

# Why and How the US Should Aid Russia

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Since the Russian financial collapse in August 1998, critics of US policy toward Russia from both the right and the left have had a heyday asserting that the Clinton Administration got Russia wrong. The refrains are by now familiar: "Clinton became too close to Yeltsin," "The IMF was naive," "the West funded crony capitalism," "US-Russian strategic partnership has produced few tangible results," "Russians are not culturally predisposed to markets," etc. The policy conclusion from these observations is that the United States neither can nor should do anything to aid Russia in the future. Instead, we need to reconstruct a firewall around this basket case of a country and try once again to contain the Russian threat to markets and democracy around the world.

This line of reasoning is flawed and this conclusion is premature for several reasons. The first part of this memo outlines a set of arguments explaining why. At the same time, the United States has made serious mistakes in its policies of engagement with and aid to Russia that must be recognized. Section two of this memo highlights the major mistakes of the past. However, recognizing mistakes of the past is not an argument for curtailing action in the future. Section three of this memo lists a series of suggestions for guiding a renewed policy of engagement and a revised effort for aiding Russia in the future. Section four concludes.

## **I. The United States Can and Should Aid Russia**

This conclusion is based on several assumptions about the nature of foreign policy and the logic of Russia's revolution.

- *All politics are local.*

The foreign policies of all countries are the consequence of domestic politics. More specifically, the internal organization of a state influences its behavior in foreign affairs. This argument suggests that the Cold War ended not because of dazzling diplomacy by Western diplomats or due to Soviet or Russian weakness. Rather, the Cold War ended because communism collapsed.

This line of reasoning portends that a democratic Russia will behave differently in foreign affairs than an authoritarian Russia. This argument stands in contrast to realist accounts of foreign affairs, which are not concerned with the internal organization of states, but only the balance of power between states. This argument also contrasts with

cultural or geographic arguments about Russia that submit that Russia was, is, and always will be an imperial power.

- *The US has a national security interest in the final outcome of Russia's current regime transition.*

It matters to the United States whether Russia is a market economy or a command economy. It matters to the United States if Russia is a democracy or an authoritarian regime. It matters to the United States whether Russia seeks to integrate with the Western community of states, or instead seeks to isolate itself from the international community of states.

If Russia has a democratic polity and a market economy, then the US and Russia are less likely to be adversaries and more likely to have relations of mutual benefit. The converse is also true. If Russia does not manage to consolidate democracy or a market economy, but regresses into some other form of political and economic organization, we are likely to have a much more adversarial relationship. Even if Russia is weak, an authoritarian or, even worse, a fascist Russia can do real damage to American national security interests. Even a weak Russia can veto UN resolutions on Kosovo. Even a weak Russian can send nuclear weapons to Iraq. Even a weak Russia can threaten the Baltic states.

- *There are still people in Russia trying to make democracy and markets work.*

Even in the midst of this latest economic crisis, Russian leaders and the Russian people have not yet rejected markets and democracy full stop. Support for markets has reached its nadir. Prime Minister Primakov and his coalition government have assigned a greater role for the state in managing the economy. Strapped for cash after defaulting on its debt, the government has begun to print money, thereby fueling inflation. To control inflation, the new Russian government will introduce wage and price controls; some governors already have done this. Eventually, this set of policies will produce shortages, rationing coupons, and a black market.

Yet, even in Russia's worst economic crisis of the decade, no serious political group has advocated a return to the command economy. Even the Communist Party of the Russian Federation now recognizes the right to private property, the function of markets, and the inevitability of international economic integration. Russia may have to endure another round of ill-devised state policies for managing the economy, but even under the extreme conditions of economic disaster no credible political force has articulated an alternative non-market future for Russia.

The picture is not so gloomy yet regarding political reform. To the surprise of many, Yeltsin and the parliament practiced compromise and followed the constitution in forming a new government. Likewise, Russia's patient citizens have not rebelled in response to the economic meltdown. This adherence to the democratic rules of the game and this social calm could change quickly as Russia's economy worsens. If one trigger-happy soldier fires into a peaceful demonstration, calls for violent overthrow of the current regime will escalate. To date, however, those advocating authoritarian solutions to Russia's latest crisis remain in the wings.

Even if democrats or supporters of market reforms are in or become a minority, their cause must be supported. Even if the government turns away from democratic and/or market reforms, there are still people in Russia who will continue to fight for these reforms.

The United States has played and can continue to play a role in influencing the final outcome of Russia's economic and political transition. Although a marginal actor in Russia's drama, the United States is not and need not be a bystander in Russia's transition. As a political and economic system, the United States serves as model to those supporting reform. As a model (and for some even an inspirational model), the United States has and can continue to provide information to Russians about how this model works both through technical assistance in country and exchange programs which bring Russians to the United States.

More concretely, there is a long list of US-sponsored programs that have impacted directly on the trajectory of Russia's political and economic transition. Programs sponsored by the US have helped to inform debates about electoral laws, presidentialism, and federalism. Aid has helped to nourish the development of civic organizations, trade unions, political parties and an independent media. Aid has helped to provide information about a whole range of economic institutions including bankruptcy procedures, a civil code, tax policies, corporatization, and enterprise restructuring.

## **II. Problems of US Aid to Russia in the Past**

To argue that the United States should and can aid Russia does not imply that United States assistance to Russia thus far has been effective. On the contrary, there have been several strategic mistakes in the design of our assistance programs and several blunders in their implementation.

- *Too little, too late.*

Today, the United States spends more on grasshopper research in Alaska than on human rights promotion in Russia. Since 1991, the United States has spent roughly \$15 billion in direct assistance to Russia--a paltry sum when you consider that the US Congress just approved \$8 billion in "emergency" defense spending for programs that the Department of Defense does not even want.

Moreover, the bulk of this assistance was delivered at the wrong time. In 1992, the first year of Russian reforms, the IMF did not establish a promised \$6 billion stabilization fund and did not assist Russia's first reformist government. However, the IMF did approve the transfer of \$4.8 million in July 1998, weeks before Russia's financial collapse.

- *US officials made pledges of aid that were not honored.*

In 1992, the United States and its allies promised \$24 billion of aid to Russia. In 1993, Western countries raised the ante to \$44 billion. Only a fraction of these pledges has actually been delivered to Russia.

- *US aid programs did not take into account Soviet institutions.*

For instance, programs regarding privatization did not take into account the informal property rights structure in place before 1992. Likewise, the singular focus of the IMF on achieving macroeconomic stabilization meant that issues of microeconomic restructuring were neglected.

- *US aid programs had a Marxist view of development.*

The bulk of American assistance to Russia was earmarked for economic reform, not political reform. A first assumption behind this imbalance was that Russia needed to first develop markets and classes based on markets before democratic institutions could take hold. A second assumption that produced this imbalance was that democracy would impede the implementation of rapid and comprehensive economic reform. The empirical record in the post-communist world suggests exactly the opposite: those countries with the most democratic polities are also the countries which have been successful in implementing economic reform and achieving economic growth.

- *Too much assistance went to Russian state officials.*

American aid programs focused on Russian state officials and state institutions, driven by the belief that Russia's economic transition (and to a lesser extent political transition) could be orchestrated by the state from above. Unfortunately, American aid programs invested very limited resources in promoting support for these reforms in society, from below. Only when Russian societal groups demand better government and have the capacity to act on these demands will reform succeed.

Opposing programs on the rule of law provides a nice illustration. The top-down approach has tried to retrain old bureaucrats already employed in Soviet-era judicial and law enforcement institutions. In contrast, the bottom-up approach has tried to empower societal actors through public interest law firms to pressure these old institutions (and the bureaucrats in them) to provide new functions. In the end, these two approaches may be complementary. Pursuing the top-down approach without the commensurate effort regarding bottom-up strategies will not work.

- *Too much of US assistance dollars went to Americans and not Russians.*

When two-thirds of all expenditures of "aid" programs goes to paying overhead for home offices in Washington and salaries of Americans in the field, there is a fundamental problem with the strategy of assistance.

### **III. Recommendations for Assisting Russia's Transition to Democracy and a Market Economy**

- *Engage Russians in more international institutions.*

The more international organizations Russia joins, the more likely it is to change internally to meet the requirements of membership in these groups. Russia should even be encouraged to join NATO. Obviously, bringing Russia into NATO is a long-term process that may span decades. However, the very act of starting a long-term process may have

unforeseen positive benefits in the future (much like the CSCE did in communist Europe).

- Articulate a long-term strategy of engagement.

Today, the majority of Russian elites and Russian citizens do not believe that US assistance programs are aimed at helping Russia. Rather, the majority of Russian citizens believe that the United States has a grand strategy to keep Russia weak. This is a major failure of communication by American policymakers that must be redressed. The articulation of a long-term strategy is as important to people in Moscow, Idaho as it is for people in Moscow, Russia. US leaders need to explain to American voters why aid to Russia is a national security interest.

American leaders also need to articulate a more long-term view for measuring success. By definition, new institutions cannot have immediate results, since people must learn how to work within them. Especially in Russia, it was absurd to believe that democratic and market institutions would develop immediately. Aid programs designed to assist the development of these institutions must remain in place for the long haul.

- Limit expectations.

The United States is a marginal actor in Russia's internal drama. US leaders must recognize this fact and refrain from talking in grandiose terms about what the West can do.

- *Invest in Russians, not Russia.*

US programs of assistance need to spend less time and money trying to engineer reform in Russia at the macro level, and more time and money trying to educate individuals at the micro level. Especially today, when macro-engineering agents like the IMF should not be engaged in Russia (at least until a program and government is in place which can work with the IMF), our attention should turn to training individuals. These kinds of investments do not have immediate payoffs, but the experience of East Asia has demonstrated the centrality of human capital for long-term economic growth.

In a similar vein, whenever given the choice, American assistance programs should be directed at non-governmental organizations rather than state bureaucracies. In consolidated democracies, societal actors usually initiate reform. Only when state officials are compelled by society or provided incentives from society do they implement reforms of the state. Especially now that Russian civil society is weak and the state is immune from societal pressures, US assistance programs must target the survival of non-state actors. State institutions will reform only when there are strong societal groups in place that can pressure them to do so. Targeting of non-state actors is also more efficient and less conducive to corruption.

- *Expand the range of people being engaged.*

US state and non-governmental leaders need to broaden the range of contacts between Russians and Americans. At the state level, this means engaging in dialogue with more members of parliament and more regional leaders who may not have been considered "reformers" in the past. At the non-governmental level, this means working with civic groups, political parties, and trade unions previously labeled "communist" or "anti-

reform." Obviously, outright fascists and militant communists must be ignored. At the same time, US officials need to rethink the oversimplified categories of earlier eras.

- *Realize the centrality of Russia to the region.*

*The United States* has a real interest in fostering the full independence of all the states that have emerged from the former Soviet Union and should do everything possible, therefore, to consolidate the autonomy and development of these new states. Ultimately, however, the fate of democracy and capitalism in these countries depends on the future of democracy and capitalism in Russia. The converse is not true. The history of Eastern Europe in the inter-war period demonstrated that weak democracies in small countries cannot survive if they are threatened by authoritarian (be they communist or fascist) regimes in large countries on their borders.

Moreover, just as the United State should support and reward reformers in Russia, so too should American assistance and engagement in these other countries be directed at those with a demonstrated commitment to democracy and capitalism. Aid channeled to Ukraine, Uzbekistan, or Armenia simply in the name of "geo-strategic" objectives will ultimately be money wasted.

- *Review the record of aid in the region.*

To date, no serious, comprehensive evaluation of all aid to Russia has been undertaken. GAO reviews based on three-week stints in the country, or internal evaluations conducted by AID for AID simply do not do justice to this important issue. A long-term, non-partisan review undertaken by a group of experts is desperately needed.

#### **IV. Conclusion**

Russia has experienced the greatest peace-time economic contraction that the world has ever witnessed. The combination of this poorly performing economy and egregious violations of democratic practices has served to undermine support for democracy in Russia. Further, integration with the West has produced few tangible payoffs for average Russians. Given these facts, it is remarkable that the window is still open for the development of markets and democracy in Russia, and for the integration of Russia into the West. Before the window closes, we must do all we can to reinvigorate this trajectory.