Tainted Transactions

Harvard, the Chubais Clan and Russia’s Ruin

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ONLY A FEW years ago, American policymakers were confidently predicting that a regimen of privatization and market reform would in due course transform Russia into a stable and prosperous democracy. America would smooth this transition and U.S. aid—unselfish and urgent—would serve as a “bridge”, enabling representatives from both sides to implement their respective agendas. Pictures of “Bill” and “Boris” embracing and beaming at the camera symbolized the promise of a new era in U.S.-Russia relations, one that bore little resemblance to the preceding decades of Cold War acrimony.

Today all that has passed away. Far from fulfilling their promise of a better life, the U.S.-sponsored “reforms” of the 1990s have left many, if not most, Russians worse off.¹ For this state of affairs many Russians today blame precisely the Western aid and advice they have received.² Some, indeed, believe that the United States set out deliberately to destroy their economy.

How did the United States, by far the dominant partner in the relationship, allow one of the most promising rapprochements of the last century to founder? Rather than proceeding on the basis of common sense and well-established modes of representation between states, it acted upon an ideology implemented through a most dubious mode of conducting relations between nations. The ideology—that of radical privatization and marketization, applied in this instance in a cold-turkey manner to a society with no recent experience of either—is well known. The way in which advice and aid were given is much less familiar, but it is a vital part of the story.

It is necessary to give this distinctive way of conducting business a name, and, drawing on my experience as an anthropologist, I shall call it “transactorship.”³ By “transactors”, then, I shall mean players in a small, informal group who work together for mutual gain, while formally representing different parties. Even though transactors may genuinely share the stated goals of the parties they represent, they have additional goals and ways of operating of their own. These may, inadvertently or inadvertently, subvert or subordinate the aims of those for whom they ostensibly act. The behavior of members of such groups is marked by extreme flexibility and a readiness to exchange roles, even to the extent

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of representing parties other than the ones to which they are formally attached.

In what follows, I shall show that during the 1990s the cozy manner in which American advisers and Russian representatives—that is, the transactors—interacted and the outcomes of their activities ran directly counter to the stated aims of the U.S. aid program in Russia. Specifically, those goals were to foster economic development and democratization and to nurture friendly bilateral relations. As a new decade begins, key transactors in this program are under investigation for money laundering, corruption and other criminal activities—the consequences of their undeclared goals.

Transactorship, as it applies in the U.S.-Russia relationship over the last decade, involves individuals, institutions and groups whose official status is difficult to establish. Indeed, nearly everything about transactors is ambiguous. Their sphere of activity is neither fixedly public nor private, neither firmly political nor economic; their activities are neither fully open nor completely hidden and conspiratorial; and the transactors are not exclusively committed to one side or the other. This malleability affords them enormous flexibility, which in turn enhances their influence on all sides. Alas, it is also what has sabotaged the once high hopes for a new era in U.S.-Russia relations.

The Emergence of Transactorship

HOW IN the case of Russia and the United States did the transactors come together to be designated as the bridge builders from their respective sides? As the vast Soviet state was collapsing in late 1991, Harvard professors Jeffrey Sachs, Andrei Shleifer and others participated in meetings at a dacha outside Moscow. There, young would-be Russian “reformers” were in the process of devising a blueprint for economic and political change. The key Russians present at the dacha were the economists Yegor Gaidar and Anatoly Chubais. These meetings occurred at the time when Boris Yeltsin, then president of what was still Soviet Russia, was putting together his team of economic advisers. Gaidar would become the first “architect” of economic “reform” in post-communist Russia. A long-standing group of associates from St. Petersburg, centered around Chubais, was to figure prominently in Yeltsin’s team. Indeed, Chubais would go on to replace Gaidar, and to become an indispensable aide to Yeltsin.

While at the dacha, Sachs, his associate Anders Aslund and several other Westerners offered their services to the Russians, including that of facilitating access to Western money—an offer the Russians accepted. In the ensuing months and years the members of the Harvard and Chubais teams saw to it that they became the designated representatives for their respective sides—and transactors in the sense I have described. On the American side, representatives from the Harvard Institute for International Development (HIID) would provide the theory and advice to reinvent the Russian economy.

Maintaining that Russian economic reform was so important, and the “window of opportunity” to effect change so narrow, U.S. policymakers granted the Harvard Institute special treatment. Between 1992 and 1997, the Institute received $40.4 million from the U.S. Agency for International Development (USAID) in non-competitive grants, and—until USAID suspended its funding in May 1997—had been slated to receive another $17.4 million. Harvard-connected officials in the Clinton administration, citing “foreign policy” considerations, largely bypassed the normal public bidding process required for foreign aid contracts. The waivers to competition were backed by friends of the Harvard Institute group, especially in the
U.S. Treasury. Approving such a large sum of money mostly as non-competitive amendments to a much smaller award (the Harvard Institute’s original award was $2.1 million) was highly unusual, according to U.S. government procurement officers and U.S. General Accounting Office (GAO) officials, including Louis H. Zanardi, who later spearheaded GAO’s investigation of HIID activities in Russia and Ukraine. Indeed, the U.S. government delegated virtually its entire Russian economic aid portfolio—more than $350 million—for management by the Harvard Institute. The Institute was also provided the legal authority to manage other contractors (some of whom were its competitors), leaving it in the unique position of recommending U.S. aid policies while being itself a chief recipient of that aid. In 1996 the GAO found that the Harvard Institute had “substantial control of the U.S. assistance program.” According to U.S. government procurement officers and GAO officials, delegating so much aid to a private entity was unprecedented.

In Russia, the Harvard representatives worked exclusively with Anatoly Chubais and the circle around him, which came to be known as the Chubais Clan. The interests of the Harvard Institute group and those of the Chubais Clan soon became one and the same. Their members became known for their loyalty to each other and for the unified front they projected to the outside world. By mid-1993, the Harvard-Chubais players had formed an informal and extremely influential transactor group that was shaping the direction and consequences of U.S. economic aid and much Western economic policy toward Russia.

Providing pivotal support to the Harvard-Chubais transactors was Lawrence Summers, earlier a member of the Harvard faculty and at this time chief economist at the World Bank. Summers had strong ties to the Harvard team, including Shleifer, the economist who served as project director of the Harvard Institute’s program in Russia. Soon, Summers would play a principal role in designing U.S. and international economic policies at the U.S. Treasury, where he would occupy the posts of undersecretary, then deputy secretary and, finally, secretary.

The Chubais transactors advertised themselves, and were advertised by their promoters, as the “Young Reformers.” The Western media promoted their mystique and overlooked other reform-minded groups in Russia. Western donors tended to identify Russians as reformers not on the basis of their commitment to the free market but because they possessed personal attributes to which the Westerners responded favorably: proficiency in the English language; a Western look; an ability to parrot the slogans of “markets”, “reform” and “democracy”; and name recognition by well-credentialed fellow Westerners. Members of the Chubais team possessed all of these qualities. By their sponsors in the West, they were depicted as enlightened and uniquely qualified to represent Russia and usher it down the road to capitalism and prosperity. Summers dubbed them a “dream team”, which, given his position and status, was a particularly valuable endorsement.

In Russia, however, the Chubais transactors’ primary source of clout was neither ideology nor even reform strategy, but precisely their standing with and their ability to get resources from the West. As the Russian sociologist Olga Kryshtanovskaya 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, 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 transformed itself into the most powerful elite clan of Russia in the past five years.
U.S. support proved decisive in this transformation. The administration’s "dream team" seal of approval bolstered the Clan’s standing as Russia’s chief brokers with the West and the international financial institutions, and as the legitimate representative of Russia. It also enabled the Harvard-Chubais transactors to exact hundreds of millions of dollars in Western loans and American aid.

The Modus Operandi

It is time now to look in greater detail at the way in which this extraordinarily effective operation worked—effective, that is, in acquiring standing and funds. There were five basic operating principles.

- **Democracy by Decree**
  The transactors’ preferred way of proceeding in the Russian context was by means of top-down presidential decree. U.S. officials explicitly encouraged this practice as an efficient means of achieving market reform. As USAID’s Walter Coles, a key American official in the privatization aid program, put it, “If we needed a decree, Chubais didn’t have to go through the bureaucracy.” Rule by decree also allowed the transactors to bypass the democratically elected Supreme Soviet and the Duma. The Harvard Institute’s Russia director, Jonathan Hay, and his associates went so far as to draft some of the Kremlin decrees themselves. Needless to say, this did nothing to advance Russia’s evolution toward a democratic system, nor was it consistent with the declared American aim of encouraging that evolution.

- **Flex Organizations**
  A similar anti-democratic ethos pervaded the network of Harvard-Chubais transactor-run organizations. The transactors established and oversaw a network of aid-funded, aid-created “private” organizations whose ostensible purpose was to conduct economic reform, but which were often used to promote the transactors’ parochial agendas. These organizations supplanted or circumvented state institutions. They routinely performed functions that, in modern states, are typically the province of governmental bureaucracies. They served to allow the bypassing of the Duma and other relevant actors, whose input was in the long term crucial to the successful implementation of economic reforms in Russia. Further, the aid-created organizations served as a critical resource for the transactors, a vehicle by which to exploit financial and political opportunities for their own ends. I call these bodies “flex organizations” in recognition of their impressively adaptable, chameleon-like, multipurpose character.

  The donors’ flagship organization was the Russian Privatization Center, which had close ties to Harvard University. Its founding documents state that Harvard University is both a “founder” and “Full Member of the [Russian Privatization] Center.” The center received funds from all major and some minor Western donors and lenders: the United States, the IMF, the World Bank, the European Bank for Reconstruction and Development, the European Union, Germany and Japan. The center’s chief executive officer, a Russian from the Chubais Clan, has written that while head of the center he managed some $4 billion in Western funds. The Chamber of Accounts, Russia’s rough equivalent of the U.S. General Accounting Office, investigated how that money was spent. An auditor from the Chamber concluded that the “money was not spent as designated. Donors paid . . . for something you can’t determine.” When I interviewed aid-paid consultants working at the center, I was told that the funds were routinely used for political purposes.
The center was an archetypal flex organization, one that switched its identity and status situationally. Formally and legally, it was nonprofit and non-governmental. But it was established by Russian presidential decree and received aid because it was run by the Chubais transactors, who also played key roles in the Russian government. In practice, the center played the role of government agency. It negotiated with and received loans from international financial institutions—which typically lend to governments, not private entities—and did so on behalf of the Russian state.

According to documents from Russia’s Chamber of Accounts, the center wielded more control over certain privatization documents and directives than did the Russian government agency formally responsible for privatization. Two center officials, its CEO from the Chubais Clan and Harvard’s Moscow representative, Hay, were in fact authorized to sign privatization decisions on Russia’s behalf. Thus did a Russian and an American, both of them affiliated with a private entity, end up acting as representatives of the Russian Federation.

• “Transidentity”

It was not only organizations that could change guises. The flex organization had its individual equivalent in the phenomenon of “transidentity”, which refers to the ability of a transactor to change his identity at will, regardless of which side originally designated him as its representative. Key Harvard-Chubais transactors were quintessential chameleons. To suit the transactors’ purposes, the same individual could represent the United States in one meeting and Russia in the next—and perhaps himself at a third—regardless of national origin.

Jonathan Hay, who alternatively acted as an American and a Russian, provides a telling example of this phenomenon. In addition to being Harvard’s chief representative in Russia, with formal management authority over many other U.S. contractors, Hay was appointed by members of the Chubais Clan to be a Russian. As such, he was empowered to approve or veto high-level privatization decisions of the Russian government. According to a U.S. official investigating Harvard’s activities, Hay “played more Russian than American.” The financial arena yields many such examples of transidentity, in which Chubais transactors appointed Americans to act as Russians.

It was (and is) difficult to glean exactly who prominent consultants on the international circuit represented, for whom they actually worked, who paid them, and where their loyalties and ambitions lay at any given time. Harvard economist Jeffrey Sachs, who served as director of the Harvard Institute from 1995 to 1999, provides a case in point. According to journalist John Helmer, Sachs and his associates (including David Lipton, vice president of Sachs’ consulting firm who later went to Treasury to work for Summers) played both the Russian and the IMF sides of the street. During negotiations in 1992 between the IMF and the Russian government, for example, Sachs and his associates appeared as advisers to the Russian side. But they were at the same time “writing secret memoranda advising the IMF negotiators as well.”

Compounding this ambiguity is the question of whether Sachs was an official adviser to the Russian government. Although he maintains that he was, key Russian economists as well as international officials cast doubts on his claim. Jean Foglizzio, the IMF’s first Moscow resident representative, was also taken aback by Sachs’ practice of introducing himself as an adviser to the Russian government. As Foglizzio put it, “[W]hen 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?25

Sachs also offered his services as an intermediary. According to Andrei Vernikov, a Russian representative to the IMF, and other sources, Sachs presented himself to leading Russians 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’ help after circulating the memo.26 Sachs also proved adept at lobbying American policymakers.27

The most effective and influential transactors are extremely adept at working their multiple roles and identities. One such ubiquitous transactor was Anders Åslund, a former Swedish envoy to Russia who worked with Sachs and Gaidar. Åslund seemed at once to represent and speak on behalf of American, Russian and Swedish governments and authorities. Accordingly, he was understood by some Russian officials in Washington to be Chubais’ personal envoy. Though a “private” citizen of Sweden who played a leading role in Swedish policy and aid toward Russia,28 he nonetheless participated in high-level meetings at the U.S. Treasury and State Departments about U.S. and IMF policies.29 Åslund was also involved in business activities in Russia10 and Ukraine.31 According to the Russian Interior Ministry’s Department of Organized Crime, he had “significant” investments in the Russian Federation.32 In addition to his work for governments, the Harvard-Chubais transactors and the private sector, Åslund was engaged in public relations activities. His assignment in Ukraine, where he was funded by George Soros, explicitly included public relations on behalf of that country, according to other Soros-funded consultants who worked with Aslund there.33 His effectiveness in this role was no doubt 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 always presented himself on these occasions as an objective analyst, despite his many promotional roles.

**Interchangeability**

The maneuverability for individuals afforded by transidentity was also present at the group level. The Harvard Institute group, though formally representing the United States, also represented the Chubais group.34 Thus, some U.S. officials and investigators requesting meetings with Russians were instead directed to Americans. In lobbying for aid contracts, the Harvard Institute group continually cited its access to Russian “reformers” as its primary advantage; this was in fact a key component of its public relations effort. In turn, Harvard acted as the Chubais Clan’s entrée to the eyes and ears of U.S. policymakers and to American funds. In the United States, the Harvard transactors touted Chubais as the voice of Russia, and he became the quintessential enlightened Russian in the eyes of many U.S. officials and commentators.

Not surprisingly, then, in times of crisis for the Harvard-Chubais nexus—such as the ruble crisis of August 1998 and the Bank of New York money laundering scandals—the transactors and their associates have sought to bolster their colleagues’ continued clout and standing in both Russia and the United States. Thus, Summers has frequently rushed to the defense of Chubais and other key transac-
tors. In testimony before the U.S. House of Representatives' Committee on International Relations, for example, Summers stoutly defended Chubais and asked that Chubais' prepared statement ("I Didn't Lie") be placed in the congres-
sional record. Similarly, Aslund serves as a staunch defender of and advocate for Chubais. Of late, he also has been arguing Vladimir Putin's cause.

- **Unaccountability and Self-perpetuation**

Transactors are largely above formal accountability. The group places its mem-

bers in various positions to serve its agendas, which may or may not conflict with those of the government or public interest they supposedly serve. The result is a game of musical chairs. For example, a key agency in Russian "reform", the State Property Committee, was headed by a succession of Chubais transactors, among them Chubais himself, Maxim Boycko and Alfred Kokh. Kokh was named chair-

man of the Committee after Boycko was fired by Yeltsin for accepting a thinly veiled $90,000 bribe from a company that had received preferential treatment in the privatization process. Kokh himself was later removed for accepting a $100,000 payment from the same company. Chubais, Boycko and Kokh also held a variety of key positions in the Harvard-

Chubais transactor-run, aid-funded Russian Privatization Center.

The Chubais transactors are unlikely to disappear in Vladimir Putin's Russia. In fact, Putin has long been intertwined with them. An operative in the KGB and briefly head of its successor agency, Putin, like most members of the Chubais Clan, hails from St. Petersburg and was inti-

mately involved in the "reforms" there. After moving to Moscow to work with Chubais, Putin helped to suppress crimi-

nal investigations that implicated Yeltsin and members of his family—as well as Chubais himself. Chubais, in addition to running the country's electricity con-

glomerate, is helping to run Putin's presidential campaign.

**Consequences of Transactorship**

**WHAT, it might be asked, is wrong with the transactor-

ship mode of organizing relations between the United States and Russia in such circumstances? Many U.S. officials have argued that it is the most effective method by which to implement market reform—through a committed group with intimate access to both sides (and to many activities in both countries). In fact, there are several things that are seriously wrong with this argument.**

**Transactorship has served to undermine democratic processes and the development of transparent, accountable institutions.**

Operating by decree is clearly anti-

democratic and contrary to the aid com-

munity's stated goal of building democra-

cy in Russia. It has weakened the message to the Russians that the United States stands for democracy. Further, the aid-

created flex organizations have supplanted the state and often carried out functions that ought to have been the province of governmental bureaucracies.

As well, the flex organizations have likely facilitated the development of what I have called elsewhere the "clan-state", a state captured by unauthorized groups and charac-

terized by pervasive corruption. In such a state, individual clans, each of which controls property and resources, are so closely identified with particular min-

istries or institutional segments of government that the respective agendas of the state and the clan become indistinguish-

able. Thus, while the Chubais transactors were closely identified with segments of government concerned with privatization and the economy, competing clans had equivalent ties with other government
organizations, such as the ministries of defense and internal affairs and the security services. Generally, where judicial processes are politically motivated, a clan's influence can be checked or constrained only by a rival clan. By systematically bypassing the democratically elected parliament, U.S. aid flouted a crucial feature of democratic governance: namely, parliamentarianism.

_Transactorship has frustrated true market reform._

Without public support or understanding, decrees constitute a weak foundation on which to build a market economy. Some reforms, such as lifting price controls, may be achieved by decree. But many others depend on changes in law, public administration or mindsets, and require cooperation among a full spectrum of legislative and market participants, not just a clan.40

A case in point was USAID's efforts to reform Russia's tax system, and to establish clearing and settlement organizations (CSOs)—an essential ingredient in a sophisticated financial system. The efforts failed largely because they were placed solely in the hands of one group, which then declined to work with other market participants. In Moscow, for example, despite millions of USAID dollars, many Russian brokers were excluded from the process and consequently declined to use the CSO. 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 the Harvard Institute's activities in Russia, the U.S. General Accounting Office issued a report calling the CSO effort "disappointing."41 Yet, absent support from parties to the reform process, reforms were almost certain to be ignored or even subverted during implementation.

To repeat, transactors, although they may share the overall goals of the sides they represent, may advertently or inadvertently subvert those goals in pursuit of their own private agendas. The Chubais-Harvard transactors were known to block reform efforts on occasion. In particular, they were inclined to obstruct reform initiatives when they originated outside their own group or were perceived to conflict with their own agendas.42 When a USAID-funded organization run by the Chubais-Harvard transactors failed to receive the additional USAID funds it had expected, its leaders promptly obstructed legal reform activities in the areas of title registration and mortgages—programs that were launched by agencies of the Russian government.43 In such instances, the transactors' interference put them at cross purposes with their own purported aim of fostering markets.

Lack of transparency, too, became apparent in the manner in which the transactors implemented economic reforms. Secrecy shrouded the privatization process, with numerous, unfortunate consequences for the Russian people. Privatization, which was largely shaped by the Harvard-Chubais transactors and significant parts of which were funded by USAID, was intended to spread the fruits of the free market. Instead, it helped to create a system of "tycoon capitalism" acting in the service of a half dozen corrupt oligarchs. The "reforms" were more about wealth confiscation than wealth creation; and the incentive system encouraged looting, asset stripping and capital flight.44

_Transactorship has encouraged the maximization of opportunities for personal gain._

The prestige and access of the Harvard-Chubais transactors facilitated their involvement in other areas, including allegedly the Russian securities market, both in Russia and internationally, and may have helped them enrich them-
selves. In such ways, the private agendas of the Harvard-Chubais transactors helped to subvert the goals of the sides they were supposed to be serving.

Providing a small group of powerbrokers with a blank check inevitably encouraged corruption, precisely at a time when the international community should have been demanding safeguards in Russia such as the development of a legal and regulatory framework, property rights and the sanctity of contracts. Over the years many substantiated reports of the Chubais transactors using public monies for personal enrichment have been published. Today these same persons are among those under investigation for alleged involvement in laundering billions of dollars through the Bank of New York and other banks.

The Harvard Institute has also had its difficulties. In 1996 the GAO found that USAID’s management over Harvard was “lax.” In 1997 the government cancelled most of the last $14 million earmarked for the Institute, citing evidence that the project’s two managers—Hay and Shleifer—had used their positions and inside knowledge to profit from investments in the Russian securities markets and other private enterprises. The two remain under criminal and/or civil investigation by the U.S. Department of Justice. In January 2000 a Harvard task force issued a report alluding to that financial scandal. It recommended that the Harvard Institute for International Development be closed and that selected programs be integrated into other university programs. The Institute was closed shortly thereafter. An inspired Harvard University spokesperson, Joe Wrinn, spun the story thus: “It’s a vote of confidence for the study of international development and its permanent integration into Harvard University.”

Because the transactors’ success is grounded in mutual loyalty and trust, and because of their shared record of activities, some of which have left them vulnerable to allegations of corruption, the transactors have ample incentive to stick together. Any desertions must be well considered, as they could have serious consequences for all involved.

Transactorship has encouraged not only corruption but also the ability to deny it.

Transactorship affords maximum flexibility and influence to the transactors, and minimal accountability to the sides the transactors presumably represent. If the Harvard Institute’s manager in Russia were asked by U.S. authorities to account for privatization decisions and monies, he could respond by claiming that he made those decisions as a Russian, not as an American. If USAID came under fire for funding the Russian state, it could claim that it was funding private organizations.

Now that the issue of “Russian” corruption has captured headlines, Treasury Secretary Summers has lately been insisting that the Russian government make amends. “This has been a U.S. demand for years”, he claims, as if he had not himself addressed letters to “Dear Anatoly” and met with Chubais as recently as the summer of 1999. This only months after Chubais admitted that he had “conned” from the IMF a $4.8 billion installment in July 1998, the details of that deal having been worked out in Summers’ home over brunch—at a meeting that the New York Times deemed crucial to obtaining release of the funds.

Transactorship has proved particularly harmful in a setting in which communism until recently prevailed.

The transactorship mode of organizing relations is reminiscent of precisely those features of communism that the international community should be concerned not to reinforce. The informal, but influential, parallel executive established by the Harvard-Chubais transactors

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recalls the powerful patronage networks that virtually ran the Soviet Union. Political aid disguised as economic aid is only too familiar to Russians raised under a system of political control over economic decisions. As Shleifer acknowledged in a 1995 book funded by Harvard, “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.”

And yet U.S. officials have defended this approach. In a 1997 interview, Ambassador Richard L. Morningstar, U.S. aid coordinator to the former Soviet Union, said, “When you’re talking about a few hundred million dollars, you’re not going to change the country, but you can provide targeted assistance to help Chubais”—an admission of direct interference in Russia’s political life. U.S. assistance to Chubais continued even after he was dismissed by Yeltsin as first deputy prime minister in January 1996: he was placed on the Harvard payroll, a demonstration of solidarity for which senior U.S. officials openly declared their support.

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The U.S.-Russian experience of transactorship is interesting and disturbing not only in its own right, but because this mode of operating may well become more frequent as a way of conducting transnational affairs in the twenty-first century. With the ongoing process of globalization, the nationality of actors is becoming increasingly irrelevant. Already global elites, with ever closer connections to one another and fewer to the nation-state, see themselves not so much as American, Brazilian or Italian, but as members of an exclusive and highly mobile multinational club, whose rules and regulations have yet to be written. In many respects, members of what Peter Berger has identified as the overlapping “Davos” and “Faculty Club” cultures have much more in common in terms of lifestyle and taste with each other than they have with their fellow nationals. And as Berger observes, “it may be that commonalties in taste make it easier to find common ground politically”—and, of course, economically.

While all this is true, global elites will continue to operate in a world organized into nation-states. In such a world, assumptions about representation, grounded in national and international law, are based on the idea that an individual can formally represent either one state or another, but not both. The transactor mode of behavior may seem to offer a means of having it both ways, of squaring the circle. But it also raises crucial 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 when the same player represents multiple sides? Wherein lies the accountability to electorates and parliaments in a world of growing coziness and joint decision-making among governing elites? Where, if at all, do representation and democracy enter the picture? The U.S.-Russian case in the last decade provides a cautionary lesson in all these respects. But it has been a very expensive lesson. □
Notes

1. The Russian “population has suffered increasing hardship” since the ruble devaluation of August 1998. An estimated 38 percent was living in poverty at the close of the first quarter of 1999, as compared with 25 percent one year earlier. Real incomes in June 1999 were 77 percent of their June 1998 level. (OECD Economic Outlook, December 1999, p. 132.) Further, Russian citizens became poorer in 1999, even though wage arrears and absolute numbers below the poverty line trended down. “The average level of Russians’ real cash income—incomes adjusted to account for inflation—decreased 15 percent,” according to the Russian Statistics Agency. (Yevgeniya Borisova, “Poverty Still Widespread Despite Modest Growth,” Moscow Times, January 13, 2000.) Also in Johnson’s Russia List, January 13, 2000.) An estimated 70 percent of Russians now live below or just above the poverty line.


3. In coming up with a “transactor,” I carefully draw on the original meaning of the term: someone who carries through or does business.


6. A “clan,” as Russians use the term, is an informal group whose members promote their mutual political, financial and strategic interests. See Olga Kryshatokhina, “The Real Masters of Russia,” Argumenti i Fakty (May 1997), also in Johnson’s Russia List.

7. Although individuals are often thought of as the primary unit to take advantage of economic opportunities, this unit with respect to transactors is often the transactor group. Individual transactors must take the interests of their fellow transactors into account when making choices.

8. The two received at least one foundation grant together (via of Andrei Shtleifer supplied by HII).


12. Author’s interview with Coles, June 6, 1996.


15. Author’s interview with and documents provided by Veniamin Sokolov (editor at the Chamber of Accounts of the Russian Federation), May 31, 1998.


17. Author’s interview with and documents provided by Sokolov, May 31, 1998. See State Property Committee order no. 186 (which gave Jonathan Hay veto power over the Committee’s projects), October 5, 1992.


20. In time, Sachs and Shtleifer emerged as rivals and ran largely separate operations in Moscow. Still, they shared the transactorship model of operating and many contacts in the Chubais Clan.

21. Lipton and Sachs served together on consulting missions in Poland and Russia. “Jeff and David … were like an inseparable couple,” remarked Andrei Vernikov, a Russian representative at the IMF. (Author’s interview with Vernikov, November 22, 1997.) Lipton was named deputy assistant secretary of the treasury for Eastern Europe and the former Soviet Union. After Summers was promoted to deputy treasury secretary in 1995, Lipton moved into Summers’ old job and assumed “broad responsibility” for international economic policy development.

22. It was unclear who paid for Sachs and his team. (Helmet, “Russia and the IMF: Who Pays the Piper Calls the Tune,” Johnson’s Russia List, February 17, 1999.)

23. 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 Åslund 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 Åslund “was supported mainly by the Ford Foundation and the Swedish Government. I was not paid by the Russian Government.” (Letter to author, March 12, 1998.)

24. Gaidar Institute head Aleksander Bevz told journalist Anne Williamson that, “Sachs was never an official advisor to the government, that’s his own illusion.” Gaidar, too, described Sachs and Åslund as “insignificant figures.” Williamson reports that, “Even Gaidar’s archival, [Gregory] Yavlinsky, insisted, ‘What we did was not based on even 10 percent of their [Sachs’ and Åslund’s] advice. Gaidar was using those people as loudspeakers for the West, but, in fact, Gaidar did as he wished.’” (Williamson, Contagion, chap. 7.)

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