CHAPTER 4

THE FUNDAMENTAL FLAWS OF THE CLINTON ADMINISTRATION'S RUSSIA POLICY

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THE TROIKA: Since 1993, U.S.-Russia policy has been administered by Vice President Al Gore (speaking on the telephone with Russian President Boris Yeltsin, July 24, 1998 from Moscow), Treasury Secretary Lawrence Summers (lower left), and Deputy Secretary of State Strobe Talbott (lower right). President Clinton placed Gore in charge of U.S.-Russia policy in early 1993. Summers, who carried the Russian aid portfolio in the Treasury Department from the beginning of the administration, is a long-time proponent of government-to-government lending programs. Talbott was Ambassador-at-Large and Special Adviser to the Secretary of State for the New Independent States before President Clinton nominated him to become Deputy Secretary of State in December 1993. In his previous career as a journalist, Talbott had been a persistent critic of the Reagan-Bush policies of peace through strength that precipitated the collapse of the Soviet Union. Troika policy operated outside of normal channels, suffered from a lack of presidential involvement, and focused on the personal relationships of presidential subordinates.

The [IMF] money is all spent. It went to foreigners and Russian speculators [who] took the money out of the country. ... To me, the huge surprise is not the appearance of such a scam in the country. But I cannot explain why the western financial institutions and the governments didn't pay serious attention to the presence of such things.

Dimitri Vasiliev, former Chairman of the Russian Federal Securities Commission, as quoted in the *Los Angeles Times,* September 24, 1998

We conned them out of $20 billion.

Anatoly Chubais (Viktor Chernomyrdin's top deputy), as quoted in the *Los Angeles Times,* September 9, 1998

The truth about the IMF is that it has consistently pursued a prudent, responsible, and forward-thinking lending program for Russia.

Leon Fuerth (Al Gore's National Security Adviser), July 25, 2000

A President Without a Plan

In 1992, Arkansas Gov. Bill Clinton and Tennessee Sen. Al Gore campaigned on the slogan, "it's the economy, stupid."

The Clinton-Gore decision to avoid all discussion of foreign policy was partly for tactical reasons: their political opponent, President George Bush, had just won a complete military victory in the Gulf War, and had presided as the leader of the free world at the conclusion of America's victory over Soviet Communism in the Cold War.

It was also a reflection of the genuine bias toward domestic affairs shared by both Clinton and Gore, whose primary focus had long been such issues as the environment and technology.

For both of these reasons, the Democratic candidates for president and vice president in 1992 neglected foreign policy more than any candidates in any national election since World War II. Despite the collapse of Communism in Eastern Europe, the dissolution of the Soviet Union, and the advance of a newly-free Russia—all of which presented America with its greatest foreign policy opportunity in the post-World War II era—neither Clinton nor Gore devoted noticeable energy to these historic challenges for America during the campaign year.

This gaping lacuna in the Clinton-Gore policy agenda was obvious in Clinton's 1992 acceptance speech at the Democratic National Convention. While the collapse of the Soviet Union merited the briefest mention, Clinton was absolutely silent on relations with the newly independent nation of Russia.[1] Gore's speech was even more inexplicable. He devoted relatively more time to foreign policy in his address, and yet gave neither the Soviet Union nor Russia specific attention.[2]

The primary focus of Clinton's three major foreign policy addresses during the 1992 campaign was actually the domestic economy. In each of these "foreign policy" speeches, the subject of Russia served as little more than a segue into calls for cuts in defense spending.

In December 1991, at Georgetown University, Clinton said: "We need to remember the central lesson of the collapse of the Soviet Union and of Communism itself. … [T]he Soviet Union collapsed from the inside out, from economic and political and ultimately from spiritual failure. … [F]oreign and domestic policy are inseparable in today's world."[3] This determination to treat foreign policy as merely an auxiliary to domestic policy was maintained throughout the campaign.

The inattention to foreign policy during the Clinton-Gore campaign carried over into the new administration. A year into the Clinton administration, Secretary of State Warren Christopher was heard to worry that Clinton did not spend enough time on foreign issues "because the lesson of the campaign—that it's the economy—was over learned."[4] One indication of Clinton's lack of interest in foreign policy was the fact that for the first two years of his administration, James Woolsey, the Director of Central Intelligence, had only two private meetings with him.

Clinton's occasional interventions in either the formulation or description of U.S. policy have frequently been counterproductive—as demonstrated by his comparison of the savage attempt to suppress Chechnya in 1994-96 to the American Civil War, and his reference four years later, during the even more brutal second Chechen war, to the Russian "liberation" of the devastated Chechen capital.[5]

No formal National Security Council meeting on Russia was held until February 1996, more than three years into Clinton's first term. This was two full months after a major Communist victory in the Duma, the Russian parliament.[6] As late as 1996, the former candidate with no policy toward Russia had not yet personally focused on one as president.

Given his predilection to focus "like a laser beam on the economy," President Clinton delegated away virtually all of his authority over foreign and defense policy to subordinates. During the first Clinton term, U.S. foreign policy was, for the first time since President Woodrow Wilson's prolonged illness from stroke, conducted with minimal direct presidential involvement.

In a 1993 *New York Times* article entitled "Clinton and Foreign Issues: Spasms of Attention," Clinton aides described the president's first-term foreign affairs management style "as one setting broad guidelines, and paying spasmodic attention to different issues."[7] Because the administration had no developed strategy for foreign affairs, the urgent quickly overtook the important. Relatively minor but exigent foreign policy crises in Haiti, Somalia, and Bosnia distracted Clinton from issues of more fundamental importance to the United States.

Without sufficient guidance from the top, Clinton subordinates bounced from topic to topic. The *Washington Post* reported, "the Clinton White House at times resembles a series of in-house graduate seminars."[8] The disorganization was worsened by the free-form nature of policy making in the Clinton administration, where personal connections to the president trumped titles and formal processes.

The virtual absence of any non-ceremonial[9] presidential involvement in foreign policy was to prove crippling to the development and execution of United States policy toward Russia. Only the president can effectively direct the resources of disparate federal bureaucracies and enforce consistent policy among competing agencies, policy makers, and priorities. Only the president can focus the attention of the American public and generate the necessary popular support for critical foreign policy initiatives.

The challenge of helping to build a free enterprise economy in place of Communism in Russia was as significant and complex as any that had faced the United States in its history. The failure of Russia, America, and the world to meet that challenge during the 1990s is very much a reflection of the lack of U.S. presidential leadership.

A Troika Wrangles Over Russia Policy

The president's inattention to foreign policy in his first term created an environment in which nominally sub-cabinet level officials could assume control over even such a major foreign policy issue as Russia. The lack of an articulated presidential strategy for dealing with Russia, moreover, meant that such subordinate officials felt at liberty to fabricate their own plans. Particularly in Washington, where power abhors a vacuum, the attraction of ambitious underlings to this policy void was strong.

There were, of course, serious problems in this arrangement. Without adequate presidential involvement, there was no limit to the number of contenders for policy-making power. Moreover, there was no obvious mechanism for resolving policy disputes. The eventual devolution of Russia policy making into the hands of not one but three Clinton aides—a policy "troika"—was a direct result of these problems.

The troika who eventually took charge comprised Strobe Talbott, a journalist for *Time* magazine; Lawrence Summers, a 39-year old Harvard economist who had performed a two-year stint at the World Bank; and Vice President Gore, whose preparation for directing Russia policy was never previously noted.

Vice President Gore's role in Russia policy, like Talbott's, was the result of Clinton's explicit delegation. At the Vancouver Summit in April 1993, Presidents Clinton and Yeltsin agreed to the creation of a U.S.-Russia Commission on Economic and Technological Cooperation, to be chaired by Gore and Russia's Prime Minister, Viktor Chernomyrdin. Although this assemblage, which quickly became known as the Gore-Chernomyrdin Commission, was initially intended to focus mainly on cooperation in space and on energy issues, it grew to become the main vehicle for high-level U.S.-Russian interaction.[10]

Gore's lack of Russia experience was immediately evident. (Nor would the ensuing seven-year apprenticeship on the Commission remedy his deficiency in Russian history: on July 3, 2000, Gore referred, in prepared remarks, to "the Potemkin village in World War II where the façade of the village was presented to make it appear that it was a real town in order to fool the people."[11] The "Potemkin village," a universally known image from Russian history,[12] in fact refers not to World War II but rather to a story from the 18th century reign of Czarina Catherine the Great.)[13] He did, however, have one connection to the Soviet Union. The recently-deceased Armand Hammer, who as CEO of Occidental Petroleum courted Soviet leaders from Lenin to Gorbachev, also courted Gore and his father and was a major Gore benefactor, contributing some $500,000 of Occidental stock that is now in the Gore family trust. Hammer is reported to have introduced the younger Gore around during a trip to the Soviet Union.[14]

Gore arrived on his first trip to Russia as vice president in December 1993, the day after Russia's first post-Communist parliamentary elections—a major setback for the Clinton administration's Russian allies. The unfavorable election results caught the administration off guard: Gore and the administration's other Russia policy makers expected his visit to be a celebration of a reformist victory. Upon his arrival in Moscow, Gore denounced the results of the voting.

Gore also displayed an immediate penchant for large-scale International Monetary Fund lending to Russia, which would soon become the foundation of the Clinton administration policy. Dismayed that not enough IMF debt was being obtained by the Russian central government, he launched a public attack on the IMF for attaching "unreasonable" conditions to its Russia loans.

Before Gore had returned to the United States, then-Treasury Secretary Lloyd Bentsen publicly tried to reaffirm pre-existing administration policy in support of conditionality for IMF loans. However, in a display of the Clinton cabinet's lack of involvement with Russia policy, the administration changed its position to match Gore's within two months.[15]

Strobe Talbott was named "coordinator" for U.S. policy toward the nations of the former Soviet Union in the second month of the Clinton administration.[16] The new president's deliberately anti-hierarchical style led him to appoint such "coordinators" in order to give an individual crosscutting authority over all aspects of a policy question. According to one senior Clinton administration official, this expedient was adopted whenever "it looks like a presidential policy is going to require day-to-day management."[17]

A journalist whose only previous management background was running *Time* magazine's Washington bureau for five years, Talbott had no government, military, or political experience.[18] He had first met President Clinton when they were both students at Oxford University. Subsequently, Talbott had been a prominent and controversial participant in the arms control debate in Washington during the 1970s and 1980s, arguing against the Reagan policies that eventually forced the collapse of the Soviet Union.

Talbott, even more than Gore, sought to become the full-time manager of U.S.-Russia relations and soon built his own policy making apparatus. He chaired the Former Soviet Union Policy Steering Group, which he said carried "a presidential mandate to coordinate all elements of administration policy toward the former Soviet Union."[19] The group was composed of under secretaries from various government departments. These included the Departments of State, Treasury, Defense, Commerce, and Agriculture, as well as a representative from the Vice President's office—usually the foreign policy advisor, Leon Fuerth. Officials of other agencies also participated as required.

Lawrence Summers, then a subordinate Treasury official who had given a speech on U.S. policy toward Russia at the president-elect's Economic Conference in Little Rock, Arkansas in December 1992, acquired his Russia portfolio as a regular participant in Talbott's Working Group. From his new post as Under Secretary of the Treasury for International Affairs, Summers, too, was a strong supporter of IMF loans and economic assistance for Russia. His brief tenure as the World Bank's chief economist had left him with a belief in the efficacy of international financial institutions such as the World Bank and the International Monetary Fund.

This troika of subordinates, led by Vice President Gore, would soon come to dominate the Clinton administration's Russia policy, as it still does today.

In this way authority for the development and execution of Russia policy devolved to an elite and uniquely insular policy-making group without accountability to the normal checks and balances within the executive branch. The policy decisions that emerged were marked by the personal biases and predispositions of these three individuals, to the exclusion of competing analyses and recommendations from the national security, foreign policy, and intelligence professionals throughout the U.S. government. Their small circle soon became an echo chamber, reinforcing their own views and excluding independent information.

The structure of the policy-making troika left the rest of the government either unwilling or unable to critically assess the direction of the Clinton administration's policy. Since none of the three key policymakers was experienced in or skilled at administration, each relied on further delegation to attempt to direct the large number of U.S. government agencies that are charged with diverse responsibilities for various aspects of Russia policy. This created another layer of bureaucracy that further insulated Gore, Talbott, and Summers from the traditional policy-making structures of the executive branch.

Ironically, the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act had explicitly recognized the critical necessity of coordinating both policy development and implementation in light of the numerous U.S. bureaucracies involved in Russia policy. To that end, the Act created the senior-level statutory position of Coordinator of U.S. Assistance to the New Independent States. But this was a different "coordinator" than the position to which Talbott was appointed; the legally-mandated position was never used effectively by the Clinton administration to coordinate Russia policy or activities.

The Talbott "coordinator" role failed to clarify Russia policy making, and doubtless rendered it less transparent. In some respects, Talbott's role was superfluous, or an interference, or both. Multilateral aid, for example, required coordination with international financial institutions as well as the allied nations, and could only be accomplished through established channels at the Departments of State and Treasury. Gore's U.S.-Russia Bilateral Commission further confused policy coordination by adopting its own competing policies.[20]

An even more serious shortcoming of the troika policy-making structure was the didactic approach that Gore, Talbott, and Summers brought to their task. The supreme self-confidence that typified the first several years of the Clinton troika's policy making seems strangely anachronistic today, as the Clinton administration has taken to defensively emphasizing the complexity and unprecedented nature of the problems it confronted in Russia. The point, however self-serving, is accurate. If it had been appreciated in 1993, when the Clinton administration Russia policy structure was adopted, then the key decision makers could have approached their challenges with caution and humility, soliciting a full range of policy and factual views—and showing a willingness to revise or abandon opinions and initiatives as they were invalidated by events.

But neither Gore, nor Talbott, nor Summers approached their task in this spirit.[21] To the contrary, the Gore-Chernomyrdin Commission, Talbott's Policy Steering Group, and Summers' IMF and World Bank portfolio were administered free from the constraints that routinely applied to others in the executive branch. Over time, as their reputations and political interests became ever more deeply invested in defending the path upon which they had embarked, they worked to avoid inconsistent information, and relied increasingly upon a handful of Russian interlocutors for both data and validation of the correctness of their approach.

Thus it was that a candidate with no foreign policy experience and no enunciated strategy for tackling the historic task of facilitating Russia's transition from Communism to free enterprise relinquished his responsibility for that task to a troika of strong-willed subordinates. Free from outside scrutiny, these individuals crafted a policy that soon resulted in damage both to U.S.-Russian relations and to the prospects for a democratic, free enterprise-oriented Russia.

There were several fundamental flaws in the Clinton administration's Russia policy that this unorthodox arrangement produced. These flaws included:

- Support for and dependence on a few individual Russian officials instead of a consistent and principled approach to policy that transcended personalities
- A focus on the Russian executive branch to the exclusion of the legislature and regional governments
- An impatience with Russia's nascent democratic constituencies that led to attempts at democratic ends through decidedly non-democratic means
- An unwillingness to let facts guide policy
- A preference for strengthening Russia's central government rather than building a system of free enterprise

Personalities Over Principles

President Clinton encapsulated the first fundamental error of his Russia policy in his first major address on that subject. His proposed "strategic alliance with Russian reform" was clearly different than an alliance with all of Russia. It necessitated that the intimate group of Russian supporters of Clinton administration policy be deemed "reformers"—while opponents of that policy, in both Russia's legislative and its executive branches, were called "reactionaries" or "opponents of reform." The success of the Clinton administration's policy thus became inextricably tied to the political success of their chosen reformers, and to the political failure of other factions in Russia's struggling democracy.

The "reformers" identified by the Gore-Talbott-Summers troika were clustered around acting Prime Minister Yegor Gaidar, and later his replacement Viktor Chernomyrdin. Talbott and Summers, in particular, quickly developed extraordinarily close personal ties with one of these people, Deputy Prime Minister Anatoly Chubais. Summers "always" met with Chubais when traveling to Russia.[22] According to Thomas Graham, a former senior political officer at the American embassy in Moscow, these personal ties soon evolved into a partnership between small circles of senior officials in the United States and Russia.[23]

The administration's definition of reform in Russia was based on the "Washington consensus," an economic model that emphasized macroeconomics over establishing the fundamental preconditions for a free enterprise economy. The Clinton administration, moreover, believed that its macroeconomic policies could not be implemented if it lost influence in the Russian government. The administration was thus rapidly drawn into Russian domestic politics as an active participant, bent on insuring that its handful of allies continued in power. To this end, billions of dollars in loans and aid would eventually be devoted to the political support of the Clinton administration's Russian partners.

Chubais became such a favorite of the Clinton troika that his presence or absence in the Russian government seems to have been a major factor in American policy. Thus, for example, U.S. officials expressed tepid support for additional IMF lending to Russia after Chubais was dismissed from the Russian government in late January 1996—but when it became clear that Chubais had taken over the Yeltsin presidential campaign, skepticism turned to enthusiasm. The IMF announced a $10.2 billion loan less than one month later.

The Clinton administration unabashedly avowed its support for Chubais when discussing bilateral assistance programs as well. In February 1997, Richard Morningstar, the State Department's coordinator for assistance to the former Soviet Union, said:

> When you're talking about a few hundred million dollars, you're not going to change the country, but you can provide targeted assistance to help Chubais.[24]

In fact, the U.S. government gave substantial cash assistance directly to Chubais and his allies. A large portion of the $285 million in U.S. government grants that were supervised by Harvard University's Institute for International Development[25] went to individuals

AP Photo/ITAR-TASS

BAD DREAM TEAM: President Boris Yeltsin, Prime Minister Viktor Chernomyrdin, second left, and his two first deputies Anatoly Chubais, left, and Boris Nemtsov, right, meet in the Kremlin, March 26, 1997. Chubais ran Yeltsin's 1996 campaign and was his chief of staff before becoming first deputy prime minister. Then-Deputy U.S. Treasury Secretary Lawrence Summers, in an example of Gore-Chernomyrdin Commission spin, called Chubais and Nemtsov an "economic dream team" for Russia. The dream soon became a nightmare, as corruption and unsound policy led inexorably to Russia's economic collapse in 1998. For Chubais, however, there was a "dream" ending: after years of negotiating international loans for Russia, he became the head of Russia's electricity monopoly and one of Russia's most powerful "oligarchs"—and admitted "we conned them."

and groups affiliated with Chubais. The incestuous arrangement was exacerbated by the fact that Summers' former colleagues at Harvard received the U.S. government contracts without any competitive bidding, and—according to the U.S. General Accounting Office—never provided an accurate accounting for the money. Indeed, two Americans involved with the Harvard-Chubais project reportedly remain under investigation by the Justice Department for abusing their access to inside information about Russia's economic plans for personal gain.[26]

Summers' personal support for and closeness to Chubais was never more flagrantly on display than in the spring of 1997, when Chubais moved into a key post in the Russian government. In a description that subsequently became notorious, Summers announced that "an economic dream team" was now in place in Moscow.[27]

Later, despite the fact that he was no longer a member of the Russian cabinet, and notwithstanding his prior supervision of the fraud-ridden "privatization" process, Chubais continued to receive exceptional access in Washington. During a May 1998 visit, he was received by Summers and Talbott in their homes, where they jointly worked out details of the July 1998 IMF loan that would burden the Russian government with further billions in debt on the eve of Russia's total economic collapse later that summer.[28]

Rather than seeking out key Russian political figures beyond the increasingly corrupt Yeltsin inner circle, senior Clinton administration officials generally had substantive meetings only with their official counterparts, confining themselves to pro-forma discussions with leaders outside the government. While a broader guest list was included at large receptions and other events at the U.S. Embassy in Moscow, the format of these events brought too many people together for too little time for substantive dialogue to take place. (For obvious reasons, few Russian political leaders critical of the Kremlin insiders were willing to engage in frank discussions in such public settings, with their political opponents present.) However, such embassy gatherings permitted the administration to claim it had consulted with Russian opposition politicians, without having to devote the time or effort to substantive, systematic discussions with the full range of the Russian political spectrum that was required in light of the historic challenge of supplanting Communism.

The administration displayed a similar indifference to the governors and legislatures in the 89 regions of the Russian Federation. Despite frequent lip service to outreach to Russia's regions, Clinton and his troika rarely devoted sustained attention to developments there—and almost never traveled outside Russia's capital.[29]

The Clinton administration's exceptionally close personal relationship with its few official Russian interlocutors—a sharp contrast with its merely *pro forma* engagement with Russia's legislature, its opposition parties, and its regional governments—formed the narrow basis upon which was built the entire U.S.-Russian relationship. Contrary to the administration's claim, the alternative to this approach was not disengagement from Russia; rather, it was and is a broad and genuine engagement that reaches out to all Russians.

Clinton Administration Support for Rule by Decree Abets Destruction of the Russian Parliament

Not only was the group of Russian officials on which the Clinton troika focused too small and too insular, but it was limited exclusively to officials in Russia's executive branch. This was a tragic blunder,

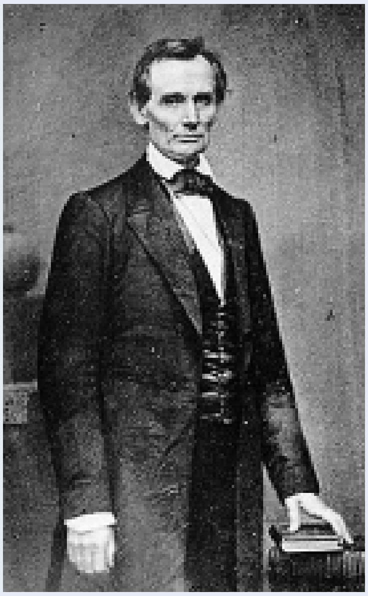
Chechnya: Personalities Trump Policies, Again

The conduct of the first and second wars in Chechnya, and the U.S. administration's long quiescence concerning it, reveal the tragic cost of the over-personalized Clinton Russia policy. Rather than acting forcefully to advance U.S. values and interests, the Clinton administration tacitly accepted Russia's agenda in Chechnya.

Because they believed Russian acceptance of their "reforms" was personal to Yeltsin, Chernomyrdin, and Chernomyrdin's successors, Clinton and Gore were long unwilling to criticize their "partners" for their actions in Chechnya. Despite calling the promotion of democracy and human rights in Russia a key administration goal, the Clinton administration said little and did less to justify that claim.

Russian troops committed widespread atrocities in both the first (1994-96) and second (1999-present) Chechen conflicts. Amnesty International has reported on "filtration camps" where "men, women, and children—are routinely and systematically tortured: they are raped, beaten with hammers and clubs, tortured with electric shocks and tear gas."[1] Indiscriminate air, rocket, and artillery attacks on civilian targets killed tens of thousands of civilians over the course of the two wars, in which much of the Chechen capital of Grozny was razed and hundreds of thousands of Chechens, ethnic Russians, and other nationalities living in Chechnya were driven from their homes. The 1994-96 operation resulted in up to 80,000 casualties alone.[2]

Despite worldwide condemnation of Moscow's first brutal campaign, the administration was largely silent. When Secretary of State Warren Christopher met with Yeltsin in March 1996, he failed even to raise Chechnya as an issue. His staff explained it as an oversight.[3]



ABRAHAM LINCOLN: *President Clinton, responding to a question in Moscow, April 21, 1996, about Russia's war against Chechnya, compared it to the U.S. Civil War and "the proposition that Abraham Lincoln gave his life for, that no state has a right to withdraw from our union." A few days later, the widow of Chechen president Dzokhar Dudayev told CBS News that Clinton's support for Russia's war in Chechnya had, "in effect, signed her husband's death warrant." A few hours after Clinton had compared Yeltsin to Lincoln, a Russian warplane rocketed Dudayev's car.*

The low point, however, came a month later, when Clinton at his April 1996 summit meeting with Yeltsin was asked "whether the United States should have been more critical of Russia's use of force, which has claimed more than 30,000 lives." Clinton responded, "I would remind you that we once had a civil war in our country in which we lost, on a per capita basis, far more people than we lost in any of the wars of the 20th century, over the proposition that Abraham Lincoln gave his life for, that no state has a right to withdrawal from our union."[4]

As the *New York Times* reported, "[e]ven Mr. Clinton's aides were appalled by [his] off-the-cuff remark"[5]—as well they might be. Clinton's comments ignored the difference between the union of American states, which shared a common language and culture since their beginnings and voluntarily formed a union less than a century before the Civil War, and the Chechen culture, which had developed separately from Russia's for centuries prior to its annexation in the nineteenth century.

Chechens speak a non-Slavic language, are predominantly Muslim, and have a distinct national culture. Chechnya did not freely join Russia; it was forcibly annexed by the czars after the Napoleonic Wars—an annexation the Chechens resisted ferociously for decades during a savage Russian campaign that took thousands of lives. The stubbornness of the Chechen resistance has been proverbial in Russia ever since.

More recently, after a brief period of independence following World War I, Chechnya was occupied again by the Bolsheviks. After its liberation from

Amnesty International

CHECHEN WAR HUNGER: *The czars forcibly occupied Chechnya, and after a brief period of independence following World War I the Bolsheviks did the same. Solzhenitsyn described Chechnya as the "one nation that would not give in." The Chechen people continue to be the victims of fighting in the region. Azya Mirzoyeva, who lives in the train carriages of camp "Severny" in Ingushetia, gets one loaf of bread once or twice a week to share among seven people—and four bottles of sunflower oil, about as regularly, to share among 60.*

the Nazis in the Second World War, it was subjected to one of the most notorious of Stalin's many atrocities during 1943-44, when whole nationalities from the North Caucusus—including not only Chechens but Balkars, Ingush, and Karachai—were deported for alleged "collaboration" with the Nazis from their homelands to Central Asia under conditions that led to the deaths of as many as a third of the almost 620,000 deportees. The survivors remained in exile until the late 1950s, more than a decade after their ordeal began—further fanning their disaffection.[6] A less persuasive parallel to the history of the United States would be difficult to frame.

In addition to its inaccuracy, such a statement coming from the President of the United States undercut those in Russia protesting the purpose of the war, the high civilian casualties, and the human rights abuses taking place. Yegor Gaidar, Yeltsin's former acting Prime Minister, took his Russia's Democratic Choice Party into opposition against the Yeltsin government because of the war in Chechnya. But the party and the anti-war cause found no succor from the Clinton administration.

The Clinton administration's failure to ensure that there were any significant consequences for Russia for its conduct of the Chechen war for five full years—explicable only by its blind devotion to Russia's government elite and President Yeltsin personally—effectively put it on the side of Russia's military, and against ordinary Russians. Public opinion in Russia toward the first Chechen war (1994-96) was decidedly negative. Russians were opposed to a war they saw resulting in high Russian casualties caused by military ineptitude in the pursuit of Moscow's desire to exert its will over the people of Chechnya.

Worse, by pressuring the IMF to grant $10.2 billion in credits to Russia in February 1996, the administration effectively used the Fund to subsidize not only Boris Yeltsin's reelection campaign, but also the Kremlin's war effort in Chechnya, thus squandering an important opportunity for American leadership, and giving Moscow every reason to expect similar indulgence if Russia again tried to crush Chechnya.

Following hundreds of deaths in September 1999 bombings in Moscow, Volgodonsk, and Buinaksk, which Russian officials said were the work of Chechen terrorists,[7] the government had no difficulty marshalling support for its war aims. Anger over the bombings, the relatively low number of Russian military casualties in the early stages of the second war, and the decisive leadership Putin displayed after a lack a vigor in the Kremlin for so long made the second war popular with all segments of the Russian population. Virtually all the political parties participating in the December 1999 Duma election supported the war, and it was a significant reason for Putin's popularity.[8]

The failure of the Clinton administration to apply pressure and diplomacy to encourage a political solution in Chechnya may have actually encouraged Russia to broaden its war objectives in 1999. Originally, the military objective was to create a "cordon sanitére" around Chechnya. Then the objective became to establish a security zone inside the Chechen Republic. With the popularity of the war at home and no penalty to pay abroad, the goal became the division of Chechnya along the Terek River. Finally, far from seeking a political settlement, the objective became the "complete extermination of the rebels and seizure of the entire territory of Chechnya."[9]

As former National Security Adviser Zbigniew Brzezinski testified recently:

> [I]t is tragically the case that the administration's indifference to what has been happening in Chechnya has probably contributed to the scale of the genocide inflicted on Chechens. The Kremlin paused several times in the course of its military campaign in order to gauge the reactions of the West, yet all they heard from the president were the words…'I have no sympathy for the Chechen rebels.'[10]

Moscow's ultimate goal of reoccupying all of Chechnya necessitated the siege and capture of the Chechen capital of Grozny, which Russian troops had occupied and lost in the first Chechen conflict. During the last months of 1999, Grozny was subjected to a savage rocket and artillery bombardment that caused massive collateral damage and heavy civilian casualties, triggering the flight of over 220,000 refugees. The devastated Chechen capital was then subjected to attack from five directions, beginning on Christmas Day 1999. It was largely in ruins by the time it was occupied in February 2000.

As the Russian attacks on Grozny were gathering momentum, President Clinton referred in a *Time* magazine article on New Year's Day to the impending Russian "liberation" of the Chechen capital of Grozny, already wrecked by the unrelenting Russian bombardment[11]—a phrase, as Dr. Brzezinski testified, that "is going to haunt the president and embarrass the United States for a long time to come."[12]

Recently, the Clinton administration—at long last willing to acknowledge the horrors of the war in Chechnya—has nonetheless sought to absolve itself of responsibility by complaining that it has little leverage on Russia: as Secretary Albright stated after the G-8 summit, "I think, frankly, we have had a marginal effect" on the conflict. After dispensing over $20 billion in U.S. aid to Russia during the course of eight years, using American leverage to force further tens of billions from the IMF and the World Bank, and having never conditioned any of it on a political settlement in Chechnya, that is a remarkable statement indeed.

The damage to Russia, Chechnya, and the region is broad. Former Premier Yegor Gaidar estimated in January 2000 that the war was costing Russia $148 million a month.[13] With Russia's limited resources, these funds could have made a sizable contribution to its economic recovery and debt service.

The Clinton administration's failure to respond meaningfully to Russia's treatment of Chechnya may also have encouraged Russia's efforts to intimidate its neighbors, and discouraged those nations from resisting such intimidation. As Dr. Brzezinski further told the Senate Foreign Relations Committee,

> [S]ome of Russia's immediate and most affected neighbors, such as the presidents of Ukraine, Georgia, Azerbaijan, and Estonia, have been perplexed by the U.S. disregard of the longer-term effects on Russian foreign policy of Moscow's reliance on indiscriminate force in coping with Chechnya.… Georgia…is extremely vulnerable…. We see some evidence of rising Russian pressure in Estonia and Latvia already. The Central Asian republics are beginning…to make some degree of their own accommodation with Moscow, largely because of the way they interpret our passivity on Chechnya.[14]

These actions are fraught with risks for the stability and security of these nations and for U.S. interests in the region. Yet they too have drawn little effective response from the Clinton administration.[15]

Amnesty International

CHECHEN WAR REFUGEES: *Petimat Tursultanova witnessed the attack on the village of Zakhan-Yurt on November 6, 1999, in which a number of civilians were killed. She and her family wait overnight at the central railway station in Nazran to be assigned seats on a train out of Ingushetia.*

given that the essential task ahead in 1992 was enactment of the legal framework necessary for private property and free enterprise to function. The enactment of such laws would be impossible without the participation of Russia's legislative branch.

The Clinton administration not only failed to engage the Russian Supreme Soviet and the Duma, but, far worse, it publicly dismissed the parliament out of hand as a "Communist-dominated" impediment to reform. Because the Clinton troika's policy relied on the political ascendancy of a handful of ministers, opposition groups in the Russian Duma were seen as enemies of U.S. policy.

The Clinton administration very publicly sided with the Yeltsin regime against Russia's opposition parties, and more broadly, with the executive branch against the Russian legislature.

The Clinton troika's personal support for its allies in the executive branch reached an extreme in October 1993.

As tension between Yeltsin and the Russian legislature had grown since 1992, the Clinton administration had encouraged Yeltsin to take a confrontational approach to the Russian legislature even as it limited its own contacts with legislators. In fact, when former president Richard Nixon advised Yeltsin in March 1993 to seek accommodation with the parliament, Yeltsin told Nixon that the Clinton administration had given him the opposite guidance.[30]

When the Russian president took this confrontational advice, the Clinton administration's complicity in Yeltsin's subsequent rule by decree was complete. But it did not end there. The extent to which the Clinton troika undertook a personal crusade to denigrate Russia's elected legislature was illustrated by Strobe Talbott's public praise for Yeltsin's "[throwing] down the gauntlet in Moscow before a parliament that is dominated by reactionaries."[31]

Responding to growing and increasingly aggressive defiance from the leaders of the Supreme Soviet, Yeltsin, on September 21, 1993—in plain violation of the Russian Constitution—ordered the dissolution of the parliament and new elections. Parliament refused to obey Yeltsin's orders, and the standoff escalated into increasingly violent demonstrations in Moscow's city streets. Supporters of the legislature built barricades around the Russian White House, where the parliament had met in emergency session to replace Yeltsin with his former ally, Vice President Aleksandr Rutskoi, and where it was now entrenched.

The increasingly dangerous standoff culminated in an even more extraordinary violation of democratic norms, as opposition supporters stormed the mayor's office and sought to seize the Ostankino television station and Russian troops mounted an armored assault on the parliament members in the White House. The fighting killed 144 and injured over 400 Russians.

Shockingly, even after the bloody dissolution of the Russian parliament, Talbott continued to defend the Russian executive's anti-democratic conduct. Testifying before the House Foreign Affairs Committee just days after the attack on the parliament, Talbott said that the answer to the question of "whether President Yeltsin was resorting to democratic means in his effort to resolve the crisis … was yes."[32] Yeltsin himself was not so bold—he admitted in his memoirs that he had acted outside the Russian Constitution during the crisis.[33]

A week later, Talbott was even more brazen in claiming that U.S. support for the violation of Russia's fundamental law could somehow be squared with support for democracy and the rule of law. In an October 13, 1993 briefing in the Capitol, he claimed that "our administration has staunchly and consistently supported President Yeltsin and the reformist government of Russia … when President Yeltsin suspended the parliament *and the Constitution*"[34]—thus standing the meaning of the term "reform" on its head.

The administration's encouragement and subsequent endorsement of President Yeltsin's dissolution of the Supreme Soviet in violation of Russia's then-controlling Constitution served to facilitate further authoritarian conduct by the Russian president. In profound ways, it worked also to deeply undermine respect for the rule of law among both participants in Russian politics and the public. The Yeltsin-Clinton administration policy was clearly based on force—and just as damaging, it was also deeply disdainful of the necessary role of Russia's elected legislature in enacting reform legislation.

Henceforth, Yeltsin would prefer to rule by decree, and the Clinton troika would encourage it. But the lack of respect for Russia's legislature from the U.S. gov-

AP Photo/Alexander Zemlianichenko

NARROW FOCUS: Grigory Yavlinsky, right, the leader of the pro-reform Yabloko party, speaks with Deputies Igrunov and Sheinis in the State Duma, the Russian parliament's lower house, March 15, 1996. The Clinton administration strongly favored Yeltsin against Yavlinsky and all other contenders in the 1996 Russian elections, despite polls in Russia showing many voters were unhappy with both incumbent President Yeltsin and his Communist opponent, Gennady Zyuganov. In December 1999, merely suggesting Chechnya peace negotiations earned Yavlinsky a "traitor" epithet from Clinton troika-favorite Anatoly Chubais, who had by then become the head of Russia's electricity monopoly. Chubais was Yeltsin's 1996 campaign manager.

ernment would increasingly be reciprocated, and the lessons of October 1993 long remembered.

Russia's new constitution, written by Yeltsin's team, was narrowly approved in December 1993. Yet even after Russians elected the 1993 and 1995 State Dumas under the Constitution written by Yeltsin, the Clinton administration continued to ignore the newly elected members of the Russian legislature. The consistent excuse they provided for this was that the 1993 and 1995 Dumas, too, were "Communist-dominated." In fact, the most consistent opposition to the Yeltsin regime came not from the Communist Party of the Russian Federation, or even from Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic Party of Russia, but from the pro-democracy, pro-reform Yabloko party.[35]

The Clinton troika studiously ignored Yabloko and its leader, Grigory Yavlinsky, because recognizing that a democratic party could oppose policies of the Yeltsin government would have called into question the administration's embrace of both Yeltsin and Chernomyrdin as the personifications of Russian democracy. Yabloko's existence contradicted the administration's repeated assertions that it had no choice in its Russia policy except to depend exclusively on Yeltsin.[36]

At the same time, Yeltsin found rule by decree an increasingly attractive expedient to avoid the hard work of compromise with the parliament, further undermining the fragile democratic structures emerging in post-Soviet Russia. As always, he acted with the unflagging support of the Clinton administration.

Such unquestioning support for the Russian executive stifled the healthy debate necessary in a democracy, and taught Yeltsin exactly the wrong lessons about the importance of representative government in a constitutional system. Worse, the Clinton administration virtually guaranteed that the legal reforms needed to establish a genuine free enterprise system would not be enacted in the Duma, and it utterly destroyed America's credibility in dealing with Russia's legislative branch. Worst of all, however, was the role that the Clinton administration played in undermining the growth of pluralistic, democratic government in Russia—and the impetus it provided for the abuses of executive power by the Yeltsin administration that would shortly ensue.

Destructive Means to Unintended Ends

The third fundamental flaw of Clinton administration policy was its unwillingness to recognize the costs to Russian democracy—and to Russian perceptions of America—of its unquestioning support for its Russian "friends" despite their often corrupt conduct. The tolerance of decidedly illegal conduct, allegedly in pursuit of the rule of law, had profound and destructive consequences for Russia's struggle to establish the rule of law.

No single policy of the Russian government did as much to discredit the notion of reform as the corrupt "loans-for-shares" scheme. Devised by Soviet trade official-turned-banker Vladimir Potanin, and further developed by a consortium of Russian banks, "loans-for-shares" was implemented by Anatoly Chubais, the Clinton troika's key ally. In failing to oppose "loans-for-shares"—and continuing to endorse Chubais strongly after its scandal-ridden failure—the Clinton administration tacitly endorsed means that fundamentally undermined America's stated objectives in Russia.

AP Photo/Alexander Zemlianichenko

OLIGARCH ETHICS: Oligarch Vladimir Potanin, left, speaks to Boris Nemtsov, right, of the Union of Right Forces, with the head of the Uralmash-Izhora industrial group Kakha Bendukidze, at a July 28, 2000 news conference in Moscow. Potanin designed the corrupt "loans-for-shares" "privatization" scheme that allowed the oligarchs to buy Russia's most profitable companies for a fraction of their value. He acquired one of the more valuable Russian companies, Norilsk Nickel. One week earlier, Potanin told the *Financial Times* that "Many oligarchs fly to the south of France in their private jets and rent yachts, they spend $2 million-$3 million a year, but then they put these costs down as business expenses. This is unethical." Also in July, the Russian government asked Potanin to reimburse the state $140 million in connection with the privatization of Norilsk Nickel.

In 1995, Russia was under considerable pressure from the IMF and the Clinton administration to implement the IMF-Clinton troika program of increasing tax revenues to meet arbitrary budget deficit targets. The failure to enact legislation necessary for free enterprise, coupled with the rise of organized crime and the war raging in Chechnya since December 1994, was undermining the Russian government's ability to meet the aggressive tax collection goals. Russians' real income had dropped to the lowest levels since Soviet days. The Russian government desperately needed cash, but a new IMF loan at the moment seemed impossible since Russian government borrowing in 1995 had already soared to over 350% of the prior year's.

To meet the IMF and Clinton administration demands for more government revenues, Potanin, Chubais, and their colleagues devised a secretive plan in the spring and summer of 1995 for the Russian government to borrow money from Russian banks. As collateral, the government would offer stock in premier state-owned industries.

The key feature of the "loans-for-shares" scheme was the proviso that if the government were unable to repay the loans, the banks would have the right to auction the shares—primarily in the energy, natural resources, metals, and manufacturing industries. Given the banks' ability to rig such auctions, and the fact that the loans were heavily over-collateralized, default by the Russian government would yield a bonanza for the banks' owners.

A number of observers believe the "loans-for-shares" scheme was actually designed with the intention of turning over these enterprises to the select insider group who were allowed to participate, and that from the inception the government neither intended nor was able to repay the loans.[37] The government needed money, and this was a way of getting at least a small amount of it while simultaneously accomplishing two other objectives: "privatizing" industries without Duma approval, and providing political friends with enormous new wealth through a non-competitive process. Some Russian officials apparently believed that the beneficiaries of "loans-for-shares" could then be counted upon as a powerful political constituency in favor of market reforms.

In its execution, the "loans-for-shares" scheme failed to produce a constituency for reform—the bankers' real interest was in increasingly lucrative sweetheart deals—but did succeed in winning the support of a powerful group of businessmen for the Yeltsin government in the upcoming elections. It is not difficult to see why: exceptionally valuable government assets were virtually given away at a fraction of their true worth. As one of the oligarchs commented with significant understatement, "each ruble invested in one's own politician yields a 100% profit."[38]

When the shares pledged as collateral were eventually sold after the government failed to repay the loans they secured, the winning bid was almost invariably submitted by an affiliate of the bank managing the auction—and typically exceeded the minimum bid by only a nominal amount. Thus the "loans-for-shares" program essentially offered a select group of Russian bankers an opportunity to acquire cut-rate shares in prized state enterprises.

For example, despite Norilsk Nickel's $1.2 billion in profits in 1995, Oneksimbank—controlled by the designer of the "loans-for-shares" scheme, Vladimir Potanin—bought 38% of the firm, which produced one-fifth of the world's nickel and two-fifths of its platinum, for $170.1 million in a "loans-for-shares" auction. Oneksimbank's offer was only $100,000 above the minimum bid—and a competing bank bid nearly twice as much. The fact that Oneksimbank organized the auction was clearly decisive.[39]

In the end, shares in twelve companies described as "the crown jewels of Soviet industry" were sold off.[40] The firms included not only Norilsk Nickel, but also the massive oil companies Sibneft, Yukos, and Sidanko and other key enterprises. Controlling stakes in Sibneft and Sidanko, each of which produced oil worth $3 billion per year, were acquired for $100.3 million and $130 million, respectively. Ten percent of Sidanko was later sold to British Petroleum for $571 million.[41] Yukos, one of the largest oil companies in the world, produced more oil than Sibneft and Sidanko combined, yet control of the firm cost a Russian bank only $159 million.[42]

AP Photo/Alexander Zemlianichenko

NORILSK NICKEL: Norilsk is the world's largest city north of the Arctic Circle, and Norilsk Nickel, a sprawling collection of profitable nickel, platinum, and palladium mines and hulking smelters, is the sole reason 230,000 Russians live in such a harsh place, where they work in mines and smelter shops such as this one, the Norilsk subsidiary, Nadezhdinsky Metallurgical Works. Despite Norilsk Nickel's $1.2 billion in profits in 1995, the well-connected Oneksimbank was able to buy 38% of the firm—the world's leading platinum producer—for a mere $170 million. Oneksimbank made its killing by exploiting the notoriously corrupt "loans-for-shares" program designed by Vladimir Potanin and pushed through by Anatoly Chubais.

But while the corrupt "loans-for-shares" program passed valuable state assets into the hands of a small circle of well-connected bankers, it provided far too little money to solve the government's cash crisis. Ultimately, the total revenue obtained through "loans-for-shares" was only about $1 billion—about half the privatization revenue sought by the Russian government in 1995.[43] Boris Fyodorov, Russia's former Finance Minister, publicly described the "loans-for-shares" transactions this way:

> It's very clear to me that once you start giving the crown jewels to cronies, it never helps, first, the image of the country. Second, it doesn't help the budget, because not enough money comes into it. …
>
> [The "loans-for-shares" program] was a disgusting exercise of crony capitalism, where normal investors were not invited, where even among Russian so-called investors, only those who were friends of certain people in the government were invited. …
>
> And since everybody knew that these loans will never be returned, clearly it was a kind of a gimmick how to circumvent parliament in this case, and how to circumvent normal ideas of privatization. …
>
> There is absolutely nothing which will preclude me [from] saying that it was basically stealing. … [T]his is a major, major black spot on the reputation of Russian reforms forever.[44]

Furthermore, said Fyodorov, "There's a big suspicion that no real cash came to the government."[45]

Ironically, the funds used to purchase shares in the auctions probably included a great deal of the Russian government's own money.[46] Many of the top Russian banks whose owners benefited handsomely from "loans-for-shares" were successful not as a result of genuine banking activity in the private sector but through their roles as so-called "authorized banks" that handled government funds. Authorized banks were supposed to receive funds from the Ministry of Finance or other government organizations and transfer the money to its intended recipients. However, with the influx of so much hard currency from the IMF and other Western sources, many of the bankers soon discovered that delaying those payments allowed them to use government funds to speculate on currency markets or make other short-term investments, and to keep the profits for themselves.[47] Only in this fashion could the banks amass sufficient capital to participate in the "loans-for-shares" auctions.

What did the Clinton troika and the IMF know about "loans-for-shares"? According to Fyodorov, the West knew everything. "These loans-for-shares unleashed a wave of corruption like never before," Fyodorov said, "and the West, especially the IMF, kept quiet."[48] Although Secretary Summers testified before the Advisory Group that he had advised the Russian government against the loans-for-shares scheme,[49] the administration's failure to object publicly or use its vaunted personal relationships with the Russian leadership to modify a catastrophic approach is a policy failure of the first magnitude.

Far from consolidating a new capitalist order in Russia, "loans-for-shares" consolidated the power of the "semibankirshchina"—the oligarchic "Rule of the Seven Bankers" who as a result of the loans-for-shares scheme claimed to dominate 50% of the Russian economy. This oligarchy has proven to be a crippling impediment to the development of a true free enterprise system in Russia, as well as exercising a profoundly corrupting influence over Russia's nascent democracy.[50]

The Clinton troika's willingness to avert their eyes from the corrupt acts of their personal contacts in the Russian government contributed to the widespread electoral irregularities of the 1996 presidential election in Russia—many of which were direct outgrowths of the "loans-for-shares" process.

In February 1996, Anatoly Chubais—just fired by Yeltsin in part as a result of public outcry over "loans-for-shares" and mounting popular anger over Russia's vast wage and pension arrears—held a decisive meeting with several of the key beneficiaries of "loans-for-shares" on the sidelines of a session of the World Economic Forum in Davos, Switzerland. Chubais reportedly convinced the new "oligarchs" that their support for Boris Yeltsin's 1996 reelection campaign (which Chubais would soon take over) was essential to prevent the victory of Communist leader Gennady Zyuganov—and the prompt re-nationalization of their ill-gotten gains.[51] During the campaign, the oligarchs illegally channeled vast amounts of money into the Yeltsin campaign and promoted Yeltsin heavily in media outlets under their control, including two major national television networks and a number of prominent newspapers.

The Clinton administration justified promoting Yeltsin's candidacy even in a multi-candidate field by claiming that it was in the U.S. interest to defeat Communist leader Gennady Zyuganov. But opinion polls show that both General Alexander Lebed and Yabloko's Grigory Yavlinsky were also credible candidates at the time—Zyuganov was hardly the exclusive alternative to Yeltsin, who had single-digit approval ratings at the beginning of the year.

Donald Jensen, Second Secretary of the U.S. Embassy in Moscow from 1993-1995, criticized the administration's simplistic approach to Russian politics:

> The choice was always black or white. The choice was always reform or going back to the Soviet past. And that, I think, was oversimplified, did not reflect what was going on in Russia. And it was something that we began to write about increasingly and, of course, little attention was paid to it.[52]

It is probable that Yeltsin, with all of the legitimate advantages of incumbency, would have won the election honestly; but the Clinton administration chose not to test that proposition. Working with Yeltsin campaign manager and troika favorite Anatoly Chubais, the Clinton administration pushed through a new $10.2 billion International Monetary Fund loan in March 1996 that provided liquidity not only for the Russian central government but for the Yeltsin campaign.

There were many allegations of campaign finance irregularities tied to abuse of these IMF funds and misappropriations from the Russian treasury.[52] At one point between the two rounds of the election, two Yeltsin campaign staff members were detained leaving the Russian White House with $500,000 in a Xerox box.[54] Expenditures on Yeltsin's reelection effort exceeded Russia's legal campaign spending limits by orders of magnitude.[55]

The Clinton administration's complicity in the anti-democratic maneuvering[56] was, ironically, undertaken for the stated purpose of institutionalizing democracy in Russia. But by pursuing a policy of "reform" that required the political victory of *their* reformers by whatever means necessary, the administration undermined the democratic process itself.

Ignoring and Spinning 'Inconvenient' Facts

Perhaps the gravest consequence of the Clinton administration's *de facto* troika arrangement was that it insulated policy making from the substantial volume of data and analysis generated within the normally functioning channels of the U.S. government, permitting a handful of officials to press full speed ahead in a manner that shut out facts and proved incapable of either mid-course corrections or admission of failure.[57] Operating at the very top of the bureaucratic pyramid and accountable to no one, these few could effectively reinforce one another's rationalizations for viewing failure as success, and market this view as fact to the American public and the world.

The corruption of the Russian "privatization" program even before the loans-for-shares scheme is an important example of the Clinton administration's unwillingness to adjust policy to facts, or ever to acknowledge failure. The administration's support for the program persisted even as it was hijacked by former Communist insiders who possessed Russia's only real assets.

Beginning in October 1992, the so-called "voucher privatization" program provided for each Russian citizen to be issued a voucher with a face value of 10,000 rubles, redeemable for state property (at then-prevailing exchange rates the equivalent of about $32, or six times the average weekly wage in Russia). The scheme was devised by troika partner Anatoly Chubais's U.S.-funded Russian Privatization Center, with the assistance of the U.S.-funded Harvard Institute for International Development and the U.S. Agency for International Development (AID). Thomas Dine, then AID Assistant Administrator for Europe and the New Independent States, testified before the Senate Foreign Relations Committee in October 1994 that "USAID expert advisers helped Russian counterparts in designing and implementing the voucher system."

According to Dine's testimony, the "structured reform process" of establishing the basis for a competitive, free enterprise economy was not a prerequisite for putting state monopolies into private hands. Rather, only after completion of the voucher privatization program would the Clinton administration plan "advance to the next logical steps in the structural reform process." In other words, creation of an authentic free market environment was to follow conversion of control over Russia's industrial assets into privately-owned assets of Russia's new oligarchs.

This decision would have disastrous consequences for Russia and her people. A small group of insiders acquired the preponderance of the vouchers for themselves, leaving ordinary Russians as powerless as before. The valuation of the industrial assets exchanged for the vouchers was manipulated for the benefit of these same insiders. And once in control, they were able to strip the assets for piecemeal sale, leaving Russia without even the productive capacity that these former state-owned monopolies had provided, and with no market-based competitors to fill the void. Essentially, enterprises were turned over to Soviet-era managers and others intent on stealing their assets. Modernizing and adapting to market conditions was not on the minds of Russia's "new managers." There were neither incentives nor resources for investment, without which enterprises were doomed to fail.

Moreover, millions of U.S. taxpayer dollars provided directly to the Harvard Institute, and indirectly to Chubais and the Russian Privatization Center, would be unaccounted for.

Yet both during and after the implementation of the voucher privatization program, the Clinton administration hyped it as a policy triumph, with no regard for the realities of the situation. The vouchers were intended to be used for the purchase of shares in any of the more than 5,000 companies slated to be privatized before 1994. But the hyperinflation of 1992 increased the need of average Russians for cash, so instead of investing for the long term by using the vouchers to purchase state-owned property, many Russians sold their vouchers to well-financed former Communist speculators for the best price available.

The U.S. planners, under Chubais' direction, made no adjustment for this. As a result, those who had financially profited during the Soviet regime, or who had connections to the Chubais clan, accumulated enough vouchers to purchase control of many state enterprises during this period. Indeed, the millions of dollars in U.S. aid funneled through the Harvard Institute and the Russian Privatization Center—which the Russian equivalent of the U.S. General Accounting Office described as "over funded and largely an instrument in search of a mission"—may have funded the speculators.[58]

Moreover, the appraisals by which each industry was valued (to determine the quantity of vouchers necessary to acquire it) were not routinely conducted at arm's length. Those with connections to the government were able to manipulate the valuation to their advantage. In this way, assets of significant value were acquired at cut-rate prices.

In the end, most Russians—as they saw the wealth that had been channeled from the state to the new oligarchs—felt they had been wrongly deprived of their piece of privatization. The experience gave many Russians a sour taste of what they believed was capitalism. The immediate result was that millions of Russians who had previously been enthusiastic about "reform"—and who were prepared to wait and endure while the infrastructure of free enterprise was built—now wanted none of it. A common pun in Russia during this period substituted "prikhvatizatsiya"—"grab-it-ization"—for "privatizatsiya," the Russian word for privatization.

Notwithstanding the perverse results of Russia's non-market "privatization," the Clinton administration was eager to peddle a success story. No superlative was spared. "The privatization program carried out by Deputy Prime Minister Anatoly Chubais … has been nothing short of remarkable," Summers testified in February 1994.

Summers drew attention to figures showing 70% of all small-scale shops and 7,000 large firms had been "privatized." Like the Soviet system that was being privatized, Summers focused on quantity rather than quality[59] without remarking upon the fact that no new competitors had been created. Removing assets from state control was deemed "privatizing" even though the management of many of the privatized firms continued unchanged, and even though they remained monopolies operating in a non-competitive, non-market economy.

"The difficult decisions of how to modernize Russia's companies rest in private hands,"[60] Summers stated categorically, despite the fact that two-thirds of Russia's industrial labor force remained under state ownership and control.

Others in the Clinton administration followed suit. In AID's 1995 annual report of its Russia work, it described Russia's progress in "privatizing its economy" as "remarkable." Three sentences later, however, the report acknowledged the major reasons the process wasn't working: "Development of the legal, regulatory, and institutional infrastructures necessary to permit the newly-privatized companies to attract investment and to restructure and reorient their operations to compete in the global marketplace is still in the early stages."[61]

Notwithstanding "spin," the latter assessment still remains true today.

Subsidizing Government Instead of Building a Free Enterprise Economy

Relentless "spin" in the face of the facts was not limited to the results of "privatization." The Clinton troika claimed wondrous results for their financing of the Russian central government with International Monetary Fund debt, as well.

When Deputy Secretary of State Strobe Talbott testified before Congress in March 1994, he presented a picture of Clinton administration economic assistance producing improved standards of living for ordinary Russians. "Our assistance to promote economic reform targets projects that lead to tangible improvements in the lives of ordinary people," he said.[62] But Talbott's claim flew in the face of virtually all indices pointing to a significant deterioration in the standard of living for the vast majority of Russians.

The focus of the Yeltsin "reformers" on strengthening the finances of the Russian government and on transforming state-owned monopolies into private monopolies—instead of building the fundamentals of a free-enterprise system—reflected the priorities of their Clinton administration and IMF advisers.

The Clinton troika placed the highest priority on macroeconomic planning worked out between the Russian central government and the IMF, rather than on the free enterprise fundamentals necessary to ensure the successful transition from Communism to a free market. Because the administration chose to focus primarily on the financial predicament of the Russian central government instead of putting in place the legal fundamentals that would permit individuals to start businesses, grow the economy in that way, and create a tax base for the government, U.S. and IMF economic assistance to Russia amounted to mere temporizing.

Worse, the Clinton administration virtually guaranteed that the billions of dollars in lending and aid that it was providing would be wasted by allowing its use to plug the gap in the Russian central government's operating budget, and by exposing these funds to theft and fraud.

Former Russian Finance Minister Boris Fyodorov, who met with the Speaker's Advisory Group on Russia on July 12, 2000, has derided the Clinton troika's reliance on IMF loans as a means of supporting Russia. "The roughly $20 billion pumped into the Russian budget over the last decade have, in fact, had no positive effect whatsoever," he wrote in the *Wall Street Journal*. He continued:

> This is not surprising, given the black-hole nature of the Russian budget. Money, being fungible, was misspent and ended up in the hands of a few well-connected people and in Western banks. Russian citizens definitely did not benefit from this 'assistance,' judging by the pitiful state of healthcare, education, public security, roads, and nearly every other public sector. …
>
> Why reform anything in Russia if another IMF loan shipment is on its way and past scandals can be swept under the carpet?[63]

Nevertheless, the centerpiece of the Clinton administration's Russia policy was the provision of massive amounts of aid to the Russian central government through the IMF and directly from the U.S. Treasury. At President Clinton's first meeting with the new Russian president, he promised $1.6 billion in aid. At Clinton and Yeltsin's next meeting—during the Tokyo Economic Summit, in July 1993—Clinton offered $2.5 billion more in direct, unconditional aid.

The 1993 Tokyo promise was not only functionally unconditional, but seemed to serve as a reward for Russian inaction on legislation to protect private property rights—coming as it did just as Russian reform was reaching a virtual standstill. The timing of the new aid was rendered even more inappropriate by the fact that the Clinton troika were then facing bureaucratic and logistical obstacles to delivering already-promised U.S. aid to the Russian government.

Meanwhile, in addition to this direct U.S. foreign aid, the administration was also pushing for billions more in IMF loans to the Russian central government. This aid continued despite the repeated violation of the unenforceable macroeconomic conditions attached to the loans, and despite the worsening Russian economic performance that had gone hand-in-hand with previous IMF lending.

All told, since 1992 the United States alone has paid more than $20 billion into the Russian central government, both directly and through multilateral institutions.

U.S. Financial Aid to Russia — 1992-1999

	in millions
U.S. Commercial Financing and Insurance (Ex-Im Bank, OPIC, USDA)	$8,890
Non-FREEDOM Support Act Funds[1]	$3,960
International Monetary Fund[2]	$3,830
FREEDOM Support Act[3]	$2,260
World Bank[4]	$1,050
European Bank for Reconstruction and Development[5]	$ 306
TOTAL	$20,290

SOURCES: IMF Summary of Disbursements and Repayments: Russian Federation, World Bank Country Brief, EBRD Activities in Russia, Dept. of State "U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union: FY 1999 Annual Report (January 2000)"

Absent a functioning free market economy, Russia lacked the ability to assimilate such enormous sums without their being absorbed by the state. No private institutions were equipped to handle or intermediate such amounts.

For its part, the Russian government lacked the facility to turn these massive aid flows into competitive economic activity. Instead, the aid had the opposite effect: it made possible the subsidies to the Soviet enterprise network that allowed it to continue in operation. Large-scale international assistance thus contributed to Russia's problems by killing incentives for legislative reform, and propping up a government whose policies were bankrupting the Russian people.

There were long term adverse consequences as well. The flood of loans added to Russia's growing foreign debt, which continues to burden the central government's operating budget and weigh down the nation's economic prospects.

To a certainty, some of the funds financed the oligarchs in Russia whose agenda was to obtain and preserve their favored position in the economy. These oligarchs, in turn, became a powerful constituency for the corrupt status quo. In this way, too, U.S. policies have actually made reform more difficult.

The highly visible infusion of so much money into the Russian government with no resulting market competition fueled public skepticism, making real economic reform less popular and therefore less likely. Would-be Russian entrepreneurs were discouraged by the apparent aid to oligarchs. From the beginning, the prospect of massive hard-currency transfusions into Russia had created false expectations, and when they were not met the result was ill-will toward the West. "[W]hen the vast expectations borne of such massive financial support collided with Russia's grim realities, serious political difficulties were in store," Gaidar has summarized.[64]

Russian officials and the Clinton administration failed to recognize that without a market economy to support market reforms, government efforts—both the United States' and Russia's— were doomed to failure. The "privatization" of state companies was carried out in a vacuum, absent basic elements of a free enterprise system including unquestioned property rights, a modern commercial code, the right to make and legally enforce private contracts, readily accessible mortgage lending, and a comprehensible regulatory and tax system. The logical result of such non-market "privatization" of state monopolies was chaos.[65]

Joseph Stiglitz, former Chief Economist and Vice President of the World Bank, succinctly described this fundamental flaw in the Clinton troika approach. Those advising the Russian government, Stiglitz argued, "consisted largely of macroeconomists, whose faith in the market was unmatched by an appreciation of the subtleties of its underpinnings—that is, of the conditions required for it to work effectively."[66]

But at the time, both the World Bank and the IMF seemed not to appreciate the importance of establishing the conditions required for a free enterprise economy to work, either. In a December 1993 memorandum entitled "Economic Reform in Russia: Lessons from Experience," prepared by staff of the two organizations, the "accomplishments" in the first two years made no mention of the establishment of market prerequisites. The memorandum's list of tasks that remained to be done similarly excluded virtually every one of the fundamental building blocks of a free enterprise economy that Russia since 1992 has urgently needed to enact.

The ultimate problem with the Clinton administration's economic policy was that the vast amounts of money that were poured into Russia's central government—in the form of both bilateral and multilateral lending and direct aid—became a substitute for and an impediment to the changes that were necessary to move Russia from Communism to free enterprise.

Conclusion

The Clinton administration's policy toward Russia was undermined by the president's declination to make it a presidential-level priority for the United States. The de facto delegation of his responsibility to a policy-making troika of Vice President Gore, Strobe Talbott, and Lawrence Summers led to bureaucratic disarray within the administration caused by the troika's assertion of top-level authority over programs relating to Russia more properly administered under the direction of cabinet secretaries and agency heads, subject to the normal executive branch checks and balances. The Vice President's use of the Gore-Chernomyrdin Commission to dispense benefits to Russia outside normal channels was a particular cause of poor coordination and duplicated efforts.

This structural failure exacerbated several deep flaws in the administration's approach to the greatest foreign policy opportunity for the United States since World War II.

The Clinton administration has often sought to defend its catastrophic policies in Russia by arguing that it had "no alternative." But there were alternatives to administration policy at every step. United States policy could have engaged broadly with Russia at any time in the past eight years. It could have emphasized the development of the necessary building blocks of free enterprise instead of massive, effectively unconditional IMF lending to Russia's central government. And it could have stopped enabling Russian corruption.

It is quite correct that Russia is responsible for its own decisions and was never America's to lose—or for that matter to win. But it is even more certainly the case that Russia in 1992 stood ready to become a free enterprise democracy and a close friend of the United States, and was prepared to accept American advice on how to achieve that result. To the extent that U.S. policy made a difference in Russia, it made conditions worse, not better. President Clinton, Vice President Gore, Strobe Talbott, and Larry Summers did not "lose Russia." But the policies they pursued did hurt Russia—badly.