Thank you, Mr. Chairman for inviting me here and

for holding this hearing.

In a nutshell, the U.S. policy toward Russia, regardless

of its good intent, has been tailor made for exploitation by

the gangster bureaucrats, oligarchs, ascendent militarists and the

secret police officials like the Prime Minister ruling Russia today.

One of the problems has been that the Administration as part of

its policy has discouraged early warning of this. A pattern, reporting

on the deteriorating condition of Russia shows a calculated policy

to prevent decisionmakers in the Executive branch, in Congress

and in the public from learning the truth and taking early corrective

action. This was something I had a hunch about, but never

dared say because I had no proof of it as an outsider until some

retired diplomats and CIA officials came forward confirming this is

what they saw.

From the U.S. Embassy in Moscow we had two senior officials,

Mr. Ermarth and others, who have repeated in recent weeks that

they were instructed, or other Members of the embassy or Treasury

Department officials were instructed, not to write cables, not to

send cables already written, and not to report to Washington even

within State Department channels certain things concerning crime

and corruption within the Russian Government and the failures of

certain economic reform policies.

I have got a very blunt assessment here in my written testimony,

but point number five was the policy to ‘‘ignore or suppress opinions

and facts indicating that the policy might be failing,’’ to blind

decisionmakers, to blind appropriators and authorizers, to have the

CIA and the State Department censor itself; and among AID contractors,

of which I was a consultant for a very brief time, to instill

a climate of fear among them that if you see a problem, don’t talk

about it or you will get your livelihood cutoff.

This isn’t a partisan issue; it has been raised by Members of both

parties of this Committee. It was raised 5 years ago by Senator Bill

Bradley and others.

It is not an America versus Russia issue. Some of my best

sources have been Russian officials, journalists, former officials,

lawmakers, some of whom were corruption fighters, who are now

dead because of their anticorruption fighting activity. One is Dmitri

Khodolov, a Moscow journalist, and Galina Starovoitova, a member

of the state Duma, who were both assassinated.

We had early public warnings in 1994 even by the former Finance

Minister, Boris Fyodorov, pleading with us; please don’t send

IMF money, it is only going to be used for corruption. There are

top officials in our country who want to take the loans and not

repay them, and it is only going to cause a lot more trouble than

it is going to solve.

Few Russians dared be outspoken and it was apparent that U.S.

policy was not to support them, not to listen to them and to continue

to link ourselves to individuals who were the problem.

For U.S. AID contractors being under similar pressure, I was a

consultant for only a month because, as a token Republican-oriented

guy, they needed somebody to make them look good on Capitol

Hill. So after that I left. But I found that this was the AIDfunded

‘‘Rule of Law’’ project run by ARD-Checchi company.

In June 1994, they had hired an official at the insistence of

somebody within AID, a criminologist at American University. I

put the e-mail at the end of my written testimony, but I want to

quote from it because it is very important; this is from 51⁄2 years

ago. Her name is Dr. Louise Shelley. The head of this AID Program

said, ‘‘If I had known what Shelley was up to, I would have resisted’’

the AID official’s ‘‘instruction to put her on the consulting

contract. She is a bomb with a lit fuse. Her hobby horse is that the

AID privatization program has been exploited by organized crime,’’

and then proceeded with a way to figure out how to keep her quiet.

There is a pattern of official pressure to cover things up—whether

it is CIA; whether it is the ‘‘barnyard epithet’’ incident regarding

an assessment of some of our Russian interlocutors; whether it is

NASA and journalists reporting on corruption of NASA’s space program

or whether it is a cover-up of the laser incident where an

American Navy officer was wounded in Washington State; the

FBI’s retreat from organized crime reportings and so forth—it is a

pattern of these types of things to discourage and ignore this information

from coming out.

I would like to have three recommendations: One is to establish

a dissent channel like the Foreign Service has to allow contractors

who see problem areas to be able to report this without fear of getting

penalized. Ambassador Morningstar attempted such a system,

but it really didn’t work as well as it might have and it needs rejuvenating.

Second is, with our new public diplomacy effort at the State Department,

we need a much more honest and straightforward public

diplomacy effort to communicate with the people of Russia.

Third, keep those GAO reports going. Because the congressionally

mandated audits have done more than anything else to promote

change.

The corruption is pervasive. There has been a problem

both in the Interior Ministry, the NVD and the secret police,

the old KGB, now the Federal Security Service, where they are protecting

criminal rackets not just at the low level but at the higher

levels as well, and in the case of the Federal Security Service, protecting

criminal elements close to the Kremlin Administration

itself.

I think what illustrates it is Prime Minister Putin himself who,

as Federal security chief, earlier this year quashed the probes of

the people around Yeltsin. He is the guy sitting on the information

and he is basically sheltering these criminals and criminal organizations.

Yes. In fact, maybe Mr. Henderson, who is testifying

tomorrow, can explain. I haven’t consulted with him on this.

He doesn’t even know I attached this, so I might be putting him

on the spot. But she was right. She was raising concerns not to attack

AID, but to say, hey, this is a problem—we have to undo this

problem before it gets worse.

No, she wasn’t penalized because she had support

within the bureaucracy.

Yes. Wayne Merry and Tom Graham, who were

both at our embassy in Moscow in the early and mid-1990’s, testified

to that effect either before the Banking Committee or the Foreign

Relations Committee, and also to Bob Kaiser in the ‘‘Washington

Post’’ and elsewhere, so they have been pretty open from

their own personal experience, especially Wayne Merry, about all

this. In the August 15th, ‘‘Washington Post’’ in the Kaiser piece,

that is detailed pretty well.

I don’t know about that particular instance. I knew

Galina Starovoitova when she was on our editorial board, and she

was assassinated last November. She was a human rights leader

and also——

I don’t know this particular instance.

No. He was there as a troubleshooter, first to coordinate

and then recognize things that didn’t work. It wasn’t a formal

dissent channel that he created, but he wanted his office to be

used as a place where contractors and others could come and speak

frankly. Now people in his office said it didn’t work well because

people had to physically go to the State Department. But he was

the first senior official that was really open to this.

I can say he tried in many ways, but in other areas

I think he was not well served by some members of the staff in his

office.

I think he and Deputy Secretary Talbott were the

two primary players on Russia, Talbott with the big-picture approach

and Gore on implementing a day-to-day relationship with

his Russian interlocutors across the board. So he had a very strong

role. He and his staff were always claiming credit for his role and

saying that he was so central to it, until things started hitting the

fan this summer, when they were then saying, well, it wasn’t just

him, it was other parts of the Administration. So I think he was

happy to accept credit when people were crediting him, but sort of

shying away from some of the responsibility.

Yes.

No, argument at all. That is part of the issue of my

testimony. The whole line across every agency involved was to only

report successes and to limit or even not report on policy failures.

Yes. It has to be a generational approach. There

are a lot of people in their forties who made good leaders in the

early 1990’s who have been marginalized. I am thinking particularly

of former Foreign Minister Kozyrev, who doesn’t have this innate

hostility to the West. That generation certainly did have

power for a while. We chose not to continue supporting the ideals

that many of those people had and to side with the Chernomyrdins

and the Primakovs and the others from the old Communist Party

Central Committee.

There are more out there, but in Russia, they have always

learned to talk to survive. Back in the Soviet system, they didn’t

always speak their minds, obviously, because there were always

consequences to whatever they said.

Today, there is a similar degree of that where you have people

who in private may be much more friendly toward the United

States than they would be in public. I think you can see these votes

in the Duma, where you have a 420–to–1 vote condemning the

United States for something. Well, a good 50 of those people, at

least, are of this generation of people that we are talking about,

but they don’t dare to vote at all, or if they do, they will vote with

the opposition to the United States.

What has happened now is that our policy of just supporting the

Kremlin has marginalized people who were formerly allies in the

government. So now President Yeltsin’s main ally in the Duma, his

most reliable ally, is Vladimir Zhironovsky and his Liberal Democratic

Party. Now, nobody would have dreamed of this in 1992–

1993, but that is how it has deteriorated. So it is going to take a

long time.

I think, if current trends continue, we are going to

find ourselves engaged in finding a Russia that is very nationalistic,

not in the good sense, but in the very bad sense.

Scapegoating, worsening problems in the United States, blaming

the United States, suspecting us for every type of subversive intent

and then rearming not only places like China, but rearming strategic

nuclear forces on their own.

The Chairman of the Duma’s international relations Committee,

Vladimir Luken, who is a voice for moderation there, came out the

other day and said we are just going to crank out more and more

of these Topol-M nuclear missiles, and we are going to put multiple

warheads on them. When you get people of that stature and that

degree of moderation saying things that only the Communists were

saying only a few years ago, you know we are headed in the wrong

direction.