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## THE JOURNAL OF POST-SOVIET DEMOKRATIZATSIYA

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# Rigging the U.S.–Russian Relationship: Harvard, Chubais, and the Transidentity Game

JANINE R. WEDEL

**W**hen the Soviet Union abruptly ceased to exist at the end of 1991, it seemed that the West, particularly the United States, finally had what it had always wanted: the chance to introduce quick, all-encompassing political and economic reforms that would remake Russia in the West's own image. It was a watershed event. After decades of separation and acrimony, forged by the political circumstances of the cold war and exacerbated by barriers of language, culture, information, and semi-closed borders, a golden opportunity for reconciliation had arrived: Friendly, cooperative relations could be built between East and West, and Western aid could help Russia construct a democratic, free-market state. The two sides set out to establish a new relationship, refocused on a positive path.

The United States offered Russia assistance and diplomatic partnership, as part of the promise of a new relationship. Theoretically, aid from the United States to Russia was to help nurture the bilateral relationship. Aid was to serve as a bridge built by the representatives of each side with the donor and recipient representatives carrying out the agendas of their respective sides.<sup>1</sup>

In practice, however, representation can be problematic. The individuals who are designated as emissaries, the constraints (or lack thereof) under which they operate and the relations and agendas that they work out among themselves can alter the stated purpose of the larger sides that the emissaries, in theory, represent. The way in which the United States and Russia intersected with each other through their respective representatives is such a case. The group on each side that was elevated to play the role of bridge builder—and the relationships among the

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bridge builders—would fundamentally affect aid outcomes and help shape economic and political results in ways that contradicted the announced goals of U.S. assistance: to foster economic development and democratization and to nurture relations with nations favorable and friendly to the United States.

### **Transactorship**

In U.S. economic and aid relations with Russia, what I have termed the “transactorship” model of organizing relations between sides evolved: a small, collusive, informal group, made up of individuals (“transactors”)<sup>2</sup> from both sides who supplant the official relations and each side’s stated goals with the group’s own agenda. Although the transactors may indeed share the stated goals of the sides, they have additional goals, the pursuit of which may, advertantly or inadvertantly, result in the subversion of the sides’ goals. All the while the transactors uphold an appearance of operating on behalf of the side that brought them to the bridge. Those individuals, who through processes on their respective sides are empowered to officially represent their nation-state or demarcated group to the other side and to the wider world, become the vehicles through which relations between the two sides are organized. The transactors constitute a new structure—a kind of informal governance that supplants and/or parallels formal structures.

In transactorship there may be a dominant side, which claims monetary and moral superiority under some universal system of justice, and which carries out a civilizing or social engineering mission. Central to the dominant side’s confidence that it can surmount the other side’s cultural, social, and political constraints is that it finds common ground with a small like-minded group on the other side. The dominant side sees that group as eminently suited both to help carry out the dominant side’s mission of reshaping society and to represent the other side. The dominant side’s choice of representatives is symbolic. The representatives of the two sides form a transactor group that becomes the dominant side’s means to surmount any barriers between the two sides.

In the U.S.–Russia case, the representatives from the United States were a group from the Harvard Institute for International Development (HIID); from Russia they were a group of self-styled “reformers”—the so-called Chubais Clan. The Clan was named after its leader, Anatoly Chubais, the main architect of economic change and an indispensable aide to Russian president Boris Yeltsin since 1992. Major political-social upheaval attracts social engineers and visionaries, carpet-baggers and middlemen. It was in that context that the Chubais-Harvard transactors rose to the top in the selection process on their respective sides. The Chubais-Harvard transactors crystallized into a group that was characterized by loyalty and trust within the group and by the unified front that it projected to those outside.<sup>3</sup>

One aspect of the transactorship mode of organizing relations, if there is unequal power between the two sides, is that the representatives of the dominant side may play a significant role in selecting and promoting those who will represent the other side. In the U.S.–Russian case, the actors who represented the Russian side emerged in part as a result of choices made by the *other* (American) side, that is, the Harvard-connected representatives of the United States whose

offers of Western money, connections, and clout were readily accepted and monopolized by the Chubais Clan early in the East-West encounter.

The United States placed its Russian economic reform portfolio—set up to help engineer the enormous shift from a command economy to free markets—into the transactors' hands. In the West, a myth was created of the “young reformers.” As representatives of a new generation, the Reformers were regarded as ideally suited to carry out the social engineering mission. Westward- and forward-looking, they were portrayed as uniquely enlightened and qualified to represent Russia and to carry the country down the bright road to capitalism and prosperity. The reformers spoke English and projected themselves as Western in dress, manners, and orientation—a stark contrast to their Russian brethren, especially the often-vilified, retrograde communists.

On the Russian side, the transactors took advantage of an “open historical situation”—a period of immense change in which political and economic structures were in flux, providing myriad possibilities, as historian Karl Wittfogel described it.<sup>4</sup> Such open moments encourage a restructuring of relationships and, possibly, a free-for-all—perhaps more accurately described as a free-for-a-few.

On the American side, there was no comparable “open historical situation.” But the end of the cold war held the promise of a “New World Order,” for which a fresh relationship with Russia was pivotal. When the Soviet Union broke up, a cadre of well-heeled East-West brokers who already had been working the Central and Eastern Europe circuit readily accepted the new challenge. They included the “econolobbyists,” economists whose primary role was public relations.<sup>5</sup> As the international attention to one country undergoing “reform” diminished, they typically moved on to another. For example, Harvard economist Jeffrey Sachs progressed from consulting in Poland and countries of the former Yugoslavia to Russia, Ukraine, and Mongolia.

A rare, narrow, and repeatedly cited “window of opportunity” to effect change was employed to justify special treatment given the Harvard Institute group. In the service of Russian economic reform, Harvard-connected high government officials circumvented standard procedures and approved the virtual privatization of U.S. foreign policy in the crucial area of Russian economic reform.

The Chubais-Harvard transactors leveraged U.S. support and became the gatekeepers for hundreds of millions of dollars in Western aid. U.S. support bolstered the Chubais Clan's standing as the chief broker with the West and with the international financial institutions. Working as a unit, the transactors played a decisive role in making and executing policy and in shaping the direction and ultimate results of much of the economic aid to Russia.

To carry out their social engineering mission, transactors often spurn legitimate institutions such as democratically elected parliaments, judiciary bodies, and government bureaucracies that might encumber or resist the transactors' agendas and activities. Such flouting is possible because funding is provided from outside the side undergoing change and is not dependent on favorable public opinion.

Transactorship involves individuals, institutions, and groups whose status is illusive. Nearly everything about it is ambiguous and difficult to pin down: its

sphere of activity is neither state nor private; its activities are neither open nor conspiratorial; and the transactors are neither of this side nor that—with some transactors representing the different sides interchangeably.

Part of what attracts the transactors to each other and to the mission is their ability to shape the structure by supplanting relations under the guise of carrying out official duties. Regardless of whether they formally represented the donor or recipient side, the Chubais-Harvard transactors typically acted in concert. Their main allegiance—while obtaining and using aid in terms of public relations, policy, financial interests, and other purposes—appears often to have been to their group. Transactors remain semiautonomous and rather free-floating to the extent that formal bureaucracies on neither side constrain them; they are largely above formal accountability, at least in the short run. The illusive quality of transactorship may, in part, explain its resiliency.

Transactorship, an informal social structure, is institutionalized somewhat independently of *specific* individuals, although its persistence is entirely dependent on the persistence of the transactor group as a whole. The transactors pool a set of multiple identities and statuses, which the group can use to maximize individual and group opportunities. Individual players move around as needed, to occupy a set of roles. The group draws on the same collection of people in myriad ways.

The U.S.–Russia transactorship story is a case study of a more general phenomenon. The transactor group that was formed and the ways in which it operated to take advantage of the open historical situation constitute a specific mode of organizing relations between nations that warrants thorough analysis. How and with whose help did the representatives of each side accede to this role? What were the consequences of the choices that were made? Under what circumstances and to whom, if anyone, were the transactors accountable? What are the consequences of the transactorship mode of organizing relations between nations in a world of increasing globalization? To address these questions, it is important to understand in context the U.S.–Russia case of transactorship.

### **The Reformer Mystique**

Fundamental prerequisites of transactorship are (a) substantial cultural distance between the two sides (and possibly also between the transactors and the publics they claim to represent) and (b) the simultaneous notion on the part of the sides, especially the dominant side, if there is one, that such distance is not an obstacle to relations or can be easily surmounted. Indeed, the role of the Chubais-Harvard transactors in casting the aid story could not have achieved such prominence were it not for the fact that the cast consisted of distant, if mutually fascinated, nations and peoples. Cultural ignorance—coupled with the idea that cultural knowledge is either irrelevant or easy to achieve—configured the first phases of the aid story. Without a good deal of innocence on the U.S. side about the Russian side, the “reformers” could not so easily have created the image as such in Western official and media circles. Lack of understanding of the Russian cultural context—forged by the cold war and exacerbated by barriers of language, culture, infor-



mation, and semi-closed borders—made it possible for the Chubais Clan to create for itself a reputation *in the West* as the sole reformer.

Donors tended to identify the reformer as such, not because he was a change agent in support of market reform, but because he possessed the personal attributes that Westerners responded to favorably. Although the reformer might, indeed, have embraced market reform, the identity markers that Westerners appeared to recognize most often were a pro-Western orientation; the ability to speak English and to converse in the donor vernacular of “markets,” “reform,” and “civil society”; established Western contacts (the more known or influential, the better); travel to and/or study in the West (a privilege generally reserved for the economic elite); and, perhaps most important, a self-proclaimed identity (at least vis-à-vis the West) as a reformer who associated with other reformers.

Westerners often took members of the Clan at face value. As USAID’s Thomas A. Dine stated, “If [Chubais associate] Maxim Boycko tells me that X, Y, and Z are reformers, I believe him.”<sup>6</sup> Dine went on to note that “it’s no secret that nationalists and communists don’t like [Chubais], and perhaps that’s the best proof of all [of his reform credentials].”<sup>7</sup>

The most popular Russian reformers in Western political and aid circles were young, energetic, and adept in their dealings with donors. According to some Westerners’ reports, Chubais was much more presentable than economist Yegor Gaidar, whom Chubais later replaced as “economic reform czar.” Chubais seemed suave and well-spoken. Then in his mid-thirties, he was adept at cultivating and charming his Western contacts. The British magazine *Economist* predicted a future for Chubais as Russian president by the year 2010.<sup>8</sup> Western politicians and investors came to see him as the only man capable of keeping the nation on the troublesome road to economic reform.

Yet identifying reformers on the basis of personal attributes and declared ideological positions, as they looked in the West, clearly had a cost: It alienated and often overwhelmed other reformers and potential reformers, as well as many Russians generally.

It is easy to understand the donors’ impulse to support reformers. As aid coordinator William B. Taylor explained, U.S. assistance chose a narrow focus: “We have a limited amount of money. If you spread your money too thin you probably won’t have as much of an effect. As [USAID administrator] Brian Atwood has said, you can go [in] . . . as a sprinkler and spread out over a lawn or can go in as a fire hose.”<sup>9</sup> Of course, the strategic targeting and coordination of resources are critical. But U.S. policies went further and overlooked other crucial reform-oriented efforts and groups. A self-promoting view that the only

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***“At every step of the way, there were viable and important alternatives to the policy choices that were made and to the West’s strategy.”***

alternative to the Chubais Clan was the Communists, loudly advanced by the Chubais-Harvard transactors (and influential parts of the Western aid and political community), does not hold up under careful scrutiny of Russian events. Throughout the aid story, at every step of the way, there were viable and important alternatives to the policy choices that were made and to the West's strategy of conducting economic reform through political support to the Yeltsin government and one clan.<sup>10</sup>

Indeed, on the Russian side, the Chubais Clan's distinguishing characteristic and primary source of clout was its standing in Western political and aid circles, not ideology or even reform strategy. The position of the Clan was unique. As Russian sociologist Olga Kryshatanovskaya explained it, "Chubais has what no other elite group has, which is the support of the top political quarters in the West, above all the USA, the World Bank and the IMF [International Monetary Fund], and consequently, control over the money flow from the West to Russia. In this way, a small group of young educated reformers led by Anatoly Chubais turned into the most powerful elite clan of Russia in the past five years."<sup>11</sup> The Clan used its claims to this access to successfully promote itself as the legitimate representative of the Russian side.

### The Chubais Clan

The Chubais Clan was a clique, a core group of people who contacted one another for many purposes. The clique was a strategic alliance that responded to changing circumstances and helped its members promote common interests through concentration of power and resources.<sup>12</sup> (This use of "clique" should not be confused with the Russian *klika*, which has a decidedly pejorative connotation—that of an establishment gang.) Sociologist Kryshatanovskaya describes the Russian version of the clique, or clan, as follows:

A clan is based on informal relations between its members, and has no registered structure. Its members can be dispersed, but have their men everywhere. They are united by a community of views and loyalty to an idea or a leader. . . . But the head of a clan cannot be pensioned off. He has his men everywhere[;] his influence is dispersed and not always noticeable. Today he can be in the spotlight, and tomorrow he can redout into the shadow. He can become the country's top leader, but prefer to remain his grey cardinal. Unlike the leaders of other elite groups, he does not give his undivided attention to any one organisation.<sup>13</sup>

Core members of the Chubais Clan were originally brought together through university and club activities in the mid-1980s in what was then Leningrad. Most members of the Clan studied either at the Leningrad Institute of Engineering Production, where Chubais was a student; the Institute of Finance and Economics; or Leningrad State University.<sup>14</sup> Some also were associated with the Leningrad Shipbuilding Institute and the Leningrad Polytechnical Institute.<sup>15</sup> Chubais was an active participant in ECO (Economics and Organization of Industrial Production), a club and a magazine published by the Russian Academy of Sciences. According to Leonid Bazilevich, vice president of the club, who was Chubais's professor and was acquainted with several members of the Clan, members were

“very intensively connected” with one another at that time and were “well oriented to Western economic models.”<sup>16</sup>

Later, in the Gorbachev years of glasnost, some members of the Clan became involved in explicitly political activities and established an informal club that called itself *Reforma*. This club organized special meetings on economic issues that sometimes attracted hundreds of people. *Reforma* put together lists of candidates and platforms for local and national elections, as well as drafts of legislation and a business plan for a free enterprise zone in Leningrad.<sup>17</sup> Later, Chubais and other members of the Clan worked with the mayor of the city, Anatoly Sobchak, and were influential in his administration. In moving from academia to city government, “Chubais brought with him many of the brightest young scholars he had come to know working in Leningrad’s well-developed intellectual circles,” political scientist Robert Orttung points out.<sup>18</sup> Before going to Moscow, several members of the Clan served as first deputy mayor under Sobchak (Chubais, Alexey Kudrin, Sergei Belyaev, and Vladimir Putin—prime minister as of this writing). Some (Chubais, Sergei Belyaev, Eduard Boure, and Mikhail Manevich)<sup>19</sup> headed state privatization agencies there, and still others (Dmitry Vasiliev and Alfred Kokh)<sup>20</sup> worked as deputies in those offices.

Although later, in Moscow, the Chubais Clan took on some powerful members who were not from their home town (notably Maxim Boycko from Moscow, whom Shleifer says he introduced to the Clan), all were tied and obligated to Chubais. Chubais and the Clan depended on and appeared to work closely with still others, for instance Ruslan Orekhov, head of the president’s legal office. According to Shleifer, Orekhov’s association with the group began in 1993, when its members had to work with Orekhov because decrees went through his office.<sup>21</sup>

Although cliques do not necessarily have a center or leader, they have recognized authorities who often retain their standing and influence whether or not they shoulder responsibility.<sup>22</sup> By skillfully manipulating others’ interests, a clique authority builds up a following of those who are under obligation to return past favors and support.<sup>23</sup> According to Bazilevich, members of the Clan supported one another “in critical situations.”<sup>24</sup>

There were powerful reasons for the Clan to stick together after the breakup of the Soviet empire in 1991. Chubais called on members of the group to serve in key government positions because they were members of the group. They discovered that by working together their Western contacts could help them leverage Western support for use as a political and financial resource at home. And, indeed, the Clan did serve as a critical launching pad and resource for Chubais.

### **The Making of the Harvard-Chubais Partnership**

In the late summer and fall of 1991, as the vast Soviet state was breaking up, Harvard professor Jeffrey Sachs and other Western economists participated in meetings at a dacha outside Moscow where young “reformers” planned Russia’s economic and political future. Boris Yeltsin, then president of Russia within the Soviet Union and undermining Mikhail Gorbachev, president of the Soviet Union (which would break up by year’s end), was building his team of advisers. The

long-standing group of associates around Anatoly Chubais were to figure prominently. The group's prestigious Western contacts, which would prove crucial to its success, distinguished it from other parties looking to have a hand in shaping Russia's economic policy.

At the dacha, Sachs, his associate Anders Aslund (a former Swedish diplomat affiliated with Washington think tanks), and several other Westerners offered their services and access to Western money to the Russians. The key Russians present were the economist Yegor Gaidar, who would become the first "architect" of economic reform, and Chubais, who was part of Gaidar's team and who later would take Gaidar's place as chief economic policymaker. Individual Russians paired off with their Western partners to work on economic policy. Chubais, with his savvy, self-starting style, found common ground with Andrei Shleifer, a Russian-born U.S. émigré who, still in his early thirties, had climbed to the pinnacle of academic success in America as a tenured professor of economics at Harvard. Shleifer met Chubais through Sachs.<sup>25</sup> Both Shleifer and Chubais were young, ambitious, and eager to make economic policy history. They combined forces to plan the privatization of Russia's state-owned enterprises.

Supporting the Sachs-Gaidar-Chubais agenda (although not present at the dacha meetings) was yet another Harvard man, Lawrence Summers. In 1991, Summers was named chief economist at the World Bank. In 1993, newly inaugurated President Clinton appointed Summers under secretary of the treasury for international affairs. In this role, Summers was directly responsible for designing the Treasury Department's country-assistance strategies and for the formulation and implementation of international economic policies.<sup>26</sup> He had deep-rooted ties to the principals of Harvard's Russia project. Shleifer credits Summers with inspiring him to study economics;<sup>27</sup> the two received at least one foundation grant together.<sup>28</sup> Summers's publicity quote for *Privatizing Russia*, a book co-authored by Shleifer, declares that "[t]he authors did remarkable things in Russia and now they have written a remarkable book."<sup>29</sup>

Summers had also long been close to Sachs, his colleague from Harvard. Summers hired Sachs's protégé, David Lipton, a Harvard Ph.D. who had been vice president of Sachs's consulting firm, to be deputy assistant secretary of the treasury for Eastern Europe and the former Soviet Union.<sup>30</sup> After Summers was promoted to deputy treasury secretary in 1995, Lipton moved into Summers's old job, and assumed "broad responsibility" for all aspects of international economic policy development. Lipton and Sachs published numerous joint papers and served together on consulting missions in Poland and Russia. "Jeff and David always came [to Russia] together," remarked Andrei Vernikov, a Russian representative at the IMF; "They were like an inseparable couple."<sup>31</sup>

Sachs helped Gaidar to promote a policy of "shock therapy," which aimed to swiftly eliminate most of the price controls and subsidies that had underpinned life for Soviet citizens for decades. Gaidar served as minister of finance and the economy from November 1991 to April 1992, then as first deputy prime minister, followed by acting prime minister to December 1992. By November 1992, Gaidar was under severe attack for failed policies.

Chubais took over where Gaidar left off. To help him in his appointed task, Chubais assembled a group of Westward-looking, energetic associates in their thirties—members of the Chubais Clan. From the start, the “young reformers” together with their Harvard helpmates chose rapid, massive privatization as their showcase reform. Harvard economist Shleifer became director of the Harvard Institute’s Russia project. Another Harvard player was a former World Bank consultant named Jonathan Hay. In 1991, while still at Harvard law school, Hay became a senior legal adviser to Russia’s new privatization agency, the State Property Committee (GKI).<sup>32</sup> The following year, the youthful, hard-working Hay was made the Harvard Institute’s general director in Moscow.

Just what did the Harvard group and the Chubais Clan have to offer each other? One characteristic of the transactorship mode of organizing relations if there is a dominant side is that the main comparative advantage and clout of the group representing the dominant side in the eyes of the other side is the dominant group’s access to and offering of resources. In the early 1990s, many Russian elites looked to the West for solutions. At that time, no one held more sway than Western experts, especially those from Harvard. Yet, although prestige and “symbolic capital” were part of Harvard’s attraction, money was the magnet that wedded the Harvard group to the Chubais Clan.

With aid money and Harvard’s involvement, the Chubais Clan, which Deputy Secretary Summers later called a “dream team,” came to occupy important positions in the Russian government.<sup>33</sup> Made significant by virtue of hundreds of millions of Western dollars, Chubais was a useful figure for Yeltsin: first as head of the GKI, beginning in November 1991, then additionally as first deputy prime minister in 1994, and later as the lightning rod for complaints about economic policies after the Communists won the Russian parliament (Duma) election in December 1995. Chubais made a comeback in 1996 as head of Yeltsin’s successful reelection campaign and was named chief of staff for the president. In March 1997, Western support and political maneuvering catapulted Chubais to first deputy prime minister and minister of finance. Although fired by Boris Yeltsin in March 1998, Chubais was reappointed in June 1998 to be Yeltsin’s special envoy in charge of Russia’s relations with international lending institutions.

Chubais came to be on intimate terms with many Western officials, including the highest executives of the IMF, the World Bank, and the U.S. government, including Deputy Treasury Secretary Summers. In a letter of April 1997 (obtained and published by *Nezavisimaya Gazeta*) from Summers to Chubais, addressed “Dear Anatoly,” Summers instructed Chubais on the conduct of Russian foreign and domestic economic policy.<sup>34</sup>

As Russia roiled in economic ruin in July 1998, Summers entertained Chubais, who had been appointed a month earlier to the new post, in his home for brunch, where officials worked out the details of an emergency IMF loan. The meeting was crucial in obtaining release of the funds, according to a *New York Times* report.<sup>35</sup> After the crash a month later, Chubais, the chief negotiator of the bailout, said he had “conned” from the IMF its last \$4.8 billion tranche.<sup>36</sup> Even this state-

ment brought administration officials to Mr. Chubais's defense.<sup>37</sup> As we now know, the IMF money disappeared in short order.<sup>38</sup>

Nevertheless, Chubais remained a favored son of the Washington establishment. In Washington in May 1999, Chubais, now chairman of the electricity monopoly United Energy Systems, was received by Summers, Treasury Secretary Robert Rubin, Secretary of State Madeleine Albright, Undersecretary Strobe Talbott, and National Security Adviser Sandy Berger, as well as top officials in the IMF and the World Bank.

Later, in August and September 1999, newspapers reported that billions of dollars had been channeled through the Bank of New York in a major money laundering operation,<sup>39</sup> and that the source of some of the money may have been IMF loans.<sup>40</sup>

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***“USAID was persuaded to largely delegate responsibility for America’s role in reshaping the Russian economy to the Harvard Institute group.”***

Among those under investigation for alleged money laundering were Anatoly Chubais and other current and former members of Yeltsin’s government.<sup>41</sup>

#### **Working the American Side**

On both sides in the U.S.–Russia case, the transactors, even if formally serving their respective governments, supplanted the governments’ structures and authority through the informal parallel executive structure that they set up. On the U.S. side, this involved special treatment accorded the Harvard Institute group through high government directives promoted by Harvard-connected administration officials. Competitive bidding and other standard government regulations and procedures were largely circumvented.

Without experience in Russia and under obligation to carry out congressional spending mandates, an insecure foreign aid vehicle, the U.S. Agency for International Development (USAID), was persuaded to largely delegate responsibility for America’s role in reshaping the Russian economy to the Harvard Institute group. The Harvard Institute’s first award from USAID for work in Russia came in 1992, during the Bush administration. Over the next four years, between 1992 and 1997, with the endorsement of influential proponents in the Clinton administration, the Institute received \$40.4 million from USAID in noncompetitive grants for work in Russia. It was slated to receive another \$17.4 million until USAID suspended its funding in May 1997, citing allegations of misuse of funds.<sup>42</sup> Approving such a large sum of money as a noncompetitive “amendment” to a much smaller award (the Harvard Institute’s original 1992 award was \$2.1 million) was highly unusual, according to U.S. officials.<sup>43</sup> Also highly unusual was the citing of “foreign policy” considerations—that is, the national security of the United States—as the reason for the waiver.

Nonetheless, the waiver was endorsed by five U.S. government agencies, including the Department of the Treasury and the National Security Council

(NSC), two of the leading bodies making U.S. aid policy toward Russia (and Ukraine). From Treasury, the Harvard-connected David Lipton and Lawrence Summers supported the Harvard Institute projects. Carlos Pascual signed the waiver on behalf of USAID in his capacity as USAID's deputy assistant administrator of the Bureau for Europe and the New Independent States. Pascual's support for Harvard Institute projects continued, and he was later promoted to the NSC, with his current title of special assistant to the president and senior director for Russian, Ukrainian, and Eurasian Affairs.<sup>44</sup>

The Harvard Institute enjoyed a special standing in the U.S. aid bureaucracy and secured terms that were different from, and more advantageous than, those for many other aid contractors. Harvard-connected key officials were responsible for handing the Institute not only the bulk of USAID's economic reform portfolio in Russia, but also the legal authority to manage other contractors. In addition to receiving millions in direct funding, the Institute helped steer and coordinate USAID's \$300 million reform portfolio in grants to the Big Six accounting firms and other companies such as the public relations firm Burson Marsteller.<sup>45</sup> These awards put the Harvard Institute in the unique position of recommending U.S. aid policies in support of market reforms while being a chief recipient of the aid, as well as overseeing other aid contractors, some of whom were the Harvard Institute's competitors.

Because of its special standing with USAID and other government agencies, the Chubais-Harvard transactors were able to urge contractors to use certain institutions and people. Jonathan Hay, the Harvard Institute's general director and its public face in Moscow, assumed large power over contractors, policies, and program specifics. He had easy access to the powerful Chubais Clan, but also served as its spokesman. The Institute sometimes spoke on behalf of the Chubais Clan, sometimes on behalf of itself as an aid contractor, and sometimes also as a contractor managing the projects of competitor contractors. Thus, from an American perspective, the Harvard Institute appeared to have a conflict of interest.

Beginning in 1992, Hay served as a key link between the Chubais Clan and the aid community at large. Donor officials, contractors, and even General Accounting Office (GAO) investigators wanting to talk to Russian officials responsible for aid were directed instead to Hay. Hay said he viewed his role as "getting policy focused right and turning that into a message for donors," which included helping Chubais and others to prepare requests to the leadership of USAID that communicated what the Russian government wanted to do.<sup>46</sup> Many consultants not connected to Harvard indicated that Hay had some control over their purse strings and that he spoke on behalf of the Russian government (that is, the Chubais Clan) to USAID. Thus, it is not surprising that at a meeting that I observed among Hay, representatives of the Clan, and senior aid-paid Western consultants, the consultants treated Hay with considerable deference.<sup>47</sup>

All this meant that, in practice, and under cover of economic aid, the United States delegated to the Harvard Institute, a private entity, foreign policy in a crucial area that involved complicated choices. This arrangement eventually came under scrutiny. In 1996, Congress asked the GAO to investigate the Harvard Insti-

tute's activities in Russia and Ukraine. The GAO found that "HIID served in an oversight role for a substantial portion of the Russian assistance program,"<sup>48</sup> that the Harvard Institute had "substantial control of the U.S. assistance program,"<sup>49</sup> and that USAID's management and oversight over Harvard had been "lax."<sup>50</sup>

In 1997, as the result of another investigation, this time by USAID itself, USAID canceled nearly \$14 million of its commitments to the Harvard Institute amid allegations that Andrei Shleifer and Jonathan Hay, the Russia project's two principals, had "abused the trust of the United States Government by using personal relationships . . . for private gain."<sup>51</sup> In May 1997, the Harvard Institute fired the two men, citing evidence that they had used their positions and inside knowledge as advisers to profit from investments in the Russian securities markets and other private enterprises. Although acknowledging that they participated in and benefited from many of the alleged activities, Hay and Shleifer denied that the activities constituted a conflict of interest with their official positions. As of this writing, the men remain under criminal and/or civil investigation by the U.S. Justice Department, according to sources close to the investigation.<sup>52</sup> Tellingly, USAID Deputy Administrator Donald Pressley acknowledged: "We had even more than usual confidence in them [Harvard advisers], and that's one reason we are so distressed that this has occurred."<sup>53</sup>

### **Working the Russian Side**

Given the "open historical situation" and the fact that the workings of the new system were far from established, the Russian side was much more easily maneuvered than the American one. In the Russian context, the very concept of "the state" may be problematic. It is easy to see how clans could significantly shape society, politics, and the economy in what appears to have crystallized into a "clan-state."<sup>54</sup>

The notion of the clan-state builds on Graham's observation that Russia is run by rival clans.<sup>55</sup> Under the clan-state, individual clans, each controlling property and resources, are so closely identified with particular ministries or institutional segments of government that their agendas and activities sometimes seem identical. Whereas the Chubais Clan was closely identified with segments of government concerned with privatization and the economy, competing clans had equivalent ties with other government organizations, such as the "power ministries" of defense and internal affairs, and the security services.

In the clan-state there is little separation of the clan from the state. The same people, with the same agenda, constitute both the clan and the relevant state authorities. The clan is at once the judge, jury, and legislature. The clan-state has limited outside accountability, visibility, and means of representation for those under its control. Generally, a clan's influence can be checked or constrained only by a rival clan, as judicial processes are often politically motivated.

Loyalty to the clan above any institution for which clan members are formally working or with which they are affiliated is an essential ingredient of the Russian clan system. Members of a clan are "institutional nomads," in that their loyalty is primarily to the group, rather than to any particular institution with which



they are associated.<sup>56</sup> The clan places its people in various formal and informal positions where they can access resources to serve clan agendas; it moves members around as it serves the clan's goals.

The Chubais Clan positioned its members in many crucial activities and institutions. Beginning in 1992, Chubais acquired a broad portfolio, ranging from privatization and the restructuring of enterprises, to legal reform and the development of capital markets and a regulatory framework for business and securities transactions.<sup>57</sup> A number of commissions dealing with bankruptcies, tax arrears, and debt were set up under Chubais, who also headed the GKI and in 1994 became first deputy prime minister. The creation of the Commission on Economic Reform in 1995 was further confirmation, as the Russian newspaper *Kommersant Daily* stated, that “a new center of economic power is being created around First Deputy Prime Minister Anatoly Chubais.” With “very great” powers, the commission was described as “a quasi-Council of Ministers . . . in direct competition with the bodies that have already been vested with such powers.”<sup>58</sup> As sociologist Krysh-tanovskaya summed it up, “Gradually, his [Chubais's] men started controlling not just privatization, but also the anti-trust policy, the bankruptcy mechanism, taxes, relations with regions (including the organization of the gubernatorial elections) and what was called ‘the propaganda work’ in Soviet times.”<sup>59</sup>

Further increasing their influence, the Chubais-Harvard transactors employed an important principle of transactorship: that transactors, limited in what they can achieve through open lobbying and parliamentary processes, often bypass them. The transactors operated through presidential decrees, the preferred method for many market reforms. Harvard general director Jonathan Hay and his associates drafted some of the decrees. The transactors bragged that after the privatization program passed Russia's parliament, “every subsequent major regulation of privatization was introduced by presidential decree rather than parliamentary action.”<sup>60</sup> Moreover, a 1996 presidential directive dictated that only Chubais (at the time chief of staff) had the authority to decide whether presidential decrees were ready to be signed. The directive could be circumvented only on receiving direct instructions from the president.<sup>61</sup>

Despite the fact that building democracy was a stated goal of the aid community, many aid officials embraced this dictatorial *modus operandi*. They promoted presidential decrees and the circumvention of parliamentary authority, viewing such practices as efficient means of achieving market reform. As USAID's Walter Coles, a key American official in the privatization and economic restructuring program in Russia, pointed out, “If we needed a decree, Chubais didn't have to go through the bureaucracy.” Acknowledging the lack of political support for many reform measures, Coles said, “There was no way that reformers could go to the Duma [the parliament set up in 1993] for large amounts of money to move along reform.”<sup>62</sup>

However, as the U.S.–Russian aid case has shown, without public support or understanding, decrees are a very weak basis for achieving the stated goal of economic aid, that of helping to build a market economy. Some reforms, such as lifting price controls, could be achieved by decree. But many other reforms advo-

cated by the aid community, including privatization and economic restructuring, depended on changes in law, public administration, or mindsets and required working with the full spectrum of legislative and market participants, not just one clan. Without support from the parties to the reform process, reforms were likely to be subverted in the process of implementation.<sup>63</sup>

As stated earlier, transactors, although they may share the overall goals of the sides they represent, may advertently or inadvertently subvert those goals in pursuing their own private agendas. The Chubais-Harvard transactors were known to block reform efforts on occasion. In particular, the transactors obstructed reform initiatives when they originated outside their own group or when the initiatives were perceived as conflicting with their agendas.<sup>64</sup> When a USAID-funded organization run by the Chubais-Harvard transactors did not receive the additional USAID funds it had expected, its leaders interfered with legal reform activities concerning title registration and mortgages that were launched by agencies of the Russian government.<sup>65</sup> The transactors' interference with the record of property put them at cross-purposes with their own philosophical goals of fostering markets.

### **Flex Organizations**

The Chubais-Harvard transactors took advantage of the clan-state organization and may have helped to further develop it. With their resource base of funding from outside, the transactors set up and ran a network of aid-funded private organizations to promote the transactors' agendas. Although these organizations were formally private, they often carried out functions that ought to have been the province of the state. The organizations helped the transactors to bypass government, bureaucracy, and parties they found necessary to circumvent. This informal parallel executive structure enabled by foreign funding mimicked the dual system under communism, in which many state organizations had counterpart Communist Party organizations that wielded the prevailing influence.

For many in the donor community, channeling money through private organizations was ideal, because that would circumvent inefficient and cumbersome bureaucracy. In the U.S.–Russia aid case, such organizations enabled the transactors to bypass legitimate bodies of government, such as ministries and branch ministries relevant to the activities being performed, and to circumvent the democratically elected Duma. Indeed, the transactor-run organizations frequently carried out key functions of the state (for example, negotiating loans with the international financial institutions, making and executing economic policy, and implementing legal reform). This network of “private” organizations that were parallel to state organizations facilitated the Clan's operations in multiple arenas and served to expand its influence. USAID's Walter Coles conceded that the organizations were “set up as a way to get around the government bureaucracy.”<sup>66</sup>

The influence of transactor-run organizations is further enhanced by their ambiguous, “flex” quality. Flex organizations play multiple and conflicting roles and can switch their status and identity as convenient. They can claim to be of

one side or another (Russian or American). They are constantly blending and/or traversing the spheres of state and private and of bureaucracy and private enterprise. (Note that the uncritical application to Russia of Western dichotomies of state and private is analytically problematic.)<sup>67</sup> Flex organizations appear to be quite compatible with the Russian context, in which control and influence, not ownership, are pivotal.<sup>68</sup> The flexibility they afford lends maneuverability to the transactors, which enhances their effectiveness and resiliency.

Adding to the apparent impressiveness of the Chubais-Harvard transactor organizations was the fact that they were run largely by Russians. What donors often missed was that, needing a repository for funds, the model organizational structures they laid down were

created for their own convenience. Although some of the organizations possessed the vestiges of formal organizations, such as mission statements, boards of directors, and bookkeeping practices that could be described in an annual report, there was no assurance that any of this would work according to the donors'

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***“A Russian and an American—both representing a private entity—were approving major privatization decisions on behalf of the Russian state.”***

conceptions, or that funds would be used in the way the donors had envisioned. Finally, although the USAID–created, transactor-run organizations had separate names and stated functions, the organizations all were spawned, operated, and run by the Chubais-Harvard transactors and their associates. The donors' reports discussed the organizations without indicating their links to one another, but they were all part of the same family.

The donors' flagship organization was the “private,” Moscow-based Russian Privatization Center (RPC). The RPC was held up by many in the aid community as a model for other aid-supported organizations. With the Harvard Institute's help, the RPC received some \$45 million from USAID,<sup>69</sup> millions of dollars more in grants from the EU, the governments of Japan<sup>70</sup> and Germany, the British Know How Fund, and “many other governmental and non-governmental organizations,” according to the RPC's annual report.<sup>71</sup> The RPC also received loans both from the World Bank (\$59 million) and the European Bank for Reconstruction and Development (\$43 million) to be repaid by the Russian people/state.<sup>72</sup>

The RPC epitomized the operations of the aid-supported Chubais-Harvard transactors. The RPC was closely tied to Harvard in multiple ways, only one of which was characterized by a USAID–supplied explanation: that the Harvard Institute provided management support to the RPC.<sup>73</sup> RPC documents state that the Harvard Institute was both a “founder” and “Full Member of the [Russian Privatization] Center,” which is the “highest governing body of the RPC.”<sup>74</sup> Harvard's Andrei Shleifer served on the board of directors, along with Anders

Aslund, long connected to Sachs and Shleifer. Aslund helped to deliver Swedish government monies to the RPC and served as a broker between the Chubais-Harvard transactors and the governments of Sweden and the United States. Members of the Clan appointed one another to serve in the founding, governing, and management structure of the RPC, including Chubais (chairman of the board), Boycko (managing director until 1 July 1996), Eduard Boure (managing director after 1 July 1996), and Dmitry Vasiliev (deputy chairman of the board), who also served as a vice chair of the GKI.<sup>75</sup> Chubais, who recruited the RPC's board members, continued to serve on it even after Yeltsin dismissed him from government.<sup>76</sup>

Formally and legally the RPC was a nonprofit, nongovernmental organization. But the "private" RPC was established by Russian presidential decree and received foreign aid funds because it was run by the Chubais "reformers," who played key roles in the Russian government. Lending credibility to its appearance as a "government" organization, the RPC's tasks included helping to make policy on inflation and other major macroeconomic issues, as well as negotiating loans with international financial institutions. Even more convincing was the fact that the RPC had more control than the GKI over some secret privatization documents and directives, according to the Chamber of Accounts, Russia's rough equivalent of the GAO. Two RPC officials were authorized to sign privatization decisions (Boycko and the American Jonathan Hay).<sup>77</sup> So a Russian and an American—both representing a private entity—were approving major privatization decisions on behalf of the Russian state.

The largesse that flowed through the RPC appears to have been much greater than the sum-total of all these figures would indicate. The RPC's chief executive officer, Chubais Clan principal Maxim Boycko, has written that he managed some \$4 billion from the West while head of the RPC, according to Chamber of Accounts auditor Veniamin Sokolov. The Chamber of Accounts has attempted to investigate how some of this money was spent. A report issued by the Chamber in May 1998 shows that the "money was not spent as designated. Donors paid hundreds of thousands of dollars for nothing . . . for something you can't determine."<sup>78</sup>

A confidential 1996 report commissioned by the State Department's coordinator of U.S. assistance to the NIS called the Russian Privatization Center "substantially over funded and largely 'an instrument in search of a mission.'"<sup>79</sup> The report also said that the center suffers from "imperial overstretch."<sup>80</sup> And there were many reports by aid-paid consultants that the center and its network of Local Privatization Centers were used for political purposes.<sup>81</sup>

Thus the transactor-created, aid-funded organizations had a chameleonlike quality: They could switch their status and identity situationally. They were situated somewhere between state and private, between the Russian government and Western donors, and between Western and Russian allegiance and orientation. They were sometimes private, sometimes state, sometimes pro-Western, sometimes pro-Russian. Whatever their predilection at a given moment, the organizations were run by the Chubais-Harvard transactors (with financial support from USAID through Harvard and U.S. contractors)<sup>82</sup> and served as the

transactors' domain and political and financial resource to allocate in the communist tradition, through patronage networks such as those that had virtually run the Soviet Union.

### Transidentities

Not only can transactor-run organizations switch status and identity according to the situation, but so can some of their individual members. Under transactorship, one source of flexibility and influence lies in “transidentity capabilities”: the ability of a transactor to shift his identity at will, regardless of which side originally designated him as a representative.<sup>83</sup>

Key Chubais-Harvard transactors had transidentity capabilities in that they could switch their national identity back and forth as convenient: sometimes as Russian representatives, sometimes as American ones, regardless of which side they came from. The *same* individual could represent the United States in one context and Russia in another, as called for by circumstance.

A significant example is that of the Harvard Institute's Russia project general director Jonathan Hay. Hay's transidentity was institutionalized by policies and procedures on both sides. Formally a representative of the United States, Hay interchangeably acted as an American and a Russian. As an American, Hay not only acted as Harvard's chief representative in Russia, but also exercised formal management authority over other U.S. contractors, which the U.S. government had granted to the Harvard Institute under a cooperative agreement. In addition to being among the most influential foreign consultants in Russia, Hay was also appointed by members of the Chubais Clan to be a Russian. As a Russian, Hay was empowered to sign off on pivotal, high-level privatization decisions of the Russian government.<sup>84</sup> According to a U.S. official investigating Harvard's activities, Hay “played more Russian than American.”

Another example of transidentities is that of Julia Zagachin, an associate of Hay. Zagachin was an American citizen married to a Russian who was chosen by Chubais Clan principal Dmitry Vasiliev, head of the Russian Federal Securities Commission, to assume a position designated for a Russian citizen. Zagachin was to run the First Russian Specialized Depository, which holds the records of mutual fund investors' holdings and was funded by a 1996 World Bank loan. As journalist Anne Williamson has reported, the World Bank had established that the head of the depository was to be a Russian citizen. But Vasiliev and other members of the Clan had determined that if their associate Zagachin headed the depository, they would retain greater control over its assets and functions, so as to evade accountability if necessary.<sup>85</sup>

It was also difficult to pin down prominent consultants on the international circuit in terms of whom they represented, whom they were working for, who paid them, and where their ambitions lay. Harvard economist Jeffrey Sachs is a case in point. According to journalist John Helmer, Sachs and his associates (including David Lipton, who later went to Treasury with Lawrence Summers) played both the Russian and the IMF sides. During negotiations in 1992 between the IMF and the Russian government, Sachs and associates appeared as advisers to the

Russian side. However, as Helmer writes, “they played both sides, writing secret memoranda advising the IMF negotiators as well.”<sup>86</sup>

Adding to the ambiguity was the question of whether Sachs was an official adviser to the Russian government. Although he maintains that he was<sup>87</sup>— and he certainly was often portrayed as such in the West—key Russian economists as well as international officials say his primary role was promotional<sup>88</sup> rather than policymaking.<sup>89</sup> Jean Foglizzio, the IMF’s first Moscow resident representative, was taken aback by Sachs’s practice of introducing himself as an adviser to the Russian government. As Foglizzio put it, “[When] the prime minister [Viktor Chernomyrdin], who is the head of government, says ‘I never requested Mr. Sachs to advise me’—it triggers an unpleasant feeling, meaning, who is he?”<sup>90</sup>

Sachs also offered his services as an intermediary. According to Andrei Vernikov, a Russian representative to the IMF, and other sources, Sachs presented himself as a power broker who could deliver Western aid. In 1992, when Yegor Gaidar (with whom Sachs had been working) was under attack and his future looked precarious, Sachs offered his services to Gaidar’s parliamentary opposition. In November 1992, Sachs wrote a memorandum to the chairman of the Supreme Soviet, Ruslan Khasbulatov (whose reputation in the West was that of a retrograde communist), offering advice, Western aid, and contacts with the U.S. Congress. (Khasbulatov declined Sachs’s help after circulating the memo.)<sup>91</sup> Sachs was also adept at lobbying American policymakers, as indicated, for example, in U.S. State Department memoranda.<sup>92</sup>

An associate of Sachs’s and another ubiquitous transactor was Anders Aslund. Aslund was a former Swedish envoy to Russia who later worked with Sachs and Yegor Gaidar. Aslund appeared to represent and to speak on behalf of American, Russian, and Swedish governments and authorities. For example, he was seen by some Russian officials in Washington as Chubais’s personal envoy in Washington. Although a private citizen (of Sweden), he participated in high-level, closed meetings shaping U.S. and IMF policies toward Russia in the Departments of Treasury and State.<sup>93</sup> And he was known to have played a role in Swedish aid and policy toward Russia, as stated earlier.<sup>94</sup>

Aslund was also involved in brokering business activities in Russia<sup>95</sup> and Ukraine.<sup>96</sup> He had “significant” business investments in Russia, according to Vyacheslav Razinkin, head of the Interior Ministry’s Department of Organized Crime.<sup>97</sup>

In addition to (or perhaps as part of) his work for governments and the Chubais Clan and business, Aslund was paid to do public relations. His assignment in Ukraine, where he also was active and funded by George Soros’s Open Societies Institute, explicitly included public relations on behalf of Ukraine, according to Soros-funded advisers who worked with Aslund in Russia and Ukraine.<sup>98</sup> His effectiveness in this role no doubt was enhanced by his affiliation with Washington think tanks, his frequent contributions to publications such as the *Washington Post* and the *London Financial Times*, and the fact that he was invariably presented as an objective analyst despite the promotional roles he additionally played.

Thus, a crucial feature of the transactorship mode of organizing relations is that it institutionalizes flexibility and affords maximum leeway for transactors to play on their transidentities. The most effective transactors are the ones most skilled at exploiting this flexible structure; they have multiple roles and identities at their disposal and are adept at working them.

### **Intra Transactions**

Still another source of maneuverability and influence of the transactorship mode of organizing relations lies in the ability of the transactors from one side to speak on behalf of those from the other side. With the backing of the United States, other donor nations, and the international financial institutions, the Chubais Clan and the Harvard Institute group were loyal and mutually dependent: Each was the other one's entree. The Clan was Harvard's avenue to Russia, key to its ability to claim clout and contacts with the Russian government. In turn, Harvard was the Clan's channel to U.S. policymakers and aid dollars, although members of the Chubais group learned to cultivate their own contacts and subsequently often spoke on their own. Jonathan Hay often spoke on behalf of Maxim Boycko, Dmitry Vasiliev, and other Chubais Clan members.

One feature of transactorship is that the transactors on each side lobby for and promote the transactors on the other side. Each side's transactors become the mechanisms and funnels through which the sides gain access to the each other as a whole. In fact, a key source of legitimacy and clout of each side's transactors is their supposed access to transactors on the other side, whose reputations they help promote on their side. Each side's representatives must wield influence to ensure that their partners on the other side continue to have clout and standing on both sides. Otherwise, the opportunities and advantages that the transactor group enjoys could be greatly compromised.

In lobbying for aid contracts, the Harvard Institute group continually cited its access to Russian "reformers" as its primary comparative advantage as advisers; this access was a key part of the Harvard group's public relations efforts. Lobbying was very effective because the structure of authority was, in many ways, *ad hoc* and allowed to be so, because USAID's management practices were often fragmented and ambiguous. If a member of the partnership failed to get a "yes" in one place, he often went up the ladder (or around it) until a "yes" was provided. When he did not get a hearing to his satisfaction or was turned down by lower or local USAID authorities, he had the option of going directly to high authorities, often the U.S. Department of State's coordinator of NIS assistance, Richard L. Morningstar. Jonathan Hay, Maxim Boycko, Dmitry Vasiliev, and Ruslan Orekhov all made trips to Washington to talk to Morningstar and/or lobbied him directly when they were stymied somewhere down the chain. Some officials high in the chain of command in the U.S. executive branch strongly endorsed Harvard's role in Russia.

The Chubais Clan and Harvard were not only loyal to each other, but with the backing of U.S. officials, they also employed loyalty as a key strategy for success. After Chubais was dismissed by Yeltsin as first deputy prime minister in Jan-

uary 1996, he was placed on the Harvard Institute payroll,<sup>99</sup> a move that U.S. aid officials defended.<sup>100</sup>

Similarly, when Stanford University, not Harvard, was awarded a contract to work with the Clan-run Russian Federal Commission on Securities and the Capital Market, Vasiliev turned down Stanford's help. Harvard Institute director Shleifer explained that Vasiliev "had a group of people he was working with. The people at Stanford were on record [as] being extremely hostile to privatization. . . . He didn't want to work with them." Also, because Vasiliev was getting a loan from the World Bank, Shleifer remarked, the "AID loan doesn't matter as much."<sup>101</sup> The Clan managed to wring additional funds out of USAID for the same

project that Stanford was to have worked on, now with Harvard as the partner. In September 1995, the Russian Federal Commission and the Harvard Institute received \$1.7 million as an amendment to the 1992 cooperative agreement.

It is conceivable that the latitude inherent in transactorship could raise questions about the legitimacy of an

actor's claims to represent the side from whence he comes. However, in transactorship the opposite happens: A transactor, formally representing one side, can arrange entree for fellow transactors, formally representing the other side, to his side.

The same is true at the group level: A characteristic of transactorship is that the transactor group elevates, and helps to create acceptance of, the other side's transactors as the most legitimate representatives of that side. In the United States, Harvard reinforced Chubais as a signifier, or identity marker, for Russia, and Chubais became the quintessential enlightened Russian to many U.S. policy makers. Further, Chubais's association with Harvard lent him legitimacy in Russia, at least in some circles at some times. (That was not always the case, as the Westward-looking Chubais Clan found itself smack in the middle of a long-standing and continuing theme in Russian history: the tension between modernizing and Westernizing forces on the one hand, and adapting traditionalists on the other.)<sup>102</sup> Likewise, in Russia, the Chubais Clan reinforced Harvard as a signifier, or identity marker, for the United States.

In this way, transactors originating from different sides reinforce each other's identities *as a member of the other*.<sup>103</sup> Moreover, the process by which transactors reinforced the other to each other's sides served to fortify the influence and identity of the transactors *as a group*. Therefore, an important feature of transactorship is that transidentity could simultaneously strengthen the distinctive identity of an actor, the identity of that same actor as the "other," and the identity of the transactor group as such.

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***"The Chubais-Harvard transactors extended themselves into many important spheres and institutions, not only Russian economic reform and foreign aid."***



### Maximizing Opportunities

The latitude that the transactorship setup permits—through flex organizations, transidentities, and the interchangeability of one side’s transactors with those of the other—appears to encourage transactors to extend their activities into other areas. Transactors can use the access provided by the transactorship relationship to maximize their opportunities in many arenas. Transactors, who have been officially designated as the vehicles through which relations between the two sides are organized, are not supposed to be working on behalf of their own individual interests or those of the transactor group. But having identified a unified agenda and significant common interests that can be best achieved by working within the transactor group, that is precisely what the transactors do—all the while supposedly merely acting on behalf of their respective sides.

The Chubais-Harvard transactors extended themselves into many important spheres and institutions, not only Russian economic reform and foreign aid. The entree, legitimacy, and resources that they had by virtue of aid facilitated their influence in other areas, both in Russia and internationally, and allegedly also facilitated their acquisition of personal wealth.

The “open opportunities situation” appears to have encouraged the transactors to take on multiple roles and identities and use them to the advantage of individual transactors, their associates, and the group as a whole. This stoked allegations of corruption on all sides. Members of the Chubais Clan—the very group that Treasury Secretary Summers had called a “dream team”—were consistently under investigation in Russia. There were many substantiated reports of the Chubais group’s using public monies for personal enrichment.<sup>104</sup> The Harvard group also allegedly misused aid funds, as stated earlier. According to sources close to the U.S. government’s investigation of the Harvard Institute’s activities, Jonathan Hay used his influence, as well as USAID–financed resources, to help his friend Elizabeth Hebert set up Pallada Asset Management, a mutual fund in Russia. A third transactor, Sergei Shishkin, appeared as needed, once as head of the U.S.–funded, Chubais-Harvard group–run Institute for Law Based Economy, sometimes as the director of five Russian companies, among them Pallada. After U.S. investigators noticed this, new Pallada documents materialized without Shishkin’s name.

Pallada became the first mutual fund to be licensed by Russia’s Federal Securities Commission, run by Chubais Clan principal Dmitry Vasiliev. Vasiliev approved Pallada ahead of both Credit Suisse First Boston and Pioneer First Voucher, much larger and more established financial institutions.<sup>105</sup> Moreover, as reported in Russia, Vasiliev’s commission entrusted Pallada—without a competitive tender and with funding from the World Bank’s Investment Protection Fund—with management of a government fund to compensate victims of equities fraud. Russia’s Chamber of Accounts reported that an investigation had revealed that not a single kopeck had been paid to a defrauded investor in the first year and a half of the fund’s existence, although the fund’s Western consultants had been receiving their salaries.<sup>106</sup>

Another piece of the Harvard commercial puzzle involved the First Russian Specialized Depository, discussed earlier. Hay associate Julia Zagachin was

selected to run the depository even though she lacked the required capital. Ostensibly, there was to be total separation between the depository and any mutual fund using its services. But the selection of Zagachin defied this tenet of open markets: Both the depository and Pallada were run by people with close ties through the Harvard group.<sup>107</sup> And so the very people who were supposed to be the trustees of the system not only undercut the aid program's stated goal of building lasting, nonaligned institutions, but operated in a way that echoed the Soviet practice of skimming assets for the benefit of the nomenklatura.

Another example of the Chubais-Harvard transactors in action, a story detailed by journalist Anne Williamson, is that of Harvard's endowment fund. Harvard's endowment managers and billionaire financier George Soros, who were connected to the Chubais-Harvard group, were curiously the only two foreign entities to get in on some of the most lucrative gems of Russian industry—from which foreigners were excluded by regulation.<sup>108</sup> In testimony before the House Banking Committee in September 1998, Soros was asked how he was able to participate in the deals. He explained: "I think that there were no foreign investors in that because we were a part of a Russian group that bid. I would say I was part of the crony stuff that was going on, and it was that [sic] still the old deal where the various groups divided this place among themselves."<sup>109</sup>

The Chubais-Harvard transactors arranged for their associates to be well represented on the high-level Gore-Chernomyrdin Commission, which helped to facilitate cooperation on U.S.–Russian oil deals and the Mir Space Station. Shleifer was named special coordinator of the Capital Markets Forum's working groups and was the only representative to all four working groups. In addition, Jonathan Hay's girlfriend, Elizabeth Hebert, served with CEOs from Salomon Brothers, Merrill Lynch, and other powerful American-based investment houses. In fall 1997, Congress asked the GAO to look into Harvard's role in the Gore-Chernomyrdin Commission.

Operating as part of a strategic alliance enables members of the transactor group to take advantage of openings in a free-floating environment that is rife with lucrative opportunities as well as risk and uncertainty. With the transactor group as the unit of decision making, this is a different unit of economic analysis and decision making than is usually considered. Individual players must take the interests of their fellow transactors into account when making choices. Although *individuals* are often thought of as the primary units to take advantage of economic opportunities, in the environments in which the transactors operate, the unit of analysis of responses to economic incentives is not necessarily the individual; it is often the transactor *group*.

Because the transactors' success is grounded in mutual loyalty and trust, and because of their shared record of activities, some of which may open them up to allegations of corruption and to legal actions, there are considerable incentives for the transactors to stick together. Polish sociologist Adam Podgorecki has aptly called this phenomenon "dirty togetherness."<sup>110</sup> Because an individual's well-being is dependent on the transactor group, with which he shares a dubious record, any desertions must be well considered.

Although Western donors were inclined to view the loyalty exhibited by the Chubais Clan as part of its effectiveness, many Russians regarded the Clan as a communist-style group that was adept at commandeering resources for itself. Long-established loyalty might mean “They’re effective” in the West, but in Russia it tended to mean “They’re sharing money.”

### **Institutionalized Deniability**

Institutionalized deniability is a fundamental feature of the transactorship mode of organizing relations between sides. Transactorship affords the transactors maneuverability in three capacities: as organizations, as transactors speaking for the opposite side, and as individuals. The ability of transactors from both sides operating in all three capacities to assume different statuses (for example, official or private) and identities (for example, American or Russian interchangeably) increases the potential influence of the transactors on *both* sides and in the wider world.

The Chubais-Harvard transactors’ near monopoly on aid in support of market reform, which they often realized through decree and quasi-private organizations often supplanting the state, made it easy for the transactors actively to pursue their own individual interests and to work on all sides of the table both in Russia and with the donors. The transactors worked through the donor community to influence aid policies toward Russia, to direct the allocation of aid grants and loans, and then to manage the monies themselves. Chubais signed letters requesting foreign aid while he and his associates also were the recipients of the aid.

Thus, the Chubais-Harvard transactorship appeared virtually “seamless,” as one observer put it. It was like a game of musical chairs, with Chubais and other key players directing when the music would be turned on and off. This game, in which roles were constantly being switched depending on the situation, facilitated deniability on at least three levels: transactor-run organizations, individual transactors, and transactors from one side representing the other.

With regard to organizations, if donors found themselves under fire for funding controversial privatization practices of the Russian state, they could disassociate themselves from the state because they were funding “private” organizations, even if those organizations were controlled or strongly influenced by key officials of the state. With regard to individual transactors, as pointed out earlier, if Harvard’s manager in Moscow was asked by U.S. authorities to account for privatization decisions and monies, he could say he made those decisions as a Russian.

Further, each side could publicly blame the other if they came under close scrutiny. If the Chubais Clan came under fire from countrymen for public policies or misuse of funds, the Clan could disassociate itself from the Americans. If it came under fire from the West, the Clan could claim that cynical and selfish American contractors were at fault. My analysis of U.S. aid to the Chubais Clan<sup>11</sup> prompted Clan member Maxim Boycko to respond by attacking American consultants. In an article in a major Russian newspaper, Boycko wrote, “The most important thing for a [Western] firm is to secure a big government contract and report back to its own government of [having] complet[ed] it. . . . Evidently, when

the American side was to account for the work done to those who gave them contracts, it was dreamed up—in order to increase their own weight and importance—that American specialists had a powerful influence on Chuba[i]s.”<sup>112</sup>

Finally, as the manager of other aid contractors, the Harvard Institute could represent its own interests as an aid contractor, while as a representative of the Russian government, the Harvard Institute’s Jonathan Hay could represent the interests of Harvard and/or those of the Chubais Clan.

The play of identities that transactorship affords enables maximum maneuverability and deniability and also the opportunity to reduce accountability to bodies, procedures, and structures on both sides. A system that facilitates deniability by definition lacks outside accountability and precludes significant oversight on the part of U.S. and Russian authorities who are not aligned with the chosen group. As one U.S. contractor concludes, this setup “not only enabled deniability, it institutionalized it.”

### Implications

Despite evidence of corruption, a dictatorial *modus operandi*, and lack of Russian popular support, U.S. officials embraced the Chubais Clan as the group that could deliver economic reform to Russia. As Shleifer and Chubais Clan principal Boycko acknowledged in a 1995 book funded by Harvard and published in the West, “Aid can change the political equilibrium by explicitly helping free-market reformers to defeat their opponents. . . . Aid helps reform not because it directly helps the economy—it is simply too small for that—but because it helps the reformers in their political battles.” U.S. privatization aid, the “reformers” added, “has shown how to . . . effectively . . . alter the balance of power between reformers and their opponents.”<sup>113</sup> In a 1997 interview, U.S. aid coordinator to the former Soviet Union, Ambassador Richard L. Morningstar, stood by this approach: “If we hadn’t been there to provide funding to Chubais, could we have won the battle to carry out privatization? Probably not. 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.”<sup>114</sup>

Indeed, in the short run, an efficient structure for affecting policy and delivering aid may have been created. Yet one of the main problems with all this is that it is a political payoff thinly disguised as economic aid. Much of it feels familiar to Russians raised in the communist practice of political control over economic decisions—the quintessence of the (discredited) communist system. Thus this aid strategy followed in communism’s footsteps and may have helped to reinforce communism’s legacies.

This point has not been lost on many Russians: That the chosen Chubais “reformers” were visibly involved in politics and creating opportunities for themselves opened Western aid to suspicion and skepticism about capitalism, reform, privatization, and the West. Anger has accumulated over economic “reforms”—many of them urged, designed, and funded by the United States—reforms that have left many Russians worse off than before the breakup of the Soviet Union. Many people blame Western aid and advice, according to a survey conducted by

the U.S. Information Agency.<sup>115</sup> Further, some Russians now believe that the United States deliberately set out to destroy their economy. Whatever the intentions of the policymakers, the consequences of the policies and the transactorship mode of delivering them appear to be far afield from stated goals.

The U.S.–Russian case of transactorship is probably not unique;<sup>116</sup> transactorship is likely to become more frequent as a way of organizing relations between nations. Some theorists argue that the nation-state is on its way out.<sup>117</sup> Under an ideology of globalization, in which nationality is irrelevant, and with ever closer connections to one another and less loyalty to the nation-state, global elites often do not see themselves as American or Brazilian as much as they see themselves as people who want to make money, or play racquetball, or exercise power wherever they may be. Williamson describes this as a world of “coziness among elites who consider themselves international personages.”<sup>118</sup>

At present, global elites and the supplanted relations of transactorship operate in a world with laws and assumptions about the nature of representation and of nation-states. For example, assumptions about representation, grounded in national and international law, are based on the idea that an individual can formally represent either one nation-state or another, but not both, and that the representatives act on behalf of the nation they represent.

In addition, foreign aid may call into question the notion of representation. In the U.S.–Russia case, aid, which by definition comes from outside, undermined democratic processes and contravened a crucial principle of Western governance: parliamentarianism. Even on donor side, the structure of transactorship encouraged the thwarting of regulations and oversight that might have prevented some of the alleged abuses.

The transactorship model raises a number of public policy questions: What are the implications of a state of affairs in which the “choice” of who represents one side is shaped to a significant degree by self-selected representatives of the other? What are the consequences of the same actor representing multiple sides? Where is the accountability?

As globalization increases, people may well be encouraged to perform a wider array of functions. The transactorship mode of organizing relations between nations puts people in a number of different roles and provides many opportunities for derailing good relations. As globalization moves forward, awareness of the conflicts of interest inherent in transactorship relations is warranted. Public policy should recognize that many “representatives” will not serve the interests of those they are supposedly representing. To ensure representation and accountability by citizens, it may be desirable to pay close attention to and monitor the nature of roles, relationships, and institutional arrangements.

#### NOTES

1. I would like to thank Erind Pajo for helpful discussion on this issue and for contributing the image of the bridge.

2. In coining the term “transactor,” I purposefully draw on the original meaning of “transactor”—someone who carries through or does business—to develop the concept of

transactor and “transactorship,” as here detailed.

3. Capturing these characteristics, journalist Anne Williamson has called the Chubais-Harvard transactors *Garvardniki*—the “Harvardites.”

4. Karl A. Wittfogel, *Oriental Despotism: A Comparative Study of Total Power* (New York: Vintage Books, 1981), 8, 15ff, 437, 447f.

5. For a fuller description of the “econolobbyists” and their activities, see Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (New York: St. Martin’s Press, 1998), 46–49.

6. Interview with Thomas A. Dine, 16 August 1996.

7. Ibid.

8. “A Survey of Russia’s Emerging Market: A Silent Revolution,” *Economist*, 8 April 1995.

9. Interview with William B. Taylor, 9 August 1996.

10. For the definitive history of Russian reform efforts, see Lynn D. Nelson and Irina Y. Kuzes, *Property to the People: The Struggle for Radical Economic Reform in Russia* (Armonk, N.Y.: M.E. Sharpe, 1994); and *Radical Reform in Yeltsin’s Russia: Political Economic and Social Dimensions* (Armonk, N.Y.: M.E. Sharpe, 1995).

11. Olga Kryshtanovskaya, “The Real Masters of Russia,” *Argumenty i Fakty* 21 (May 1997), reprinted in *Johnson’s Russia List*.

12. See, for example, Dawn Ryan, “Cliques, Factions, and Leadership among the Toaripi of Papua,” *Adaptation and Symbolism: Essays on Social Organization*, Karen Ann Watson-Gegeo and S. Lee Seaton, eds. (Honolulu: East-West Center/University Press of Hawaii, 1978), 41. “Clique” appears to better convey the character of the St. Petersburg group than other terms in the lexicon of informal organization, such as “social networks” and “exchange relationships.” The clique, of course, comprises networks, and its members exchange with one another. But the clique is much more than a collection of networks. Networks that are part of the clique are “dense” in that members of a person’s network are in touch with one another independently of that person; each member of the clique is linked to every other member. Also, networks in the clique are “multiplex” (rather than “single-stranded”) in that clique members are connected to one another for multiple purposes, often political, economic, and social. This feature of operating in many spheres—not only political—shows that cliques cannot be reduced to interest groups, factions, or coalitions. In the study of political anthropology, approaches within “action theory,” which concentrates on face-to-face interactions within given sociopolitical contexts, have emphasized the importance of such informal groups as cliques.

13. Olga Kryshtanovskaya, “The Real Masters of Russia,” *Argumenty i Fakty* 21 (May 1997), reprinted in *Johnson’s Russia List*.

14. For detailed discussion of the backgrounds of the university’s students and how the university was run, see David H. Lempert, *Daily Life in a Crumbling Empire: The Absorption of Russia into the World Economy, Volume 1*, East European Monographs, Boulder, distributed by Columbia University Press, New York, 1996, Book 2: *Life in a Russian and Soviet Institution: “The School for Useless Things.”*

15. Documents and conversations with Russian sources, including Leonid Bazilevich on 23 May, 27 May, 14 June, and 7 August, 1996.

16. Interviews with Leonid Bazilevich, 14 June and 7 August 1996.

17. Conversations with Leonid Bazilevich on 23 May, 27 May, and 14 June, 1996; and Robert W. Orttung, *From Leningrad to St. Petersburg: Democratization in a Russian City* (New York: St. Martin’s Press, 1995), 201.

18. Orttung, *From Leningrad to St. Petersburg*, 201.

19. In an apparent contract killing, Manevich was assassinated in August 1997. At the time, he was deputy governor of St. Petersburg and head of the city’s Property Committee.

20. A Chubais Clan member, Alfred Kokh served as deputy chairman of the board of the Chubais-Harvard-run Russian Privatization Center, was named State Property Committee chairman after Maxim Boycko was fired by Boris Yeltsin, and accepted a thinly

veiled \$100,000 payment from a company that had received advantages in privatization. Kokh had struggled to explain a book advance he received from a Swiss company affiliated with United Export Import Bank, or Unexim. He never wrote the book but declared \$100,000 in 1996 income from the firm. (In a strange side story, Kokh arrived in New York in the spring 1998 with an armful of notes that he gave to an “instant books” publisher, which assembled and printed a book about Russian privatization in a matter of weeks. Allegedly, this was an attempt by Kokh to escape prosecution in Moscow. See Anne Williamson, *The Betrayal of Liberty: Russia and the United States in the 1990s*, chapter 13: “Negative Surprises.”) Later, in December 1998, Kokh was denied entry to the United States, having been implicated in dubious privatization deals and accused of corruption in Russia.

21. Interview with Andrei Shleifer, 5 September 1996.

22. Jeremy Boissevain, *Friends of Friends: Networks, Manipulators and Coalitions* (Oxford: Basil Blackwell, 1974), 177; and Dawn Ryan, “Cliques, Factions, and Leadership among the Toaripi of Papua,” *Adaptation and Symbolism: Essays on Social Organization*, Karen Ann Watson-Gegeo and S. Lee Seaton, eds. (Honolulu: East-West Center/University Press of Hawaii, 1978), 41.

23. Dawn Ryan, “Cliques, Factions, and Leadership,” 41.

24. Interview with Leonid Bazilevich, 7 August 1996.

25. Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge, Mass.: MIT Press, 1995), viii.

26. Summers’s Treasury Department biography.

27. Karen Pennar and Peter Galuszka, “Privatization Expert and Cheerleader,” *Business Week*, 19 July 1993.

28. Vita of Andrei Shleifer supplied by HIID.

29. Book jacket, *Privatizing Russia*.

30. Lipton’s Treasury Department biography.

31. Interview of 22 November 1997 with Andrei Vernikov.

32. Vita of Jonathan Hay on file at HIID.

33. Lawrence Summers’s speech in *Russia Business Watch* 5, no. 2 (Spring 1997): 19.

34. Summers’s dictates included the Russian tax code, oil industry prospects, and how Russia should prepare itself to join the World Trade Organization and deal with U.S. trade laws.

35. Michael R. Gordon and David E. Sanger, Rescuing Russia: A Special Report: The Bailout of the Kremlin: How U.S. Pressed the I.M.F.,” *New York Times*, 17 July 1998.

36. *Kommersant Daily*, 8 September 1998, and *Los Angeles Times*, 9 September 1998.

37. For example, in testimony before the Committee on International Relations, U.S. House of Representatives, 17 September 1998, Deputy Treasury Secretary Lawrence Summers defended Chubais and asked that Chubais’s prepared statement “I Didn’t Lie” be placed in the record. “The United States and Russia, Part II: Russia in Crisis,” hearing transcript, 29–30.

38. Russia’s central bank sent billions of dollars of foreign currency reserves out of the country and into a secret offshore network during the past five years, according to an internal audit of the bank’s activity. (See, for example, David Hoffman, “Central Bank Hid Investments of Russian Funds,” *Washington Post*, 8 March 1999, A1, A15.) Treasury Secretary Robert Rubin, while testifying before a House appropriations subcommittee in March 1999, acknowledged that most of the \$4.8 billion in loans sent to Russia by the International Monetary Fund “may have been siphoned off improperly” (Robert Lyle, “Russia: Mystery Surrounds IMF Loans,” *RFE/RL*, Washington, 23 March 1999). For detailed analysis of the destination of loans to Russia from international financial institutions, see analysis by journalist John Helmer published in the *Journal of Commerce* and *Johnson’s Russia List* beginning in September 1998, as well as documents produced by the Accounting Chamber, Russia’s rough equivalent of the GAO.

39. See, for example, Raymond Bonner with Timothy L. O’Brien, “Activity at Bank

Raises Suspicions of Russian Mob Tie,” *New York Times*, 19 August 1999; and Timothy L. O’Brien with Raymond Bonner, “Bank in Laundering Inquiry Courted Russians Zealously,” *New York Times*, 20 August 1999.

40. See, for example, Paul Beckett and Michael Allen, “Bank of New York Probed on IMF Aid,” *Wall Street Journal*, 23 August 1999, A3; Paul Beckett and David S. Cloud, “Russian Mob Role is Probed in IMF Losses,” *Wall Street Journal*, 25 August 1999, A3.

41. Jack Kelly, “Russian Fraud Case at \$15B,” *USA Today*, 26 August 1999, A1.

42. According to USAID’s Deirdre Clifford, since 1992 HIID has received \$40,373,994 in noncompeted grants under the First Cooperative Agreement. Another \$17,423,090 was designated for Harvard under the Second Cooperative Agreement (a three-year agreement that began on 30 September 1995), of which \$4.5 million was obligated. Source: USAID documents and interview, 11 June 1996.

Much U.S. economic aid, notably the so-called technical assistance in such areas as privatization and economic restructuring (accounting for more than two-thirds of USAID expenditures in Russia as of 31 March 1996), went to pay Western consultants. Calculated from figures published by the U.S. Department of State (“U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union: October 1995-March 1996,” prepared by the U.S. Department of State, Office of the Coordinator of U.S. Assistance to the NIS) with input by Deputy Coordinator of NIS Assistance William B. Taylor as to which categories consist largely of technical assistance. Interview of 9 August 1996.

43. U.S. government procurement officers and GAO officials, including Louis H. Zanardi, who spearheaded GAO’s investigation of HIID activities in Russia and Ukraine.

44. Bio and information supplied by Pascual’s office.

45. U.S. General Accounting Office, *Foreign Assistance: Harvard Institute for International Development’s Work in Russia and Ukraine* (Washington, D.C.: U.S. General Accounting Office, November 1996), 18.

46. Interview with Jonathan Hay, 17 June 1994.

47. I placed numerous calls to Jonathan Hay in Moscow to obtain a response to these issues during the weeks of 5 August and 12 August 1996. Hay was reportedly in the office but did not take or return any calls.

48. U.S. General Accounting Office, *Foreign Assistance: Harvard Institute for International Development’s Work in Russia and Ukraine*, 17.

49. *Ibid.*, 3.

50. *Ibid.*, 43.

51. Letter from USAID to HIID director Jeffrey Sachs, 20 May 1997. See also “USAID Suspends Two Harvard Agreements in Russia,” USAID Press Release, Washington, D.C., 20 May 1997.

52. For details, see, for example, Steve Liesman and Carla Anne Robbins, “U.S. Jury Probes Russia Project Run by Harvard University Aides,” *Wall Street Journal*, 5 February 1999, A13.

53. Interview aired on Monitor Radio, 22 May 1997.

54. See Janine R. Wedel, “Informal Relations and Institutional Change: How Eastern European Cliques and States Mutually Respond,” presented at the World Bank, Social Development Group, Washington, D.C., 20 April 1998, and at the Annual Meeting of the American Anthropological Association, Philadelphia, 4 December 1998.

55. Thomas E. Graham, “Russia’s New Non-Democrats,” *Harper’s Magazine* 292, no. 1751 (April 1996): 26.

56. Polish sociologists Antoni Z. Kaminski and Joanna Kurczewska coined the term “institutional nomads” and described the phenomenon in “Main Actors of Transformation: The Nomadic Elites,” *The General Outlines of Transformation*, Eric Allardt and W. Wesolowski, eds. (Warsaw: IFIS PAN Publishing, 1994)

57. With regard to privatization, the Chubais-Harvard transactors shaped significant parts of the privatization process, which was largely about wealth confiscation, not wealth



creation, and had many unfortunate consequences for the Russian people. The “market reforms” were largely not about competition and industrial growth, but about stripping companies, appropriating monies, and billions of dollars in capital flight each year. Privatization helped to create a system of tycoon capitalism run for the benefit of a half-dozen corrupt oligarchs. For details, see Wedel, *Collision and Collusion*, 131–34; and Lynn D. Nelson and Irina Y. Kuzes, *Property to the People and Radical Reform in Yeltsin’s Russia*.

58. Vladislav Borodulin, “Rebirth of the Commission on Economic Reform: Chubais Becomes Fully Empowered Symbol of Economic Reforms,” *Kommersant Daily*, 20 January 1995, 2; translated in *Current Digest* 47, no. 3 (15 February 1995): 23.

59. Olga Kryshchanovskaya, “The Real Masters of Russia,” *Argumenty i Fakty*, 21 (May 1997), reprinted in *Johnson’s Russia List*.

60. Boycko, Shleifer, and Vishny, *Privatizing Russia*, 5.

61. Published in *Rossiiskie Vesti* on 15 August 1996, cited in “Chubais Controls Presidential Decree Process,” *OMRI Daily Digest* 148, 15 August 1996.

62. Interview with Walter Coles, 6 June 1996.

63. A case in point was USAID’s showcase efforts to reform Russia’s tax system and to set up clearing and settlement organizations (CSOs)—an essential ingredient in a sophisticated financial system. The efforts failed largely because they were put solely into the hands of one group, which declined to work with other market participants. In Moscow, for example, despite millions of USAID dollars, many of the Russian brokers were excluded from the process and declined to use the Moscow CSO. Thus, since 1994, when consultants working under USAID contracts totaling \$13.9 million set out to design and implement CSOs in five Russian cities, very little evidence of progress has emerged. After an investigation into HIID activities in Russia, the GAO issued a report calling the CSO effort “disappointing.” For additional explanation on this subject, see Wedel, *Collision and Collusion*, 134–37, 145.

64. GAO sources confirm this observation (conversations of 28 October 1997 and 23 April 1998 with Louis H. Zanardi).

65. Interviews with USAID-paid contractors and U.S. government sources. A member of the GAO audit team confirms this observation (conversations of 28 October 1997 and 23 April 1998 with Louis H. Zanardi).

66. Interview with Walter Coles, 25 July 1996.

67. For a detailed discussion of the applicability to Eastern Europe of conventional models of institutional change (often used in comparative politics, public administration, and sociology), see Wedel, “Informal Relations and Institutional Change.”

68. For further analysis, see, for example, Williamson, *Contagion*, chapter 2: “Why Can’t a Russian Be Like an American?” and commentaries on *Johnson’s Russia List* by Jerry F. Hough (*JRL* 3051, 11 February 1999), S. Lawrence (*JRL* 3072, 28 February 1999), and Edwin G. Dolan (*JRL* 3073, 1 March 1999).

69. U.S. General Accounting Office, *Foreign Assistance: Harvard Institute for International Development’s Work in Russia and Ukraine*, 57.

70. Japan is currently the largest contributor among the G-7, according to Ralf-Dieter Montag-Girmes, director of post-privatization support with the Russian Privatization Center in an interview of 12 June 1996.

71. *Russian Privatization Center 1994 Annual Report*, 5, 24.

72. The World Bank figure was provided by Ira Lieberman (interview of 23 July 1996), and the EBRD figure was supplied by Renae Ng (conversation of 24 September 1996).

73. Interview with USAID’s Cecilia Ciepela, 5 August 1996.

74. U.S. General Accounting Office, *Foreign Assistance: Harvard Institute for International Development’s Work in Russia and Ukraine*, 60.

75. For example, while the supervisory board nominated Maxim Boycko, a member of the St. Petersburg group, to run the RPC, Boycko chose its directors, of which Vasiliev is one. (Based on information provided by Ralf-Dieter Montag-Girmes of the Russian Privatization Center, 26 July 1995.)

76. Information from Ira Lieberman, interview of 23 July 1996.

77. Interview with and documents provided by Chamber of Accounts auditor Veniamin Sokolov, 31 May 1998.

78. Documents and information provided by Veniamin Sokolov, auditor at the Chamber of Accounts (interview of 31 May 1998 and talk at American University of 2 June 1998). In 1994, both the Duma and the head of the GKI requested a detailed accounting from the RPC. They got nothing (Sergei Zavorotnyi, "The Traces of 'Privatization' Go Overseas," *Komsomolskaya Pravda*, 8 April 1997).

79. Source: "Confidential Report to the Special Adviser to the President and Coordinator of U.S. Assistance to the NIS (S/NIS/C), U.S. Department of State, and the Assistant Administrator for Europe and the NIS, U.S. Agency for International Development, on USAID Programs Supporting Commercial Law and other Legal Reform in the Russian Federation," prepared by Mark C. Medish, September 1996, Washington, D.C., 6.

80. *Ibid.*, 17.

81. See Janine R. Wedel, "Clique-Run Organizations and U.S. Economic Aid: An Institutional Analysis," *Demokratizatsiya: The Journal of Post-Soviet Democratization* 4, no. 4 (Fall 1996): 571–602.

82. For example, HIID paid the salaries of expatriates in executive positions.

83. The concept of "transidentities" draws on anthropologist Fredrik Barth's work exploring "repertoires" of identities and how actors employ different identities depending on the situation. See Fredrik Barth, ed., *Ethnic Groups and Boundaries: The Social Organization of Culture Difference* (Boston, Mass.: Little, Brown, 1969).

84. Documents provided by and interview with auditor Veniamin Sokolov, 31 May 1998.

85. For greater detail, see Williamson, *Contagion*, chapter 13, "Negative Surprises."

86. It was unclear who paid for Sachs and his team. For details, see John Helmer, "Russia and the IMF: Who Pays the Piper Calls the Tune," *Johnson's Russia List* no. 3057, 17 February 1999.

87. While providing no documentation for his role, Sachs writes: "I was an official advisor of the Russian Government from December 1991 to January 1994. Together with Anders Aslund I directed the Macroeconomics and Finance Unit (MFU) of the Russian Ministry of Finance, housed within Government offices." Sachs further writes that his work in Russia with Aslund "was supported mainly by the Ford Foundation and the Swedish Government. I was not paid by the Russian Government" (Letter to Janine Wedel, 12 March 1998).

88. Sachs was quite visible in a promotional role, for example, holding press conferences to explain, justify, and advocate the economic policies of the Russian government to the Russian public.

89. Gaidar Institute head Aleksander Beviz told journalist Anne Williamson that "Sachs was never an official adviser to the government, that's his own illusion." Gaidar, too, described Sachs and Aslund as "insignificant figures." Williamson reports that "Even Gaidar's archival, [Grigory] Yavlinsky, insisted, 'What we did was not based on even 10 percent of their [Sachs's and Aslund's] advice. Gaidar was using those people as loudspeakers for the West, but, in fact, Gaidar did as he wished'" (Williamson, *Contagion*, Chapter 7, "Foreign Manners").

90. Anne Williamson interview with Jean Foglizzio, 1 February 1994. For further detail, see Anne Williamson, *Contagion*, Chapter 7, "Foreign Manners."

91. Memorandum from Sachs to Khasbulatov of 19 November 1992; interviews with Stanford University economist Michael Bernstam of 21 August 1997 and 17 October 1997.

92. See, for example, an Action Memorandum of 4 February 1993 from a State Department official to the secretary of state, in which Sachs requests an appointment with the secretary of state. The memorandum notes that Sachs also has sought appointments with National Security Advisor Anthony Lake, Treasury Under Secretary-designate Larry Summers, and Ambassador-designate Strobe Talbott.

93. Interviews with U.S. officials in the Departments of Treasury and State.

94. Sources include Dan Josefsson, “The Art of Ruining a Country with Some Professional Help from Sweden,” *ETC* English Edition 1 (1999).

95. For example, Aslund has long been linked to Brunswick, which began as a Moscow-based brokerage firm and evolved into an investment bank, the Brunswick Group. At an April 1997 banking conference in New York sponsored by Brunswick Securities Ltd., Aslund was in attendance as a representative of Brunswick. Reportedly, Aslund spoke to big fund managers and promoted stocks (Anne Williamson communication with Michael Hudson, a participant in the conference, 16 May 1999; and Wedel interview with Hudson, 8 September 1999. For greater details, see Williamson, *Contagion*, chapter 14, “Greater Fools”).

With regard to the founding of Brunswick, Aslund introduced two of his Swedish associates to Chubais, and they then worked for Chubais at the GAL, where they helped to design and implement voucher privatization (Anne Williamson interview with Martin Andersson, February 1995). Later, “with still good relations to Chubais,” they started Brunswick Brokerage to participate in voucher privatization and to help sell these and other assets to Western investors (Sven-Ivan Sundqvist, “Svenska Rad Biter Pa Ryssen: Svenska Finansman i Ledningen for Brunswick Group, Foretaget Som Ska Hjalpa Ryska Staten Att Privatisera Industrin,” *Dagens Nyheter*, 15 June 1997). Aslund’s current wife, Anna Viktorevna Aslund, Gaidar’s former press secretary, lists an affiliation with Brunswick-Warburg (Brunswick entered into an association with Warburg, effective in November 1997).

96. Sources for Aslund’s business activities in Russia and Ukraine include those specified in the previous endnotes, as well as a number of additional reports and sources in Russia, Ukraine, Sweden, and Washington.

97. Interview with Vyacheslav Razinkin by author Anne Williamson, 23 February 1995, cited in Williamson, *Contagion* Chapter 14, “Greater Fools.”

98. Sources include (but are not limited to) Marek Dabrowski, conversations of 9 May 1995 and 27 November 1997. For details of Aslund’s Ukraine activities, see Wedel, *Collision and Collusion*, 158–61.

99. Interviews with William B. Taylor, deputy coordinator of NIS assistance, 9 August 1996, and Thomas A. Dine, 16 August 1996.

100. In response to the question, “Why was Chubais put on the USAID–Harvard payroll?” USAID’s Thomas A. Dine replied that “the Harvard people said that they could use him as a consultant to them” (interview with Dine, 16 August 1996).

101. Interview with Andrei Shleifer, 5 September 1996.

102. For an excellent analysis of this phenomenon, see Adam Pomorski, *Duchowy Proletariusz* (Warsaw, Poland: OPEN: Wydawnictwo Naukowe i Literackie, 1996).

103. There is, of course, a sizable literature in social science, and especially in anthropology, on the “other.” See, in particular, Edward Said, *Orientalism* (New York: Pantheon Books, 1978); Benedict Anderson, *Imagined Communities: Reflections on the Origins and Spread of Nationalism* (London, United Kingdom: Verso, 1991); and Johannes Fabian, *Time and the Other: How Anthropology Makes its Objects* (New York: Columbia University Press, 1983).

104. Some of these activities are detailed in Janine R. Wedel, *Collision and Collusion*, 151–55.

105. This episode is detailed in Williamson, *Contagion*, chapter 13, “Negative Surprises.”

106. Matt Taibbi, “Picked Clean: How a Small Clique of Americans Scavenged the Remains of Defrauded Russians,” *Exile*, 15 January 1998, reprinted in *Johnson’s Russia List* 2021, 16 January 1998.

107. Sources close to the U.S. investigation, and Carla Anne Robbins and Steve Liesman, “How an Aid Program Vital to New Economy of Russia Collapsed,” *Wall Street Journal*, 13 August 1997.

108. This story is told in great detail in Williamson, *Contagion*, chapter 11: “Proof of

the Pudding,” and chapter 13: “Negative Surprises.”

109. “International Economic Turmoil,” U.S. House of Representatives, Committee on Banking and Financial Services, Washington, D.C., 15 September 1998, 97–98.

110. Adam Podgorecki, “Polish Society: A Sociological Analysis,” *Praxis International* 7, no. 1 (April 1987).

111. Janine R. Wedel, “Clique-Run Organizations and U.S. Economic Aid.”

112. Maxim Boycko, “Chubays Has Chosen Reforms,” *Obshchaya Gazeta*, 13–19 March 1997, translated and circulated in *Johnson’s Russia List*.

113. Boycko, Shleifer, and Vishny, *Privatizing Russia*, 142.

114. Interview with Ambassador Richard L. Morningstar, U.S. aid coordinator to the former Soviet Union, by Janine R. Wedel, 11 February 1997.

115. “Is Economic Reform in Russia Dead?” *Opinion Analysis*, USIA, Office of Research and Media Reaction, 15 March 1999, 3–4.

116. Aspects of the U.S.–Russia transactorship case may have some historical parallels in the social engineers and communist revolutionaries of the 1920s. For example, they constituted themselves as a kind of international informal executive and provided many rich examples of “transidentities.” See, for example, Angelica Balabanoff, *My Life as a Rebel* (New York: Greenwood Press, 1968) and Warren Lerner, *Karl Radek: The Last Internationalist* (Stanford, Cal: Stanford University Press, 1970).

117. Arjun Appadurai, *Modernity at Large: Cultural Dimensions of Globalization* (Minneapolis, Minn.: University of Minnesota, 1996).

118. Anne Williamson, personal communication, 3 September 1999.