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Executive Summary

The difficulties Russia faces in its transition to a democratic market system have prompted Western leaders to pledge massive amounts of financial aid to Moscow. If the West intends to help President Boris Yeltsin and assist Russian economic reforms, however, it should refrain from sending large-scale aid. Rather than encourage democracy or capitalism, aid is likely to undermine the reform and prolong the transition to a market economy. Moreover, foreign aid transfers will not introduce the policy changes that the Russians themselves must implement--widespread privatization, deregulation, trade liberalization, and tax reform. Although the West can help Russia by lowering trade barriers, ending restrictive overseas investment rules, and forgiving or restructuring Russia's debt, Western leaders should realize that they cannot determine the course of events in Russia.

The International Monetary Fund, the World Bank, and other Western advisers have given Russian reformers harmful advice that threatens to jeopardize Russia's transition. If Russian reforms are to succeed, rapid and widespread privatization, coupled with an end to government subsidies to money-losing industries, is needed.

Introduction

Arguments persist for large-scale aid to Russia and the former Soviet territories. Russia's official Western advisers, including Harvard's Jeffrey Sachs, the World Bank, and the International Monetary Fund, believe that the Russian reforms require large-scale financial transfers to the Russian government. A 1992 World Bank study placed the need for external financing "on the order of $20 billion per year for the next few years."[1] Similarly, in October 1992 the IMF called for at least $22 billion in aid for Russia during 1993 to meet balance-of-payment requirements.[2] In 1992, according to a U.S. Treasury Department internal report, some $16 billion in assistance from all sources, mostly in the form of export credits, was provided to Russia. An additional $1.6 billion in conditional credits and loans was approved by the IMF and the World Bank.[3] In April 1993, at a summit meeting in Vancouver, President Clinton promised the Yeltsin government $1.6 billion in new grants and loans.

The Dismal Record of Aid Programs

The arguments against aid that would strengthen the old order hold today just as they did when Western policymakers were anxious to save Gorbachev, and then when they wished to support democratically elected Yeltsin. In 1991 Yeltsin and Moscow mayor Gavriil Popov opposed financial aid to the Soviet Union because they believed that it would be used by the Kremlin to prop up decrepit Soviet institutions. With real money at its disposal, the Soviet government would have been able to repurchase loyalties and subvert or slow the transition to democracy. Once the Soviet institutions began to decay, hard currency would frustrate real economic reform for the simple reason that there would be nowhere for the aid to flow except into reviving the very institutions that had caused the Soviet Union's economic problems in the first place.

The West, in its desire to help, should resist the urge to indiscriminately pour in aid. Government-to-government transfers of more than $1 trillion to the Third World since World War II have not helped those countries to develop. On the contrary, cutting-edge scholars in recipient countries have concluded that the aid has institutionalized corruption, entrenched atavistic institutions, and sidelined the private sector to the black market.[4] In Russia the danger is that reformers could be distracted by the opportunities for graft presented by large-scale financial transfers, and then there would be no one to undertake the transition.

No aid at all is better than using Western taxpayers' resources to undermine reformers by strengthening institutions that they have to overcome. Policy changes that would stimulate the private sector--deregulation, privatization, lowering the tax burden, and eliminating barriers to trade-- can be accomplished without aid. The Russians themselves have to construct a viable market economy; there is little that outsiders can or should do.

Ways the West Can Help

If the West is determined to help, there appear to be several constructive ways it might assist the Russian transition. The Western nations could encourage the Russians to introduce reforms to stimulate entrepreneurship, enter into free-trade agreements with Russia and other struggling ex-Soviet countries, help foster private investment by eliminating disincentives to it in their own countries, help finance mass privatization of the Russian economy, forgive or restructure the foreign debt incurred by the former Soviet Union, and finance the dismantling of nuclear weapons. With most of the Group of Seven countries strapped by budget deficits, those suggestions have the advantage that none of them involve new large-scale financial transfers to the Russian government.

The West should advocate policies that will stimulate the productive sector of the Russian economy, the emergent private sector. The focus should be on rapid privatization, deregulation, and the establishment of a favorable business climate based on a sound currency. The Russian government should be advised to establish a regime of low taxation and minimal regulation, to uphold and expand private property rights under a rule of law, and to establish investment laws and trade policies that would attract foreign capital and stimulate rapid growth of the private sector.

Another way the industrialized countries could help Russia and the other countries of the former Soviet Union is by removing trade barriers. Countries that have received the most Western aid since World War II report that lowering barriers to trade is far more helpful to their development than are large amounts of government-to-government aid. For example, in Latin America, a region that has received more than $400 billion in development assistance since 1945,[5] the catch phrase today is "trade not aid."

Some progress has already been made. The Bilateral Trade Agreement, signed by the U.S. and Russian governments in June 1992, granted Most Favored Nation status to exports of both countries. The Bilateral Investment Treaty, which is awaiting ratification by the Russian government, would guarantee nondiscriminatory treatment of U.S. investments and operations in Russia, hard currency repatriation rights, expropriation compensation, and the right to third-party international arbitration in the event of a dispute between a U.S. company and the Russian government.[6]

The industrialized countries could further help the former Soviet countries by eliminating subsidies to export industries to foster a "level playing field" in international trade. Particularly prevalent in agriculture, subsidies result in higher prices for domestic consumers and give an unfair advantage to privileged companies. It is estimated that U.S. outlays for subsidy programs for agricultural commodities alone will total $17 billion in fiscal year 1993.[7]

For their part, the former Soviet countries should unilaterally lower protectionist trade barriers and endeavor to set up a free-trade area, which eventually could be joined with the free-trade area created by the North American Free Trade Agreement. Also, Russia should eliminate subsidies to its industries and implement its Law on Bankruptcy to allow inefficient industries to expire so that capital can be freed to be reallocated to more productive uses--such as the production of exports for hard currency.

Next, while Russian reformers themselves need to create a good domestic business climate that attracts foreign companies, the West could help the process by dismantling disincentives for companies to invest overseas. One disincentive is the Foreign Corrupt Practices Act, which prohibits U.S. companies from participating in business deals in which bribes are used to speed transactions. Not only is the law naive about the way business is routinely conducted in many areas of the world; it does not take into account the special circumstances in Russia and the U.S. interest in promoting free enterprise in former communist countries.

At present, it is expensive to transact business in Russia, because there are insufficient law and order and few legal protections for private property. The former communist establishment is conducting its own privatization, and government authority is devolving to the local level, muddling the distinction between government and personal interests. In the absence of secure private property rights, payments to government officials in return for their relinquishing de facto control over state property help free capital to accumulate in more efficient hands. In light of the special circumstances in Russsia, a little flexibility in interpreting the act, or perhaps its temporary suspension, seems warranted at least until the situation becomes more stable.

Western governments should help eliminate barriers to private investment in the former Soviet Union. However, in the end there is little that government can do. Recently, former senior Russian official Gennadii Burbulis was asked to whom he thought property would belong in one year and then in three years. His reply: "To the quick and the smart." In Russia, private property rights are being defined, through fair means and foul, and U.S. companies' share in the benefits of secure private property in Russia will depend on the extent to which they hustle to operate in the uncertain environment of today. Throughout history private property rights and the infrastructure of a market economy have evolved for the most part independent, and in advance, of government action. Governments tend to codify existing arrangements and de facto property rights.

Next, the U.S. government is already spending $13 million to finance--through the voucher system that the Russian government initiated on October 1, 1992--an ambitious plan to privatize hundreds of state-owned companies in Russia. Reformers aim to rapidly privatize 5,000 large state enterprises. Previously, Russia had privatized more than 30,000 shops but virtually no big factories.[8]

The U.S. government is paying the International Finance Corporation of the World Bank and the accounting firm of Price Waterhouse to organize auctions of state-owned businesses in 10 regions of Russia. According to the plan agreed to by each firm, the government will give workers a 51 percent ownership stake or a 30 percent ownership stake and auction off a portion of the remaining shares for privatization vouchers.[9]

The voucher plan enables Russians to buy shares in state factories. Each of the 148 million Russians is entitled to one voucher nominally valued at 10,000 rubles ($17.50). At first, few thought valuable enterprises would really be privatized, and many Russians sold their vouchers for far less than face value. But the Yeltsin government issued a decree that the vouchers could be used to buy apartments, municipal property, and some small businesses. As a result, the city of Nizhny Novgorod, with input from the International Finance Corporation, recently auctioned off state-owned buses and trucks, in part for vouchers.[10] Next, the Yeltsin government decreed that shares in major enterprises could be sold for vouchers. By February 1993 a thriving secondary voucher market had developed.

Another way the West could ease Russia's transition would be to forgive or restructure the foreign debt incurred by the old Soviet Union. As of February 1, 1993, the U.S. Treasury reported that the foreign debt of the former Soviet Union totaled $81 billion, of which $39 billion is owed to official creditors and $22 billion to commercial banks. Suppliers' credits of $14.2 billion made up the bulk of the remainder.[11]

Lending to the Soviet Union was not commercially wise, and Western banks and governments should have to bear the consequences. Russia's foreign debt is mainly a European headache; only 11 percent of the official debt, or approximately $4 billion, is owed to the U.S. government, compared with 39 percent owed to Germany alone. Unofficial U.S. Treasury estimates place the non-government-guaranteed debt owed U.S. commercial banks at a maximum of from $250 million to $300 million.[12] At a meeting of the Group of Seven in Tokyo on April 14 and 15, 1993, the major creditor governments agreed to ease the terms of repayment of Russia's debt. At present, it seems that a combination of debt forgiveness and rescheduling would enable reformers to focus on the immediate task of establishing incentives for production. The transition might occur faster if reformers did not have to worry, at least for now, about sending a large portion of their country's scarce resources to repay a foreign debt that was assumed without the consent of the population.

Aid and Nuclear Weapons

Finally, there are some 30,000 nuclear weapons in potentially unstable regions. The first Strategic Arms Reduction Treaty (START I), negotiated between the United States and the Soviet Union, was signed in July 1991. Since the breakup of the Soviet Union, the pact has been recast by a series of negotiated appendices to bind the four former Soviet republics that control parts of the former Soviet nuclear force. START II, confirmed by President George Bush on December 30, 1992, would cut the combined number of warheads in the former Soviet Union and the United States from 24,000 in 1990 to a total of 6,500. The former Soviet Union would be allowed to retain a total of 3,000.[13]

Instability and disputes within the Commonwealth of Independent States have placed compliance with the provisions of START II in doubt. The $800 million U.S. program to help fund the dismantling of nuclear weapons in Russia has bogged down, according to Joseph Kelly of the General Accounting Office, because of chaos within Russia, Moscow's lingering obsession with secrecy, and its determination to make as much money as it can on the deal. Only $25 million of the $800 million authorized has been spent to date, a small amount warranted by the circumstances.[14]

The amount of aid money dedicated to dismantling nuclear weapons should be relatively small to increase the chances that it will be used for its intended purpose and minimize diversion to unauthorized uses. In fact, $800 million may be too much. Its disbursement would probably divert a sizeable number of potentially productive entrepreneurs into rent-seeking activities to obtain lucrative government contracts.

The United States should push for further cuts in the nuclear arsenals, in part to persuade the former Soviet countries to comply with START II. Washington could offer to purchase perhaps 29,500 missiles, send experts to oversee their dismantling, and encourage the Russian government to use the money to create a ruble-stabilization fund. A relatively low offer of perhaps $200 million could be tied to policy changes in Western countries, such as the elimination of subsidies to export industries, to sweeten the deal. It is understandable that the Russian government and possibly that of Ukraine might wish to retain a nuclear capacity,[15] but 500 nuclear missiles would still be a formidable arsenal.

Supporting Yeltsin and the Reformers

It seems worthwhile at this time for the West to help Yeltsin and his team, who have made seemingly serious commitments to reform and the creation of a market economy in Russia. At the same time, the West should not pin all its hopes for Russian democracy on one man, a strategy that could backfire if that leader ends up a casualty of IMF-sponsored austerity. The reduction or elimination of industrialized countries' trade barriers, debt forgiveness, and the other measures outlined above are perhaps the most effective means by which the West can support Russian reform.

If the West is determined to provide aid to Russia, the amounts should not be large. Furthermore, any government assistance should be designed to minimize its negative effects on reform. Yeltsin's reforms will not be strengthened by providing large-scale economic assistance.

A massive aid program will only strengthen state institutions and postpone badly needed reforms; it will help neither Yeltsin nor the Russian people. Western officials should recognize that in Russia today reformers and hardliners are engaged in a fierce struggle over property. The battle is not over privatization per se but over who benefits from privatization.

The Right Kind of Privatization Reformers are battling the old power structure over how privatization will proceed and who will end up in charge. The stakes are enormous. The assets up for grabs include 46,000 large enterprises and Russia's vast natural resources, including potentially profitable oil fields. Irina Chernova, director of privatization for an industrial city 60 miles outside Moscow, contends that the old guard wishes to preserve the current state of instability and delay privatization as long as possible because during the interim there is so much to steal. "Once everything belongs to somebody there will be nothing left to steal," Chernova told the Baltimore Sun.[16]

Nomenklatura privatization, in which functionaries take over state enterprises and convert them to private businesses, is far advanced. In January 1993 Russian deputy prime minister in charge of privatization Anatoly Chubais asserted that the fiercest struggle would be unleashed by attempts of the "communist opposition" to grant preferential rights and benefits to the employees of the privatized enterprises.[17] The Soviet peoples are becoming increasingly disaffected as they witness the old guard throughout the country benefiting from its de facto control over state property at the expense of the population. For reformers, fostering widespread property ownership is crucial to giving the people a stake in the new economy.

The large number of inefficient enterprises that still remains in state hands is the cause of many of the problems faced by the Yeltsin government. Yeltsin's two main rivals, Vice President Alexander Rutskoi and Speaker of the Parliament Ruslan Khasbulatov, draw their support from the major industrial enterprises owned by the state. The hard-liner-dominated Congress of People's Deputies authorizes the Central Bank to create money to subsidize the bankrupt state enterprises, the main cause of the 25 percent per month inflation that afflicts Russians and hurts the poor the most. Further, the ruble has no basis for conversion to other currencies because it cannot be freely used to purchase the country's assets of land, labor, and capital, which to a large degree are still controlled by the government.

Private property is the basis of a market economy, and granting the population property rights is the key to jump-starting a market economy in Russia. Western advice and limited aid should be targeted to help Russian reformers to stimulate the growth of a successful private sector and rapidly privatize the entire economy. Western assistance for privatization is already making a difference. Chubais announced that income from privatizations amounted to 157 billion rubles in 1992, exceeding government projections by a factor of 2. The vice premier declared that "we won in 1992" and concluded that "if we win in 1993 then we shall gain victory in general: it will be impossible to turn from the privatization process."[18] Stripped of their control over state enterprises, today's hard-liners would find themselves forced to respond to the incentives of a thriving market economy and would cease to be a threat.

Agricultural reform is critical to creating a viable economy in the former Soviet Union. In Russia, collective farms still dominate the sector, and official production is falling. According to Russian newspaper reports, collective farmers face problems such as insufficient government credit at preferential interest rates; a disproportionate rise in prices for agricultural inputs compared with prices for agricultural products; and bad weather, the perennial scape- goat of the old Soviet regime.

The real problem is the paucity of private property in agriculture. The failures of collective farming are well known, but privatization is proceeding slowly because of resistance from the Russian parliament and local agricultural bureaucrats. A legal framework to protect private property rights in agriculture is largely absent. In December 1992 Yeltsin finally signed a law that permits citizens to buy and sell private plots, albeit with a feudalistic restriction that prohibits the plots' being used for other than the original specified purposes.[19] That is a step in the right direction, but in today's chaotic Russia laws exist mainly on paper.

The number of private peasant farms is growing, which bodes well. In April 1992 there were 95,000 private farms, an exponential increase from 231 farms in April 1990.[20] The new private farmers are hobbled by their position on the bottom rung of the primarily state-run distribution system for key agricultural supplies as well as the lack of adequate legal protection for private property.

Rapid privatization of the entire agricultural sector and replacement of government credits by capital from the country's budding financial markets would bring swift positive results. Private loans would find their way to the private farmers with the best prospects for success, while bankrupt collective farms would be forced to close or be taken over by more efficient firms. Consumers would benefit from increased supplies at lower prices.

Harmful Western Advice

At present, Russian reformers are receiving conflicting advice from the West, and much of it is counterproductive. The West, with its emphasis on social welfare and redistribution, discourages Russians from establishing the incentives they need. Western governments have given the IMF and the World Bank a leading role in providing advice and aid to governments trying to make the transition to a market economy. In the 1990s those institutions are mixing statist advice with advice on developing the private sector.

Both the IMF and the World Bank view privatization as merely one of a list of reforms that have to be under-taken.[21] To those institutions, privatization is less important than macroeconomic stabilization, price reforms, and introduction of a convertible currency. Many of the fiscal reforms those institutions advocate, such as tight control over the money supply to combat inflation and the introduction of a convertible currency, will be necessary in due course. The trouble is that both the World Bank and the IMF place the cart before the horse. Rather than press for privatization of the entire economy as quickly as possible, which would eliminate the need for subsidies to bankrupt enterprises and thus help to cut inflation, the World Bank recommends that the government subsidize loss-making enterprises during the transition period.[22]

Such advice distracts Russian reformers' attention from privatization, the one reform on which the success of every-thing else depends. Moreover, the IMF's usual demand-management policies applied to Russia's monopolistic state-dominated economy are wreaking havoc by contributing to the near-hyperinflation that impoverishes the population. The opponents of reform benefit from the economic hardship caused by misguided policies.

During 1992 and early 1993 the Russian government was trying to meet IMF targets in order to satisfy IMF conditions for a formal stabilization plan, on which large-scale finan cial transfers depend. Although agreements between member governments and the IMF are never made public, they typically entail fiscal restraint (while keeping in place deficit-ridden state enterprises), currency devaluations, and tax increases to cut domestic demand.

At the behest of Western advisers, in 1992 the Russian government freed many prices in advance of far-reaching reform and levied a series of taxes, including a 28 percent value-added tax, that, in combination with preexisting regulations and prohibitions, hobble the nascent private sector or at least keep it in the unofficial economy. In late January 1993 proposals to increase the tax burden on the productive sector in an attempt to reduce the budget deficit were being considered.[23] In February 1993 the Russian government heeded the repeated calls of its Western advisers to free prices in the petroleum sector; as a result, natural gas prices nearly trebled for domestic users of natural gas for heating and nearly doubled for industrial users.[24]

Without privatization, the response of a largely monopolistic economy to those policies has been hoarding, falling production in the official sector, and soaring prices. Producers reap profits selling high-priced goods to a limited market of the newly rich, without the competition that would bring down prices. Falling production leads to falling tax revenues and prompts the Russian Central Bank to print more rubles to maintain the bankrupt state enterprises. The resulting near-hyperinflation has wiped out people's savings and undermined trust in the democratic government.

Political Dangers: Resurgence of the Hard-Liners

In April 1993 the privatization program was gaining steam even while hard-line critics were increasingly emboldened by economic chaos. In February 1993 the Russian government sold shares in the famous GUM department store on Red Square and put up for auction a major tractor factory, a brewery, an aluminum plant, and a margarine factory in the city of Volgograd. Sales of shares in Russia's most famous store reportedly attracted more than 100,000 privatization vouchers.[25] In March 1993 the Zil limousine company was offered for sale. Chubais stated that by the end of April 1993 more than 700 enterprises including large factories, department stores, and other major enterprises with hundreds of thousands of employees and millions of shares, would have entered private hands via the sale of shares through the voucher plan.[26] The pace of privatization is accelerating, which augurs well for the medium-term resolution of Russia's crisis.

Meanwhile, political power struggles between the democratically elected Yeltsin government and the Communist-dominated parliament have intensified. In December 1992 the hard-liners of the lobbying group Civic Union ousted Yeltsin's reformist prime minister, Yegor Gaidar, and replaced him with their ally Victor Chernomyrdin. On December 31 Chernomyrdin signed a resolution declaring price controls on a wide range of goods. The new prime minister also proposed increasing credits to bankrupt industries to protect insolvent state employers from collapse. In January 1993 Yeltsin parried hard-liner advances by surrounding Chernomyrdin with a reformist cabinet and turning him into a figurehead, with the reformers still in charge. On January 14 Deputy Prime Minister Boris Fyodorov said that the resolution authorizing expanded price controls would be rescinded.[27]

The political stakes were raised in March, when Yeltsin declared presidential rule in an attempt to bypass the obstructionist parliament. On March 28 hard-liners in the congress forced a showdown with Yeltsin and brought an impeachment motion against him to a vote. The congress fell 77 votes short of the two-thirds majority needed to oust him, which prompted Yeltsin to claim victory and celebrate with supporters in Red Square.

Yeltsin proposed a referendum on his government as a way to end the power struggles. Parliamentary hard-liners led by Ruslan Khasbulatov countered by deciding the rules for the referendum, which were ultimately modified by the constitutional court. Held on April 25, the referendum asked voters to respond to four questions: if they had confidence in the president, if they had confidence in the president's social and economic programs, if they favored new elections for president, and if they favored new elections for the parliament. On the first two questions, the approval of a majority of participating voters was required, and on the last two, a majority of Russia's 105.5 million voters was required.

The official preliminary results gave a decisive victory to Yeltsin. A majority of 58 percent of Russian voters answered yes to the question of confidence in Yeltsin, and 53 percent also said they supported his economic reforms. The last two questions did not garner the necessary majorities and were therefore invalidated. Confounding expectations, a majority of voters opted for what they had seen of the market economy instead of giving hard-liners in congress the green light to continue to obstruct reform.[28]

Yeltsin should attempt to use his apparent mandate to formulate a new constitution that upholds private property rights and the rights of individuals, act decisively to gain control of the Central Bank, and accelerate reforms such as privatization. At this time, massive aid from the West would probably be counterproductive. Aid is never needed to induce constructive policy changes, and large infusions of cash would no doubt distract and corrupt reformers. Indeed, Western aid would provide hard-liners with a new source of patronage and plunder at a time when privatization is peeling state companies from their parasitic hooks.

The struggle between reformers and hard-line opponents of reform will continue until the hard-liners are deprived of the ammunition of faulty policies that repress the nascent market economy. The Yeltsin government should focus on incentives to production, not on shoring up the finances of the bankrupt state apparatus. In the medium term, privatization of the economy will ensure that government expenditures fall and the deficit declines. All of the adjustment should be in the public sector, and the emergent private sector should be given incentives, such as a regime of low taxation and minimal regulation, to grow rapidly and absorb the state workers displaced by privatization.

The Emergence of a Grassroots Market Economy

In today's Russia a market economy is being created from the bottom up. While Russia's politicians bicker over market reforms, ordinary people are forced to participate in the market economy or perish. Muscovites trade, barter, or sell whatever they can get their hands on to supplement meager salaries that often do not even cover a week's food. The result is thriving commerce on Moscow's streets.

The days of waiting in block-long queues are over for those who can afford high prices. Everything, including imported luxuries that most people never saw during the years of communist rule, is available to those with high incomes, some 20 percent of the population. The problem is that Yeltsin, in following the advice of Russia's official Western advisers, is making the transition more painful than it needs to be. Russians believe more people are becoming worse off than better off at this juncture.

Some Russian reformers believe that acceptance of IMF- sponsored stabilization in exchange for billions in foreign aid is a worthwhile bargain that will shore up the Russian government's sagging finances. But others believe that since money is fungible, massive financial transfers to Russia at this time could actually present a global danger. At a November 1992 Cato Institute seminar, Russian economist Larisa Piyasheva expressed relief that the IMF and the World Bank were unable to funnel into Russia the massive credits that were sought in 1992, because "giving money to the Russian government right now is tantamount to giving money to the military." Piyasheva said that had Sachs and the group of official advisers to the Russian government been successful in funneling in large-scale credits, it would have meant a dangerous expansion of the military and the country would never have been able to repay the credits. The Russian economist asserted that, because of lack of resources, the military is compelled to cut forces by 30 percent.

Helping Russia Help Herself

This is a critical moment in Russia's transition, one that could prove dangerous unless Russia rapidly establishes a market economy to begin to deal with its vast social and political problems. The United States and other Western nations must unequivocally advocate free markets and free enterprise in the former Soviet Union.

The long-suffering peoples of the former Soviet countries deserve a quick and less painful transition to a market economy. That can be achieved if the new countries set entrepreneurs free to use capital and new ideas to create wealth. With the establishment of economic and political liberty in Russia and the other former Soviet countries, the region can ring in the 21st century with prosperity and hope.

Once and for all, the West should end its outdated reliance on large-scale government-to-government aid. The world can ill afford the consequences of turning Russia into an international welfare dependency. Massive aid to Russia would only entrench unproductive institutions and prolong the crisis. A better solution is to base development on the proven success of free markets and free enterprise.

Notes

[1] World Bank, "Russian Economic Reform: Crossing the Threshold of Structural Change," Washington, 1992, p. xv.

[2] Steven Butler and Leyla Boulton, "Russia Will Need $22 Billion Aid Next Year," Financial Times, October 30, 1992.

[3] Very little of the aid was distributed in hard currency, and much of it was in the form of credits for the import of Western goods. Further, according to a U.S. Treasury official, the Russian government's nonpayment of $2.5 billion in interest due on its foreign debt amounted to informal debt forgiveness.

[4] Numerous sources detail institutionalized corruption in Latin America due to the development-planning approach, which substituted foreign loans for private equity so that development could be controlled by governments according to national development plans. Mexican author and statesman Octavio Paz has concluded that "despite its modern veneer, statist development in Latin America has been nothing more than the resurrection of the old colonial patrimonialism." Octavio Paz, "Alba de la Libertad," La Nacin (Buenos Aires), March 25, 1990, section 4a, p. 1. Other sources include Mario Barros, Jr., A Fantastica Corrup_o no Brasil (n.p. 1982); and Jose Osvaldo de Meira Penna, O Dinossauro (S_o Paulo: T. A. Queiroz, 1988), on Brazil; Jorge Bustamante, La Repblica Corporativa (Buenos Aires: Emec Editores, 1988), on Argentina; Carlos Ball, Libertad, Democracia y Corrupcin (1983; reprint, Caracas: Ediciones Libertas, 1984), on Venezuela; and Hernando De Soto, The Other Path (New York: Harper & Row, 1989), on Peru. Ghanaian scholar George Ayittey has examined how multilateral development aid entrenched corruption in Sub-Saharan Africa, in Africa Betrayed (Washington: Cato Institute, 1991) and in "Africa Betrayed: The Legacy of Aid to Sub-Saharan Africa," paper presented at the Cato Institute conference on "Multilateral Aid: Fostering Independence or Addiction?" May 8, 1991.

[5] Gross aid flows from all sources since 1945.

[6] Business Information Service for the Newly Independent States, "Commercial Overview of Russia," U.S. Department of Commerce, January 1993, p. 6.

[7] "Agricultural Outlook," Report no. AO.195, U.S. Department of Agriculture, April 1993.

[8] Anatoli Chubais, "Russia's Window of Opportunity," Financial Times, April 2, 1993.

[9] Fred Hiatt, "Russia Starts Drive to Privatize Industry," Washington Post, January 15, 1993.

[10] Neela Banerjee, "In Coup for Yeltsin's Privatization Plan, Russians View Vouchers as Investments," Wall Street Journal, December 22, 1992; see also Government of the Russian Federation, Small-Scale Privatization in Russia: The Nizhny Novgorod Model, A City Official's Guide, prepared by the International Finance Corporation, 1992.

[11] Internal documents of the U.S. Treasury, pursuant to Paris Club negotiations, February 1993. Unofficial Treasury estimates place the total amount of nonguaranteed debt to private commercial banks at between $250 million and $300

million, and the U.S. Commerce Department estimates that approximately $300 million is owed to U.S. suppliers.

[12] Ibid.

[13] Pat Towell, "Arms Control: Bush and Yeltsin Set to Sign Warhead Reduction Treaty," and accompanying chart, Weekly Report of the Congressional Quarterly, January 2, 1993, p. 34.

[14] Elaine Sciolino, "Russian Chaos Stalls Disarmament, Senate Is Told," New York Times, March 10, 1993.

[15] Ukraine has 176 missiles and 1,552 warheads in its territory at this writing. Because of Ukraine's turbulent historical relations with Russia, and the presence of hard-liners in the Russian Congress of People's Deputies who harbor territorial ambitions, many Ukrainians believe their country should move cautiously in dismantling nuclear capacity.

[16] Kathy Lally, "Yeltsin Declares 'Victory' after Ouster Effort Fails," Baltimore Sun, March 29, 1993.

[17] Moscow Interfax report in English, January 18, 1993, quoted in Foreign Broadcast Information Service, "Predicts Sharp Struggle on Privatization," January 19, 1993, pp. 33-34.

[18] Ibid.

[19] Russian Federation Law on the Right of Russian Federation Citizens to Receive as Private Property and Sell Plots of Land for the Purposes of Personal Subsidiary and Dacha-based Farming, Horticulture, and Individual Housing Construction, signed by Russian Federation President Boris Yeltsin, dated December 23, 1992. Krasnaya Zvezda, December 31, 1992, p. 1.

[20] Gabriel Schoenfeld, "Grain Drain," International Economy, July-August 1992, pp. 33-35.

[21] With the exception of the World Bank's private-sector development affiliate, the International Finance Corporation.

[22] World Bank, Russian Economic Reform: Crossing the Thresh old of Structural Change (Washington: World Bank, 1992), p. xxii.

[23] Anotoly Verbin, "Russian 1993 Budget Plan Already Outdated," Release no. 1149, Executive News Service, January 28, 1993.

[24] Steven Erlanger, "Russia, under Inflation Threat, Raises Gas Prices," New York Times, February 2, 1993.

[25] "Russia Sells Off Shares of GUM, Several Plants," Wall Street Journal, February 9, 1993.

[26] Chubais.

[27] Marc Champion, "Price Controls Will Be Revised," Moscow Times, January 15, 1993.

[28] "Russian Vote Results," Agence France Presse, April 27, 1993.