Thank you, Mr. Chairman. The U.S.-Russia Business

Council greatly appreciates the opportunity to testify on the

issue of U.S. policy toward post-Soviet Russia, and we do so from

the perspective of the U.S. Business community that is involved in

the Russian economy. We represent over 250 enterprises from

small entrepreneurs to the Fortune 500 corporations.

We don’t think Russia is lost. What we think is lost is any lingering

illusion about the immensity of the challenge of transforming

Russia into a fully functioning democracy and market

economy. Your examination of U.S. policy toward Russia comes in

what we view as only the end of the beginning of a longer and

more arduous process than any of us anticipated when we got involved

in Russian business.

There was, we know, no prediction of the suddenness and totality

of Soviet collapse. There was no blueprint to guide U.S. policy

through this extraordinary event. The report card on the performance

of government and business is not flawless. With an impending

change of presidents in both countries, we need the debate now

taking place. With our now substantial, accumulated experience in

dealing with Russia, we can make it constructive and well informed

if we so choose.

Our written testimony lays out comprehensively our largely positive

view of the record of past U.S. government policy toward post-

Soviet Russia. It allows, as we all must, for the difficulties inherent

in dealing with such an unprecedented challenge. In these summary

remarks, I want to highlight four areas with which we believe

a constructive debate over past policy might yield the most future

benefit.

First, I want to talk about the scale focus and effectiveness of

programs funded directly or indirectly by the U.S. government. The

majority of expenditure quite properly is focused on issues of security

and on the promotion of democratic institutions in civil society.

A lesser but still significant amount has been devoted to the nuts

and bolts of building a functioning market economy. These include

tax reform, the development of securities markets, conversion of accounting

standards and many other areas critical to our economic

transformation.

In only 7 years, Russian’s political community has shed a condition

of almost complete ignorance about the nature of the market

economy and evolved a large measure of consensus about economic

management, resulting, in several important areas, in draft or enacted

legislation. Not all the obstacles to economic transformation

have been overcome, but thanks in large part to U.S. and other

Western government support, they are far fewer today than in

1992.

Going forward, our accumulated experience raises some important

and, I think, useful questions. Have we struck the right balance

between investments and policy prescription and investments

in enabling infrastructure? Are these programs individually or collectively

at a critical mass of scale and intensity significant enough

to bring about lasting change? Are we sufficiently willing and flexible

to discontinue, initiate or modify programs in light of experience?

Have we sequenced the efforts in ways that maximize their

impact? Do they always have a political constituency in Russia that

is capable of driving them to implementation? Should we link the

provision of new programs more tightly to successful implementation

of prior ones?

Let me turn now to the impact of the IMF on the drive for economic

reform. In 1992, Russia assumed voluntarily responsibility

for Soviet external debt, now standing in excess of about $100 billion.

Despite the colossal latent wealth of the country that is embedded

in its natural resources, the Russian government has

proved unable to meet those commitments, and its public finances

are in complete disarray. The effects traceable back in some degree

to this problem are poverty among the dependents of the state, decaying

social infrastructure, decline in control over nuclear and

other military resources, further environmental degradation and diminishing

public confidence in the market model.

The IMF was not designed to cope unaided with a situation of

this kind. It does not have the resources to finance the Russian

government out of it, and it is not equipped to direct their strategy

for dealing with it. The most it can do it is doing: buying time for

others to find a solution to the external debt problem.

We believe the policy debate needs to include the question of

whether the U.S. and other governments of the G–7 should take a

more direct role in tackling the problem of former Soviet debt. Put

simply, this issue alone has the potential to derail the entire reform

effort.

Third: Crime, corruption and capital flight. We believe the culture

of lawlessness in much of Russia’s economic life is a Soviet

legacy of abuse of power by those who had it and disrespect for authority

among those who didn’t. We also believe that confiscatory

tax regimes drive otherwise honest businesses and individuals to

shelter their resources from the state through concealment at home

and abroad.

The answer to the first is, more than is acceptable;

and the answer to the second is, yes.

Mr. Chairman, the U.S.-Russia Business Council

has acted as a staff and support of the business dimensions of that

agenda. It is the logical place to go to get the opinion of the U.S.

business community that has an interest in Russia. A substantial

part of the Gore-Chernomyrdin Commission’s agenda was focused

on elements of the program of reform in the business environment

in which all those companies have a stake. So I would say that our

issues were advanced. They were, therefore, known to the staff and

presumably communicated to the leadership of the commission, including

the Vice President.

I think the attitude of the member companies in the U.S.-Russia

Business Council was that any exposure of our concerns and views

on the state of the Russian business economy and the priorities as

we saw them for its modernization was valuable—didn’t take a

huge amount of staff time, didn’t feel that it was a wasted effort.

Have one or two wins to point to in which I think it is legitimate

to say the Gore-Chernomyrdin Commission played a valuable role.

Production sharing agreements, I think, is probably, in the oil industry,

the largest single area that we would point to.

With respect to access for other organizations, I think they are

very accessible. I think, a lot of these organizations frankly lacked,

in some areas in the business arena within their staff structure,

the necessary expertise and perspective to be able to operate in an

informed fashion.

As I say, any business that had a particular gripe in the way in

which its interests were being dealt with by agencies of the Russian

government would tend to have gravitated toward the Gore-

Chernomyrdin Commission in search of redress. Whether they were

successful I don’t know. Frankly, I wouldn’t have myself channeled

any concerns that I would have had or any comment I would have

had through the Gore-Chernomyrdin Commission as the sole method

of attempting to deal with it. I might do it as a pro forma matter

to see if anything happened. But I think most businesses that

have a significant investment in Russia and a significant concern

would know where to go to deal with any problems they have, directly

within the government or the counterpart businesses that

they were dealing with.

I think there will be a widening gap between the

vision and the aspirations of the reform-minded community in Russia,

which I think consists of far more than a few intellectuals with

a grasp of free market economic principles. I think it extends to a

substantial portion of the population that intuitively understands

that life has the potential to be far better in the absence of communism,

even if it isn’t today. I think because of the widening of

the gap between aspirations that existed in the early 1990’s and

the belief in what is truly possible, given Russia’s realities, there

will be a deepening of cynicism on the part of the Russians about

their ability to integrate themselves into the value system and the

economic organizations and to adhere to the terms and behavior

patterns that are required of members of the OECD and other

international agencies.

I believe very strongly that the dual burdens of an unmanageable

external debt and an unaddressed problem of capital flight will

render the reform agenda largely irrelevant unless they are tackled

differently from the way they have been tackled over the last 6 or

7 years.