Thank you, Mr. Chairman. I am deeply grateful

to you and to the Committee for this opportunity to testify on your

very important agenda. As the previous speaker, I will just offer

some brief summarizing remarks, with apologies to Representative

Leach who has heard some of them before during the hearings that

he chaired, and to the Chairman whose opening remarks indicate

he is way ahead of the power curve on much of what we are discussing.

First, it is extremely important to realize, as several speakers

have already emphasized, that the roots of the crime and corruption

problem that have brought us here today in Russia go back

into the Soviet past, as do many of the problems of Russia today,

like the environmental crisis, the public health crisis, the decay of

infrastructure. It is particularly important with respect to the lack

of the rule of law. We have to understand that the plundering and

laundering, the organized crime and the authorized crime that

dominate the Russian economy today have their origins in the activities

of the KGB and the Communist leadership in the late

1980’s, not under the Yeltsin regime, although they escalated

under Yeltsin.

The second big point is that what we call economic reform in

Russia has really not created a market economy or capitalism, that

most hoped for. Rather, it created a kind of crony capitalism without

much capitalism, or I would call it phony crony capitalism

where insider privatization, in alliance with corrupt officialdom,

has produced a system dominated by a few powerful individuals or

entities who strip wealth out of the country and send it abroad

rather than investing to create wealth and prosperity at home. The

result has been impoverishment for the people and profound instability

of a political and social system which we should all recognize

poses serious dangers for our most important security interests in

Russia, particularly nuclear stability and security.

Now, organized crime interacts with these phenomena with this

plundering system, both as a beneficiary and a facilitator, through

such activities as protection racketeering and money laundering.

These realities that I have tried very briefly to summarize have

been completely visible from the start, and aptly reported by a host

of Russian and western observers in the English language for that

matter. You didn’t have to read Russian to follow this saga. No

failings of American intelligence can be blamed for a failure to see

these realities. There were, however, some failings of American intelligence

which, in my view, deserve some analysis and correction.

Mr. Chairman, your staff asked me to spend a few minutes on

this topic of intelligence, and I will briefly summarize my view, especially

in the early to mid-1980’s.

Thank you, Mr. Chairman.

On the subject of U.S. Intelligence in this area, I did see some

difficulties in the early to mid-1990’s, in particular, in developing

a fully integrated big picture of what was going on in Russia’s troubled

forums. First, as has been noted in some press and referred

to in an article that I published to which the Chairman alluded,

there was some political distaste in the top ranks of the current administration

for reporting an analysis about corruption in the

Yeltsin regime. Second, a reduced work force, preoccupation with

current intelligence, and preoccupation with current support requirements

limited the efforts of intelligence analysts to get a deep,

big-picture view of Russian reforms. There was bureaucratic

compartmentalization. People wanted to look at different aspects of

this elephant and not bring the pieces together.

Finally, economic analysis didn’t adequately appreciate the impact

of crime and corruption on Russian reforms, taking the view

that while their robber barons are like our robber barons and they

will all go legitimate in the end, not recognizing that the absence

of the rule of law made it impossible or extremely difficult to impose

the discipline of fair market practices that we imposed on our

robber barons, things like that.

Now, some of my former colleagues think I am unfairly critical

about our intelligence record here, because I may not have seen everything

that was going on. Other colleagues, on the other hand,

who were very much in the thick of it, don’t believe I am critical

enough. But let me repeat my basic point. You did not need official

intelligence to see the toxic mixture of corruption, insider business,

organized crime and capital flight that undermined Russian reforms

and the effectiveness of our support. They were entirely visible

in the Russian press, even in English, and any attentive observer

could see them.

The historic failing of American policy in this period was that it

gave support too uncritically and for too long to this phony crony

capitalism in Russia. It did so rhetorically, politically, and financially,

chiefly through the IMF. The result has been the prospects

for true economic reform in Russia have been made, in many ways,

more difficult than they were initially. Worst of all, we have lost

much respect and admiration among the Russian people, as have

the very ideas of capitalism and democracy.

Now, this in no way ignores what has been achieved under such

programs as Nunn-Lugar, but as I have already said, the failures

of Russian reforms very much endanger those achievements.

The problem with the IMF has been more one of perversion, I

would say, than diversion of funds. Rather than encouraging the

stabilization and growth of the Russian economy, the IMF has

served to legitimize the extraction and the flight of wealth, of capital.

But there does, in fact, seem to have been something like diversion

in the summer of 1998, and I would be happy to summarize

the evidence, if the Committee is interested, in response to questions.

Why the Administration pursued the policies it did for so long in

the face of these realities is still not entirely clear because I find

its belated explanations not terribly persuasive, particularly the

reference to our security interests. While we have achieved things

during the course of the 1990’s, positive things, I believe our security

relations with Russia are in worse shape today than they were

in 1992, 1993 when we enjoyed great admiration of the Russian

people.

The influx of vast sums of Russian money into our economy during

this period, probably amounting to hundreds of billions of dollars,

poses serious questions for law enforcement and regulation,

which is one of the reasons we are here, to witness the indictments

of yesterday. Whether that money was stolen by crime or by corrupt

business, laundered or just deposited, it inevitably created

American stakeholders in the process that brought it here. Whether

such stakeholding exerted an influence on U.S. policy that embedded

the process is a valid question that this Congress should

address.

Finally, let me make a point that very much agrees with that of

the Ranking Minority Member. Russia is not lost but stuck in a

swamp between the Soviet past and alternative future possibilities

that range from bright and friendly to dismal and threatening. Our

task is to assay the past, reassess our policies, and get ready for

the possibility that a window of real reform in Russia will reopen

if—and I underscore if—they get through the impending elections.

I wish I and, for that matter, Russians could be as confident as the

Ranking Minority Member is that they will, in fact, hold those elections.

In fact, Russia is in a profound crisis, a two-headed one involving

electoral politics on the one hand and the crisis in

Chechnya on the other.

There are better paths available to the Russians and to our own

policy toward Russia. If this Committee can illuminate those paths,

both Russia and America will be grateful. Thank you, Mr. Chairman.

Yes, sir, Mr. Chairman. I would put some things,

some of the same things on that block. First, we have to start with

a thorough audit of our policy. Now, these hearings constitute such

an audit, but there are a lot of things down in the weeds—details.

For example, in Nunn-Lugar, we have achieved a lot, but a lot of

money has been spent and there needs to be a thorough investigation

of where exactly it was spent and how. The IMF Program obviously

needs to be gone over very thoroughly.

Second, we need to assure that in the future, we have full honesty,

transparency, and accountability, on our side as well as

theirs. I mean, a great deal of the problem over the last 6 or 7

years is that we refused to be honest with any of the essential constituencies

about what was obviously going on over there.

Third, we need attention to all elements of the political spectrum

that have influence in Russia, especially in the political arena. Congressman

Weldon has emphasized the importance of paying attention

to the Duma. I think that is a very wise consequence of the

general principle. We shouldn’t restrict our policy connectivity to

Russia to a few cozy relationships among people who speak English

and IMF-ise.

Fourth, most of the assistance ought to be targeted in a very

practical, grassroots way, and that includes things like building

civil society and rule of law.

I would endorse the specific projects business, but

I would also stress we have to put our action programs, our money,

as it were, behind what we say. We have talked about law and

order, building a civic society, but we have behaved in ways, for example,

supporting the IMF funding, that suggested we didn’t really

mean it.

Starting most recently, I would have, in the summer

of 1998 said, this GKO pyramid or casino you have going over

here is thoroughly responsible. It should have been shut down a

year ago; let’s shut it down now.

I mean, working back in time——

Which?

To avoid default.

Yes, I certainly do.

I am not sure which is the best way to go right

now, politically or economically.

We shouldn’t have lent the money on the terms

that we did in the summer of 1998.

Shutting down the GKO market on some soft

landing strategy.

I am just not able to sit here and create one. But

I think we have a whole history of buying into policies on the part

of the Russian regime that were thoroughly flawed, and we could

see those flaws emerging, and we should have said so.

Mr. Chairman, there is no question in my mind

that the publicly available information coming out of Russia made

it very clear what the dimensions of the problem were. At the same

time, of course, policymakers should have access to the best intelligence

available. Being careful not to go beyond what is appropriate

to say publicly on intelligence here, I can say that what was

available through intelligence sources and methods would serve

largely to amplify and to provide rich detail to what was thoroughly

presented in the public domain.

You have interpreted my comments correctly. I

can, indeed, expand on them. But what is, in fact, going on in this

dimension is something that the hearings of this Committee and

other Committees ought to explore. I believe that the enormous

sums of money that have come out of Russia into our economy and

others in the western world have created stakeholding interests

that have exerted political influence to keep the IMF funding going

and so forth.

There have been other kinds of, you might say, insider dealings.

As Ambassador Tom Graham has pointed out in testimony before

another Committee, much of the economic policy support through

the IMF was decided in a very small group of American and Russian

English-speaking officials in which context Mr. Chubais was

speaking. It was not just the Russians that conned the IMF, it was

this little group of Russians and Americans that conned the IMF

into believing that things were better and more promising than

they looked.

Finally, as another Member of this Committee, or I believe the

visiting Member pointed out, there is the very open stake of various

American contractors and businesses in various kinds of Russian

aid, like our farmers today. But is it really wise to support our

farmers by sending to Russia food that they may not need, the proceeds

of which end up in corrupt private hands? All of these are

questions that have gotten into the public record and I believe need

to be examined, Mr. Chairman.

The best estimate that I know as, I wrote in the

‘‘National Interest’’, was about $20 billion. There have been other

estimates of what the KGB sent out of the country between around

1985 and 1992: around $20 billion. All of that money, all of the networks,

all of the companies, all of the associations that were set up

then have blended imperceptibly into the vast, plundering, laundering

apparatus that we see at work today.

Who controls exactly what is very difficult to tell from a distance?

I don’t believe the Kremlin lost control of these funds; in

fact, some of the wealth at the disposal of the Kremlin’s quartermaster,

Mr. Boradin, derives from those funds or activities like

that. On the other hand, it didn’t retain the old kind of control. As

I said, the old money, the old organizations, the old connections

that the KGB set up, blended imperceptibly into this new toxic mix

of crime, corruption, and insider business.

Mr. Chairman, inasmuch as Representative Lantos

found my remarks so agreeable, I am very reluctant to rebut

him, but I have a couple of points of qualification.

While inadequate funding, if you will, contributed to Russian disappointment,

there are other factors involved. The Russian reformers

went through a series of strategic steps from decontrol of prices

to voucher privatization to loans for shares, which quite apart from

the amount of money we supported—we supported—that led to the

impoverishment of the Russian people. I am glad we didn’t put

more money behind the policies we were supporting in Russia. I

would have been happy to put more money behind better policies.

As to rule of law, of course we couldn’t create it from abroad, but

we could have been more explicitly and consistently supportive of

Russian efforts to create the rule of law as a condition for our support:

for example, the Duma-passed money-laundering bill last

year, which Yeltsin vetoed ostensibly on human rights grounds because

it would interfere with capital flight actually, and our protests

were quite mild.

We did have leverage, it is true, at the beginning. I am sorry

that the Bush Administration wasn’t more active, but it didn’t have

a lot of time and was, in my opinion, somewhat fatigued by the previous

3 years. This didn’t mean, however, that the Clinton Administration

was without leverage, as the Congressman suggested,

when it took office in 1993.

I think the posture of the Bush Administration in

1992 vis-a-vis aid to Russia was one of skepticism and caution and

a sense of doubt about how to proceed, which wasn’t perhaps surprising

given the novelty, the extraordinary novelty of the situation

presented to them. In that situation, you may recall that President

Nixon came back to Washington from a trip to Russia in the spring

of 1992 urging a more generous, visionary, bold venture, some approach

which obviously would have cost more money. The Bush Administration,

for a variety of reasons one can go into in another

setting, wasn’t ready for that.

Unlike Congressman Lantos, I don’t believe the opportunity for

that kind of boldness disappeared with the end of the Bush Administration.

Now, as to changes of policy, I think there was definitely a

change in the sense that the new Clinton Administration was far

less skeptical, far more ready to basically sign up to what the team

around Boris Yeltsin was prepared to do, than the Bush Administration

in its brief time with this post-Communist situation demonstrated.

It just got much less skeptical with the new Administration.

I would underscore what Ambassador Swartz said

about the lack of coherence in a lot of Russian policymaking over

the years, particularly as time has gone on. But on our side, I do

think the Administration can be, must be, faulted for signaling to

the Russian regime, to the Yeltsin regime, not just to Yeltsin personally,

but to that group of people that constituted the Kremlin.

It wasn’t just with what we said, it was kind of what we supported,

what we—when we agreed to send the money—what we criticized,

but not very strongly. By body language, basically, we were saying

we are in your corner, with a couple of big exceptions like proliferation

to Iran. We are pretty well ready to back what you think is

really important to you.

Hence, the different economic reform moves that didn’t look all

that good at the beginning and mostly turned out badly from the

point of view of the public, and things like the Chechnyan war and

Yeltsin’s showdown with the Parliament in September and October

1993. Not only did the Yeltsin regime get the message, but the

Russian public got the message. They said, OK, the Americans are

supporting this about which we are increasingly alienated: economic

reform that is impoverishing us, and so-called democratization

that is becoming more authoritarian and unpredictably authoritarian.

What is going on here? Are the Americans blind or do they

have a plan? They concluded eventually it is planned, it has been

so consistent.

Mr. Congressman, my response to your challenge

would be three things. I am speaking to the present environment,

which is between our elections and their elections, when I don’t

think a lot of terribly important programmatic initiatives ought to

even be attempted because they don’t really have a functioning

government, and we just have to kind of face that.

I would lay down three requirements for us over the next 18

months. First, a thorough audit of our policy, not to find fault, but

to establish what worked and what didn’t work; because without

that, we might be unable to protect successes, and there have been

some.

Second, a package of policies, administrative measures, maybe

even laws in such areas as money laundering, that assure transparency

of the interactions that take place.

Third, we have to make very, very clear to the Russians that everything

depends, everything depends on their getting through

those elections; that there should be no notion on the part of any

part of the political spectrum that we will turn a blind eye or somehow,

gulp and find acceptable some cancellation or disruption of

those elections.

. No

Mr. Campbell, I have a response to that. It is still

a subject that is getting more and more light shed on it, it is still

a subject that requires continuing investigation: What happened in

the spring and summer of 1998 with respect to the IMF money?

Well, as the Chairman has pointed out in reference to something

I wrote, the architect of the reform policy in Russia, Mr. Chubais,

said we conned the IMF. I take him to mean not just we Russians,

but we Russians and our American partners who prettified the situation

to the point where the IMF could rationalize another round

of lending.

Now, much turned on this bazaar that they set up called the

GKO market or the government short-term bond market. It was

kind of a casino to start with, which by presenting a market in

which there wouldn’t be any losers, everybody could make the big

profits. They began to create a pyramid which by the spring of

1998 was soaking up most of the Russian Federal budget. This was

bound to collapse, and eventually it did.

What the IMF—and into the teeth of this reality, the IMF lent—

and I believe the total sum for that tranche was about $4 billion,

ostensibly for the purpose of supporting the currency in the budget.

What it basically did was support a process in which Russian and

probably some western speculators in the GKO market could convert

their ruble-denominated GKO’s into dollars and scoot the

money out of the country.

Now, if that wasn’t diversion, I don’t know what the word means.

Something like that seemed to be very likely to happen and was

obvious to a lot of people who were wringing their hands at the

time.

This has been speculated about even in August and September

1998 in Russia and some western articles, but since that time, Mr.

Skuratov, the Russian General Prosecutor, a commission of the

Upper House of the Russian Parliament, and now a journalist who

wrote an article that I brought to the attention of the Committee

just before these hearings, have laid it all out: Yes, we were

conned, and your suggestion of the different choices pretty much

brackets the possibilities.

Mr. Chairman, we have agreed that I will go first

on this one.

The point you make is an extremely important one, and what it

leads one to is to recognize that whatever we say about Russia’s

development as one country and one government to another, we

have to be very careful about the style in which we speak. It is

easy for us to come across to other countries as not just a superpower

but a Nazi, and this is resented.

At the same time, we have to recognize our obligation to decide.

I mean, the Russians want and need a variety of help from the outside

world. Some of it is just money, and some of it is a welcome

mat into the western economic community. We can’t avoid deciding

for our own policy when it is and how it is that we have met the

conditions. This is an unavoidable task that we decide what our

policy is. What will be the conditions under which we send American

taxpayer dollars into that country? We are going to have to

make those decisions.

I think an extremely important point to keep in mind when doing

so is that we should ask the Russians more broadly than this favored

little team, this dream team or whatever it happens to be,

empowering the Kremlin, ask across the political spectrum in the

Duma, look at public opinion. Had we consulted alternative views

about what the Yeltsin regime was doing on the question of territorial

integrity, for example, when the Chechnyan war, the first

Chechnyan war started, we would have been much more careful

about seeming to endorse this very unsuccessful war against a

province of Russia, because most Russian were opposed to it.

We have to listen better to different sources before making up

our mind what they think works and what they think they want.

Why the lack of coherence that the Congresswoman

observes exists? There are just so many stakeholders in

this game; I am afraid that is what accounts for it. But this food

aid program, certainly to Russia, which I know a little something

about, requires the most thorough, penetrating and skeptical investigation.

It has had two negative results that have been widely reported

in the Russian press and in some American reporting as

well.

First, it undermined the competitiveness of Russian agriculture

itself at a time when, from a public health and dietary point of

view, it wasn’t all that necessary. Now, maybe there is a tradeoff

that has to be made there that I don’t know that much about. But

it hurt Russian farmers at a time when the objectives, economic,

overall, and privatization of agriculture that we have for Russia

want us to move in another direction. The other thing I am sorry

to say is that money didn’t go into the pension fund. That money

was stolen. That is what the Russian press is saying.

It can’t be an accurate one because it is at best

a guesstimate. I got it from John Void who wrote a ‘‘Who Lost Russia’’

article for the ‘‘New York Times’’ a couple of months ago. I

think 200 billion is a conservative estimate for the whole period

from 1985, roughly, when the CPSU and the KGB escalated their

capital flight operations basically. It is probably a good deal higher

than that.

On the basis of what I know and what other estimates out there

might be, or have been lately, I think $200 to $300 billion is in the

right ballpark. Where is that money now? Well, it has probably

made its way out through a variety of channels, most of it not

through laundering at all, but just export.

I think it is technically possible to track it, but I

don’t think it is technically possible to reconstruct where all that

money went. One has to make some reasoned judgments. It didn’t

stay in Cyprus, it didn’t stay in Switzerland. It went to productive

places.

What is the most productive, safest, accessible economy in the

world in this period?

That is where it went.

Thank you, Mr. Chairman.