dollar in hand? It's a critical question because Moscow's past crises in banking, inflation, government payrolls, debt service and privatization have not been its last.

When you've been burned, do you cut a client off? Or is Russia so big and its instability so unpredictable that it's worth throwing good money after bad in order to keep the country from collapse?

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My guests this hour are Masha Volkenstein, president of Validata, a market research and public opinion firm in Moscow. Welcome to the program.

Ms. MASHA VOLKENSTEIN (Validata): Hello.

SUAREZ: Hi. Lynn Nelson is here with me in Washington, professor of political science and sociology at Virginia Commonwealth University and a visiting senior researcher at the Institute of Reform Studies in Moscow. He's co-author of "Radical Reform in Yeltsin's Russia: Political, Economic and Social Dimensions." Welcome to the program.

Professor LYNN NELSON (Virginia Commonwealth University): Thank you. I'm happy to be here.

SUAREZ: And **Janine Wedel** is a professor at the Graduate School of Public and International Affairs at the University of Pittsburgh and author of "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe." Good to have you with us.

Dr. **JANINE WEDEL** (University of Pennsylvania): My pleasure. Thank you.

SUAREZ: Our number in Washington, (800) 989-8255. That's (800) 989-TALK.

Janine Wedel, maybe we could start with you, and for those listeners who haven't been following this that closely, you can give us sort of the state of play. What money are we talking about? What money is presumed to have cycled back to the West after being sent to Russia? And what kind of scale are we talking about?

**Dr. WEDEL**: Well, I think in terms of the Bank of New York scandal, which has been written about in The New York Times starting two to three weeks ago--sort of mid to late August is when that story broke--we're talking about tens of billions of dollars. In general, though, the estimates on the amount of capital flight from Russia very substantially--I was reading an estimate last night from an informed scholar that was suggesting that it could be \$ 2 billion a month that's leaving the country.

SUAREZ: And this money was coming from where? When you talk about money leaving the country, is this profits being made inside the domestic economy that instead of staying in domestic banks and having a chance to cycle leave the country all together?

Dr. WEDEL: Well...

SUAREZ: Is this money that starts from outside?

**Dr. WEDEL**: Well, I think that, of course, the story of reform in Russia in the past decade--and this is a story that the West has been intimately involved in, the West has sent hundreds of billions of dollars both in bilateral aid, as well as loans from the international financial institutions, including the IMF or the International Monetary Fund and the World Bank. We're talking billions of dollars. A lot of money has entered the country. Ostensibly that was to help reform this moribund Communist system of state-owned enterprises and so on.

But I think that a larger and very important story has been the looting of Russia in that billions of dollars have been looted from Russia as managers and oligarchs, as we now call them, have acquired billions of dollars in wealth that they've simply acquired. The story of privatization in Russia has been much more about wealth confiscation than it has been about wealth creation. And, unfortunately, the West has, I believe, encouraged the development of this entire system by giving loans, by not looking very closely, by not controlling how the privatization process has worked. So it's both the looting of Russia--it's the looting of Russia through the oligarchs and the people there who have their hands on money, billions of dollars.

But it's also Western money that has gone into the country that was supposed to help reform it and set it on the bright road to capitalism that, unfortunately, a lot of those loans we simply don't know where they went. The head of

the Russian Accounting Chamber, which is their equivalent of our General Accounting Office, which is supposed to monitor how monies are spent, has said that the foreign loans have been senselessly squandered. A lot of them we simply don't know where they went. Some of them we understand and our Treasury secretary, Bob Rubin, who just left, testifying before a congressional committee said that before he left that some of the IMF loans may have been siphoned off improperly. So there's a lot of evidence on the record suggesting that this money has gone into, perhaps, Swiss bank accounts, but certainly was not used for the intended purpose.

Money that was sent by the West should have been used, really, to help establish a rule of law to help create a system in which there are contracts in which people can do business with each other and enter into negotiations and know what they're getting, where the law speaks for something. Instead, unfortunately, this so-called reform has really helped to encourage a system of corruption from top to bottom in which everyone is involved. And certainly now some of us talk about a clan-state, a clan-state, where you have political clans, political economic groups that are running the country at the very highest levels. So this is the kind of picture that we're seeing after 10 years--nearly 10 years of reform.

SUAREZ: So let me jump in here and turn it to Lynn Nelson. Let's talk about some of the thing that \$ 136 billion, which is one figure I've seen, could have been doing. I guess when you sell a couple of million board feet of lumber, some of the profit could have gone into upgrading the quality of the equipment; a couple of million tons of crude oil, some of the profits could have gone into better ships, better transport facilities and maybe even paying shareholders a profit.

Prof. NELSON: Yes, the kind of capitalism we're familiar with, and that does seem to work well, is one that involves a lot of reinvestment--reinvestment in the economy, investment to, as you say, upgrade and develop. That's just the opposite of what has happened in Russia, to a large degree. In fact, a good phrase for what's been happening there is deindustrialization of the economy. Russia actually produces fewer industrial goods than it did a decade ago. It sells more raw materials than it did a decade ago. The pattern here is very clear.

Much of the wealth that Janine talked about has been created by selling off raw materials--timber, oil, gold, lots of raw materials--and the kind of industrial development--electronic equipment development--that could produce wealth for today and the future has been sadly lacking. This in spite of the fact that the Soviet Union, most of which had technology from Russians, developed incredibly powerful space stations and satellites and put people into orbit. They were on a par, and in some ways ahead of the United States early on in this process.

So the technology has been there to develop highly sophisticated products, but that hasn't been happening in the last few years.

SUAREZ: Masha Volkenstein, does the rank-and-file Russian citizen in one of the big cities of the country even have a handle on what's been going on?

Ms. VOLKENSTEIN: Yeah, the problem is that it will come to 1991 when our reforms started. There was the feeling and believe, and I think from both sides--from American sides and from Russian side--that now when we have these Communists out of power, now we will have this kind of heaven and wealthy life as we have it in the West. But after that we found that it's not true and we will not have, any moment, this kind of democracy and the capitalism that is already developed in the West, and started the process of privatization.

The first thing is that it is really difficult to make privatization in some kind of fair way when you don't have capital in the country at all, when there is no real capital that you--not criminal one that can take part in it. So to make it in a fair way, to make it not at all criminalized, from my point of view, was not possible. And certainly Russians accuse Russian government and Russian power and Russian officials for this privatization more as at the beginning of this unfair situation in Russia together with the feeling of declining of their level of life.

It is true that there is decline of industrial in Russia, but in the same time, let us remember that Russian economy

was not working, really. That it was producing things that nobody was really thinking about, that nobody wanted to buy. And also it worked because Russians didn't have any choice to buy these other things, but bought only Russian-produced goods. When the Iron Curtain went down, it was open to the rest of the Russians to start to buy Western things. That was one of the reasons why there was decline of Russia industry. Also because it was uneffectively(ph) managed. There was not the system adjusted to capitalistic form of development and capitalistic form or work. Russia has a big tradition of bribery and corruption. It didn't come now. It was always before and even before Soviet times it is Russian tradition of bribing, and I think not only Russia has this kind of tradition before.

Coming to this situation where we don't have traditions of civil society. Certainly corruption and corrupted bureaucrats were functioners, were the people who really affected this feeling. Also because of the amount of money that they had access to became bigger than before. In the same time, when we are talking about corruption and when we have this kind of privatization, you don't know what is corruption when you have access to state property and can use it. It is according to law or not? It is very difficult to say.

SUAREZ: You're listening to TALK OF THE NATION. I'm Ray Suarez. We're going to take a short break right now. When we return, we'll talk with an executive from the International Monetary Fund about whether IMF funds to Russia were improperly diverted, and we'll begin taking your calls at (800) 989-8255.

At 21 minutes past the hour, it's TALK OF THE NATION from NPR News.

(Soundbite of music)

SUAREZ: Welcome back to the program. I'm Ray Suarez. Today we're talking about Russia and allegations of money laundering and rampant financial corruption.

Joining me now is Thomas Dawson II, executive director of external relations at the International Monetary Fund. Welcome to the program.

Mr. THOMAS DAWSON II (International Monetary Fund): Thank you very much. Good to be here.

SUAREZ: It's been widely reported that some of the money that's run through the laundry started as IMF loans. The IMF is not so sure. Where do you stand on this question?

Mr. DAWSON: Well, we have not seen any evidence. There certainly have been reports. We take a look at all the reports as they come out, and we've examine them very, very carefully. Indeed the US Justice Department has said in response to this first spate of reports about 10 days ago that they, in fact, have absolutely no evidence that any IMF money has been involved in the so-called Bank of New York episode. We continue to look at reports as they come out and, as I say, take them seriously because this is taxpayers' money that is involved. But at the moment we have absolutely no corroboration of any of the allegations.

SUAREZ: But you are, nonetheless, tightening up the movement of the money that's going over in this latest tranche. Isn't that correct?

Mr. DAWSON: That certainly is true, and it is fair to say that there have been difficulties in terms of the reporting by the Russian authorities in the past. And in response to that, we have tightened up the controls over the permissible uses of IMF money and, indeed, the money that went out in July and any perspective money over the next about 15 months would only be used to pay their forthcoming obligations to the fund, i.e., we would keep the money and only use it to meet new obligations. And that itself is a reflection of concern over the proper accounting and standards and reporting that has been observed in the past.

SUAREZ: Well, how does the IMF look upon subsequent requests for aid. You know, the question of whether to let somebody who has not been such a great partner in the past continue to have loans from you is one that's particularly

dicey when it comes to Russia, because letting it go down the tubes isn't a very attractive prospect, either.

Mr. DAWSON: That's exactly the balancing act that has to be done. And so what is going to take place over the next 14 months or so is as they qualify for additional lending from the fund, any such funds will, in fact, as I said, only be held to meet further obligations. I think what is necessary over the course of the next year or so is to keep the relationship going with Russia, so as they get up to and through their elections, we see whether there's a new government that has a commitment to the sort of economic reform that the international community has been expecting of Russia.

So in that sense of the word, what we are doing is trying to keep a dialogue open, trying to encourage them to the extent they can in this pre-election period, to follow through with some of the needed reforms to clean up the banking system, to increase governance and transparency, to deal with the issues of corruption that everyone is so concerned about.

SUAREZ: Well, we've had something like four or five governments in the last two or three years. This is not exactly a track record on which to base longitudinal confidence building.

Mr. DAWSON: Well, that is indeed why you see the trajectory of the fund's relationship over the next year or so will be one of declining not increasing financial exposure. But I would also note that a number of the individuals within the Finance Ministry in particular, certainly over the last year or year and a half, are individuals--there is some continuity there. While ministries may have changed--for example, the present minister of finance, Kaufi Anov(ph) was, indeed, a deputy minister, you know, a year, year and a half ago. So there is, in sort of the day-to-day work of dealing with fiscal and monetary policy--tax reform and so on--there is an ability to continue the dialogue. Certainly now is not the time to expect any sort of breath-taking economic reforms. What we're hoping for is a reasonable political consensus within Russia and a strong government after the elections that can take the kinds of measures that the international community has been hoping for for the last eight or nine years.

SUAREZ: Well, you mentioned earlier in your remarks that the reporting record from Russia has not been very good with previous IMF loan programs. Just how hard is it, and why is it hard to keep track of a dollar that goes into there from here?

Mr. DAWSON: I think perhaps one of the problems is that there hasn't been the tradition of reporting requirements, independent audits, transparency, frequency of reporting that we are used to in the West. And that is a process that the IMF, as well as other international organizations, are actively working at to get them to adopt and be comfortable with and meet. We have a mission presently in Moscow. That is working with the Central Bank and Finance Ministry to improve and tighten up their reporting requirements. The governance issues, the corruption issues that earlier speakers mentioned, you know, are a part of that as well. But we think that the government understands--the present government certainly understands that the practices of previous governments are not acceptable and that message was sent clearly with the action taken to restrict the use of funding under the current program.

SUAREZ: Mr. Dawson, thanks for coming by today.

Mr. DAWSON: Great. Thank you very much.

SUAREZ: Thomas Dawson II, executive director of external relations at the International Monetary Fund, speaking to us from his office in Washington.

My guests for the rest of the hour, Masha Volkenstein is president of Validata, a market research and public opinion firm based in Moscow; Lynn Nelson is a professor of political science and sociology at Virginia Commonwealth University and a visiting senior researcher at the Institute for Reform Studies in Moscow; and Janine Wedel is a professor at the Graduate School of Public and International Affairs at the University of Pittsburgh.

If you want to join the conversation, the number's (800) 989-8255.

And we'll start in San Francisco. Steve, welcome to the program.

STEVE (Caller): Thanks. I think that this whole question of transparency is very important, because I don't think it's an accident that money was sent into Russia without really proper controls. Because I think they wanted to be able to bring about a capitalist class by allowing them to basically take money from the country, the minerals and other resources.

And secondly, they wanted the US multinationals who would talk about the international community. You're talking about US banks and multinationals wanted to take control of the Russian economy, and that's exactly what happened. For example, in Moscow, the Moscow area, 60 percent of the food stuffs were imported from US multinationals. So the shutdown of Russian production was a very conscious policy of the United States and the World Bank and the IMF.

And the other thing is, I think we're looking at this abstract of what's going on internationally. You look at Indonesia, you look at Mexico, the same thing. Where loans are made, they end up going outside the country, they go to private capitalists and then they're sold to US multinationalists that buy into Mexico and basically recolonize the country.

SUAREZ: Well, Steve, if we were to take your premise that this is part of a wider effort to gradually take control of the Russian economy by American-based multinationals, if you were an exec at Bechtel or Amaco or American Food Products, would you look at Russia as a good buy right now? Would you even be able to, with some assurance know that if you bought something it was really yours?

STEVE: Well, I think it's gone out of control, because the capitalists that have developed in Russia are the robber barons who basically don't want to take the political chance there might be a revolution in Russia against it. I mean, we're going into a situation which could be a seizure of power, a coup d'etat in Russia, in which they're all thrown out. But that situation's been created.

I mean, I know President Clinton said that the United States had nothing to do with deprivatization of the Russian people, but that was caused by the policies of the IMF, the so-called world community, the banks and the multinationals who said that they had to shut down industry; they had to privatize everything and shut it down at a very rapid rate. This is not an accident. The United States said, 'You either do that or you're not going to get any money.' And then money went to--it disappeared into the hands of these capitalists.

The other thing that's very significant...

SUAREZ: Well, no, no, no. Steve, Steve, Steve, I think you're on to some good ideas, but you're eliding over economic realities a little too blithe there. I mean, should the factories have continued to make things that nobody wanted to buy?

STEVE: Well, as a matter of fact, I don't...

SUAREZ: And if so, who would have found the money to pay the workers to continue to make the things that nobody wanted to buy?

STEVE: I think it's a generalization that nobody wanted to buy them, when 60 percent of the food stuffs of the Moscow area have to be imported from foreign multinationals. How were people eating before? There were food stuff factories in Russia that were operating, and people were buying the product. As I recall, when I was there, people used to say the chocolate was from the Breshnev area and was very good ...(unintelligible) of chocolate.

SUAREZ: But, Steve, it isn't...

STEVE: I mean, the fact of the matter is, Russia was producing enough, although it didn't have the best products in the world--producing enough to take care of the people. Now the production of basic commodities and other things for the people has been shut down.

SUAREZ: Lynn Nelson.

Prof. NELSON: Steve, it isn't quite that simple. For one thing, the decisions about the economy in Russian haven't all been made in the West. In fact, they haven't been made in the West. The West has given some advice. But we need to look Russia and to Russian politicians and decision makers some here, which is a big subject, but maybe we can get into it some.

Another thing is that Russia is a market for the West, as well as being a place where the West can develop products. And if the Russian people are not faring well, that also isn't good for the West. So it's not quite as simple as the way you put it, I believe, because...

SUAREZ: But when Steve suggests that there were some harsh conditions, some strings attached to capital flows, I mean, he's not entirely wrong there. There were desired effects and dictated outcomes to the way that money was used. It wasn't just handed over to say, 'Look, you do what you think is best with this. Make the decisions in the Russian economy.'

Prof. NELSON: That's right. And the policy of Western countries in making these kinds of conditions known to people in Russia is not defensible, I think, in many ways. Yet, we also need to recognize that Russian leaders themselves adopted those policies. They didn't have to. The money which came from the West wasn't the most important aspect to the Russian economy. A lot more capital has left Russia than has come into Russia from Western loans, Western aid. And it's been policies within Russia that have promoted that kind of capital flight that is Russia's biggest economic problem today.

SUAREZ: Steve in San Francisco, thanks a lot for your call.

Carl, is next in Brooklyn, New York.

CARL (Caller): Yes. Hi, Ray.

SUAREZ: Hi, Carl.

CARL: I think it's important to contextualize this a little bit. The misery of the average Russian person today was first brought on by the destructive and expensive arms race that Reagan waged, which is the source of our national debt, by the way, still today, which weakened the Russian economy.

And I also think it's a little too easy to point the finger at these robber barons, as they're called--the oligarchs--and not look at the role that American capitalists have played in making a killing, a fortune, these masters of industry and then checking out. The money has gone out of that country, but where did it go? I mean, it's easy to look at Boris Yeltsin's credit card, but how many American businessmen made a killing, literally, at the expense of the average Russian citizen. And we consider this great capitalism. That's a good deal.

SUAREZ: **Janine Wedel**, you're the one who brought up the idea of the oligarchs coming out way ahead on this.

**Dr. WEDEL**: Well, yes, I think that Carl raises an important point. The robber barons--he talked about the American robber baron capitalists--this isn't really a good analogy with the Russian oligarchs. It--you can extend it into the later activities because, in fact, the robber barons--the American robber barons invested in America and they were invested in what actually happened around in the communities and so on, even though they made lots and lots of

money. The Russian oligarchs have, to the contrary, sent hundreds of millions of dollars out of the country, and many of them have built their nest eggs elsewhere, built--bought up homes on the French Riviera. They have bought up parts of certain areas of New York and so on. So it's not--they're not really investing in Russia.

And I think that this is where the role of foreign aid in the international community could have been much, much more positive. That instead of insisting on policies like mass, quick privatization--and Masha Volkenstein is, of course, right that privatization without some criminal or questionable activity would not be possible. It's simply not possible that privatization that essentially gave so much of the country's resources to so few people, to seven pre-selected bank chiefs, that we call the oligarchs, that didn't need to happen.

SUAREZ: But wait a minute. Carl was also suggesting that this was also...

Dr. WEDEL: Mm-hmm.

SUAREZ: ...made possible, enabled, by partners in the West, who were...

Dr. WEDEL: Yes, I agree.

SUAREZ: ...the recipients of the flight capital...

Dr. WEDEL: Yes.

SUAREZ: ...who helped forge the financial instruments that made such huge capital transfers possible.

Dr. WEDEL: Yes. Yes. And I think it's very important to keep in mind that no Russian dollar can be deposited in a Western bank account without some Western institution or individual knowing about it. So we need to keep in mind the role of the West here, and how Western banks may have benefited--certainly have benefitted from this activity. So this is a very important part.

But the Western community really should--the role that could have been played--and Masha Volkenstein mentioned that there's a tradition of bribery and corruption in Russia that--of course, that's true. And that's why, I think, it was so important for the West to really insist on the rule of law, to insist on third party dispute settlement, to insist on helping to build a legal and regulatory framework in which contracts could be enforced and so that people wouldn't take their money out of Russia. That was the real task of the West and the Western reformers. And that, unfortunately, is not what we've ended up with, for the most part, many years later.

SUAREZ: You're listening to TALK OF THE NATION from NPR News.

Carl, in Brooklyn, thanks for your call.

David is with us next from Logan, Utah. David, welcome.

DAVID (Caller): Thank you for taking my call, Ray. Good afternoon, Masha, Lynn and Janine. Wonderful program you're having.

My comments are along two lines. First, that when we introduce open market principles, practices and structures as a veneer over the top of the Russian economy, and allow officials--both government officials and business officials--to use their money in an open market, I don't know why we're then surprised that these officials would realize that their country is a bad investment and send the money outside of the country?

SUAREZ: Masha Volkenstein.

Ms. VOLKENSTEIN: Now the problem is that if that talking about investing money in Russia and creating their

rule of law, what does it mean, really? Does it--is it possible even for big money immediately to educate thousands of judges and create new system of courts and create new system of justice in Russia? I don't think that it is such a simple thing to do. Is it possible to create new marketing system in Russia according to market economy? Also, I don't think it's possible to do it even for big money.

To create some kind of support--not only money support, but moral support--feeling that we are together and we are going to some kind of good trend, not bad trend, as we should think, that was very important. I don't think that it was realistic to think that it is possible using IMF money, or other credits of United States, to create real rule of law in 10 years for--it looks like a fixed period of a time, but really it is not.

What is more important, and what is the trend, it--either it is positive or negative. From my point of view, it is positive. It's going on to market economy in very ugly way and in not the way we like and we hoped it will go. But it's going. The trend is good.

People--the capital flight is also supporting business in Russia, also not in very nice way, but it is also the way to do business. And people who work in Russia will say that we have not very effective tax system and people avoid taxing--taxes also to--also because they don't trust government and for many other reasons. But it is--though it sounds very strange, it is some development in positive way. When the...

Prof. NELSON: Masha, I agree.

Ms. VOLKENSTEIN: Yeah. I'm sorry.

Prof. NELSON: I agree with you Masha that the money from the West could not have created a rule of law in Russia, and that a civil society needed to be developed more than money needed to be loaned. But what do you see as good evidence that the trend is positive toward the development of capitalism? I see a trend toward more and more corruption.

SUAREZ: Well, we'll return to just that question right after the break. When we return, we'll continue talking about Russia and the eternal obstacles it faces as it changes to a market economy. And we'll take more of your calls at (800) 989-8255.

At 40 minutes past the hour, you're listening to TALK OF THE NATION from NPR News.

(Announcements)

SUAREZ: Welcome back to TALK OF THE NATION. I'm Ray Suarez.

This time tomorrow, join guest host Lynn Neary for a look at the fall TV season and changing trends in the television industry.

Today, we're talking about Russia and recent allegations of financial corruption inside the Kremlin and money laundering involving an American bank. My guests are Masha Volkenstein, president of Validata, a Moscow-based market research and public opinion firm; Lynn Nelson, co-author of "Radical Reform in Yeltsin's Russia: Political, Economic and Social Dimensions" and "Property to the People: The Struggle for Radical Economic Reform in Russia;" and [Janine Wedel](#), professor at the Graduate School of Public and International Affairs at the University of Pittsburgh, and author of "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe."

If you want to join the conversation, the number is (800) 989-8255.

Just before the break, Masha Volkenstein was giving us, sort of, the list of particulars, reasons that I think would be a cause for pessimism. She ended her remarks by saying she was optimistic and saw things were going in a positive direction. And Lynn Nelson asked 'Why?' What are those signs that things are going in a good direction?

Ms. VOLKENSTEIN: Yeah, the problem is whether we say that corruption is higher or less than it was, for example, in Soviet time. It's very--there is no scale. That is difficult to measure, what is bigger corruption or less corruption. So in--during the situation when the state has all power, to solve your problems, you have to use small bribes anytime, any steps you wanted to do.

Now there is official, sometimes market econ--institutions when you keep--you pay money officially. And, also--and this is better than bribing bureaucracy kind of ruling because it is less corruption. The less you have state involved in deciding economy problems, the less corruption you have. And it is about future, not about now, because we have a lot of state involved in resolving economic problems in Russia.

In the same time, when we are talking about rule of law, Russia was not used to really solving problems of ordinary people, for example, through a court. It happens, but really people went to Communist Party officials and they sorted their problems. Now more and more courts are beginning to be the system of solving different kinds of problems.

So it is very difficult to measure corruption and to know what--how to compare these two very, very different systems: the one that was born recently and the other one that existed for many, many, many years.

The other things is that there a new kind of people who know what market economy can--is to some extent, who know that they have to do business by themselves. And from my point of view, it is some kind of hopeful future that because in their interest is for future to make a really working capitalistic system that will support their business not from corrupted point of view, but for using--for doing things. And it is inside a capitalistic market economy thinking that I see in Russian people increasing from really.

SUAREZ: David in Logan, Utah, thanks for your call and question.

Wiesbaden, Germany, is our next stop. Tom, welcome to the program.

TIM (Caller): It's Tim, actually.

SUAREZ: Oh, OK.

TIM: Yeah. I was an investor in Russian shares, as well as an interested party, so to say, in the development of Russia. Living here in Germany, it's perhaps a more central issue to me. I have to wonder about the timing of these news reports. Most of this news that we hear about the corruption and so on--I give as an example, the SEMA code transfers to Jersey--was already known in--for Femico, for example, in February this year. And with the general corruption situation, we have only to go back to the election '96 of Yeltsin, where a lot of logistical help from American campaign experts and the money of the oligarchs put together this successful campaign. I'm wondering why is it that this is news now? Why is it that the USA Today can send unsubstantiated reports about diversion of IMF money exactly now when the money that is now coming to Russia is simply being transferred from one account to another account by the IMF, as your guest earlier said? What is the point of this timing?

SUAREZ: Lynn Nelson.

Dr. WEDEL: Good questions.

Prof. NELSON: I've been very curious, myself, about the reason it's just now coming to light that some of these things have been happening. It's been known by people who've studied Russia in the West for years. And many of us have written reports, books, articles about it. It's certainly been known within Russia for a long time, and it goes way back before 1996, as well. The lack of reporting that would be just normal accountability has not been present. And why it's just now coming to light in the West, in such a big way as it has these last few days and weeks, is certainly a good question.

Dr. WEDEL: And former Russian prime...

Ms. VOLKENSTEIN: It was a very good question. I'd also be interested to hear answer.

SUAREZ: Janine Wedel.

**Dr. WEDEL:** Yeah. Former Russian Prime Minister Viktor Chernomyrdin said just as these reports were coming out--he said, 'Well, why--what has suddenly made them--the Americans--wake up? Why is this coming out now?' So I think it is--I agree, it is very interesting because there's been so much information for years on the record about capital flight and about organized crime at the highest levels.

And I wanted to mention a point that we've been talking about throughout the show. I think a significant task of the West in all of this was to encourage third party dispute settlement and the developing of property rights, and to help encourage the Russians to set up a legal and regulatory system so that there would be true competition and that business people could operate in a "normal way," quote, unquote, and not to encourage the sort of just giving loans that has been taking place.

I mean, I remember the 1995 privatization debacle, one of the most egregious privatization debacles, known as 'loans for shares,' which is the scheme whereby the seven oligarchs got so much property. And instead of the West really saying--discouraging this sort of activity, which was wealth confiscation, not wealth creation. It wasn't about production. It was just about looting the country. Instead of the West discouraging that, the IMF very soon, thereafter, gave another \$ 10 billion. So when Masha...

SUAREZ: Can you name any countries that did a better job of it, transferring the ownership of that very large state sector to a private hands in a more just and well-distributed way?

**Dr. WEDEL:** Well, in many ways, this is--I mean, this is an unprecedented case because of its size. But certainly, some of the Eastern European countries have done much better at privatization. They've done it in a generally slower way. There has been more transparency. Now that depends on the particular country. But Russia is unparalleled in the amount of capital flight that's come out of it and the fact that privatization has meant a wholesale looting in many of the major industries.

Prof. NELSON: A critical factor here is that we knew, and Russia knew, that corruption was a real danger. As Masha pointed out, it was prevalent in the Soviet system. It was something that everyone needed to try to prevent. And we did just the opposite in our advice, and Russia did just the opposite in its policy. Rather than trying to prevent corruption, policies were enacted that made corruption even more possible. And that's a lot of the responsibility that we bear, I think; the responsibility for not having adequately taken into account the very high likelihood that corruption would be rampant today.

SUAREZ: Tom in Wiesbaden, Germany, thanks a lot for your call.

Phillip's next in Missoula, Montana. Hi, Phillip.

PHILLIP (Caller): Well, it's a great discussion. And I--my observations are really not at the macro level, you know, of the IMF-Camdessus level. But I haven't heard anyone sort of submit something that I saw in my experience with the US Army in Bosnia as a liaison to the Russian brigade. What I saw was that corruption--our idea of corruption is their idea of innovation; their idea of getting ahead. And I, personally, witnessed the Russians running a routine scam where they'll drive an empty fuel truck onto the main American base in Tuzla, fill it up, sell the diesel for one deutsche mark per liter, come back with 1,000 deutsche marks, buy jeans, buy cigarettes and sell those to the Serbian mob. And this is done every Sunday on the American base in Tuzla.

And when I got to know my counterparts in the--what's called the Russian Separate Airborne Brigade(ph), I was

just absolutely flabbergasted that they told me, 'You know, I'm not serving here to learn a skill or to serve my country. I'm serving here so that I can make my bones and go back to Urkutz(ph), or Krasnoyarsk or Moscow and present myself to the mob.' They didn't say, 'Well, I'm hoping to become a musician or, you know, go to law school.' They took it as a given that the only way to get ahead was to scam the system. And, you know, the mother teat being the IMF, was, you know, the latest in a long line, starting with the Central Committee and--well, prior to that, the czarist system. But on a very human one to one level, I didn't hear anybody saying, 'Boy, I'm so glad we're free. Now I'm--finally, my idea for an espresso shop is going to take off.'

SUAREZ: Phillip's with us from Missoula, Montana.

You're listening to TALK OF THE NATION from NPR News.

You know, Masha Volkenstein, through a lot of this hour, we've been talking about courts and banks and elected officials and appointed officials, sort of a top-down view of society. But when Phillip talks about the small corruption that he saw, we're also talking about a society that tolerates countenances, understands that this is the way life goes on from day to day. And in one way, that helps keeps the whole system going.

Ms. VOLKENSTEIN: Yeah, that's true, definitely. And also, the big problem is that certainly there is no trust between power and people, from both sides I would say. And people, as you know, there we have this joke. They were pretending--in Soviet times, yes--they are pretending they are paying us, and we are pretending we are working. So we have, up to now, this same kind of feeling. And it is unfortunately increasing in Russian society--this distrust and the feeling that we have to find our way to, of some kind, to deal with power, to deal with officials and to have our own small income or our terra, even deceiving somebody. So certainly, it's a tradition that comes, unfortunately, back now. I hope it can change after some years of democracy development in Russia. And so we will see what is going on.

Also, one important thing that I would like to mention is that though the level of corruption in Russia is enormously high--and all Russians will immediately agree with you--I would not agree that Russia is a state corrupted--state--it is not on the state level. There are corrupted bureaucrats, and people, I think, almost on all level of power that are corrupted. But state institutes, from my point of view, are not so corrupted as it's now shown on American media. And it's important point. It is a--I think that it's important to understand what Russia is.

That's why I have the feeling that there is a hope for future development and there is no need. And it will not be a good thing that--if West will say, 'They are bad guys. Forget about them. Let them do what they want.' I don't think that it is a good way from the situation.

SUAREZ: But do you think some of that capital will come back when it can be invested profitably in Russia, some of that money that's in Swiss banks?

Ms. VOLKENSTEIN: I'm absolutely sure. When the business situation in Russia will be better, it will come back.

SUAREZ: That's all the time we have for today. I want to thank everyone who called this hour, and especially my guests.

Masha Volkenstein, good to talk to you.

Ms. VOLKENSTEIN: Thank you very much. Goodbye.

SUAREZ: Masha Volkenstein is president of Validata, a market research and public opinion firm. She spoke to us from our Moscow bureau.

Lynn Nelson, thanks for coming by.

Prof. NELSON: Thank you. It was good to be here.

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SUAREZ: Lynn Nelson is professor of political science and sociology at Virginia Commonwealth University, and co-author of "Radical Reform in Yeltsin's Russia: Political, Economic and Social Dimensions" and "Property to the People: The Struggle for Radical Economic Reform in Russia."

Janine Wedel, good to talk to you.

Dr. WEDEL: Thank you. It was very nice to be here.

SUAREZ: **Janine Wedel** is a professor at the Graduate School of Public and International Affairs at the University of Pittsburgh, and author of "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe." She joined us from member station WDUQ in Pittsburgh.

Earlier, we spoke with Thomas Dawson, executive director of external relations at the IMF.

In Washington, I'm Ray Suarez, NPR News.

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