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What I did in Russia

There is considerable misunderstanding of my role as an economic adviser in Russia in the early 1990s. Therefore, I offer this summary of my personal involvement with Russia's economic reforms for anyone who might be interested. I begin with some background on my work in Latin America and Central Europe to help explain my approach to economic advising and the nature of the recommendations that I made with regard to Russia's economic reforms.

My work in Latin America, Eastern Europe, and Russia was in the thick of very intense crises. In Bolivia the inflation in the 12 months before I arrived had hit 24,000 percent. In Poland, the economic and political regime of nearly half a century was (mercifully) collapsing. In Russia, the world's second superpower was imploding. These crises were among the most intense in modern history. Armchair critics have little conception of the nature of such tumult, and of the challenges of devising policies in such confusion.

I am very proud for what I was able to do, and of my integrity and perseverance in the face of arduous obstacles. Bolivia and Poland achieved historic gains, and I certainly helped in that. Russia, alas, did much more poorly than I had hoped. This note tries to account for that shortfall in the outcomes of Russia's early reforms.

Making Reforms in the Midst of Chaos

In Bolivia, Poland, and Russia, my work was like an emergency room doctor. The patient was already in shock: hyperinflation, mass shortages, political instability, a collapsing currency, and pervasive fear. Don't blame the doctor for the condition of the patient coming into the emergency room.

A successful economic advisor must chart out a feasible course of action that solves the acute economic problems. In all three cases, I viewed my work as a short term, with a time horizon of a few years at most. I was not, and would not become, the long-term advisor to these economies. Long-term choices were for the society, through politics, not through an outside economic advisor. I was there to solve immediate problems.

Let me therefore be very clear, because this is a point of massive confusion about my role.

- In Bolivia I advised on how to end the hyperinflation, not on how to achieve long-term economic development. My work in Bolivia was intensive for roughly 18 months, July 1985 to end 1986.

- In Poland I advised on how to convert to a market economy, not on whether to be free-market like the US or social democratic like Scandinavia; those are choices for society. My work in Poland was intensive from April 1989 to end-1991.

- In Russia I advised on how Russia could emulate the successful transformations underway in Eastern Europe. My work in Russia lasted from December 1991 to December 1993 (and I publicly announced my resignation January 1994).

I stress these points because there is a long-standing narrative that says that I was out to help impose the "Washington Consensus," a Milton-Friedman-style free-market economy. This is patently false. Yet it is repeated. It should stop being repeated.

There is another narrative that says that I was ruthlessly in favor of a market economy and uninterested in the rule of law, institutions, or social justice. This is even more patently wrongheaded. I have always regarded economic reform, institution building, and social justice to go hand in hand. I have always fought corruption, and resigned from Russia in 1993 because I found corruption to be growing and out of control. I have always paid attention to the plight of the poor, and looked for progressive measures to support macroeconomic objectives (e.g. the end of hyperinflation) in ways that give sustenance and support for the poor. For 27 years, since the start of my work in Bolivia, I have been a consistent champion of debt relief for over-indebted low-and-middle-income countries, precisely to help these countries find the economic and fiscal space to support the poor and the investments needed to end poverty.

Economic Advising in Latin America

In 1985, as a Professor of Economics at Harvard University, I began to combine academic research and teaching with a role as macroeconomic adviser to governments in crisis. This role began in Bolivia in July 1985, when I was invited by former students to make suggestions about how to solve Bolivia's hyperinflation and deepening economic collapse. Later in 1985 I became an adviser to the Government of Victor Paz Estenssoro, who was elected President in August 1985.

In the case of Bolivia, I recommended strong fiscal actions to end a hyperinflation[1] of 24,000 percent (and rising), and I recommended a continuing default on external debts as a prelude to a fundamental renegotiation and cancellation of those debts. The key fiscal action at the start of the program was to increase the price of petroleum products sold by the state-owned enterprise to the public from roughly

one-tenth of world market prices to full world-market prices. Raising oil prices was a coup de grace that ended the hyperinflation by refilling the public coffers with revenues, and thereby enabling the government to stop printing money, the underlying source of the hyperinflation.

It may seem counterintuitive that raising a key price, petroleum, would *stop* hyperinflation, but the key lies in the government budget. The ultimate source of hyperinflation is a large budget deficit being financed by the central bank, i.e. by money printing. Close the budget deficit decisively, and one ends the hyperinflation quickly and decisively.

The end of the oil price subsidies was a progressive step, that is, one that put the extra burden on the middle class and upper class. Here's why. The poor paid the burden of hyperinflation disproportionately, by the loss of value of the cash they used in transactions. The rich benefited from the very low prices of gasoline. The huge beneficiaries were actually the smugglers, who bought petroleum products in Bolivia and smuggled them to Peru.

Following the end of the hyperinflation in August 1985, the government took two more decisive steps to bring the budget under control. First, at my urging, it negotiated with its creditors to cancel the overhang of foreign debts. Debt servicing was in suspension by the time I arrived in July 1985. Yet the IMF started to insist in early 1986 that Bolivia should resume debt-service payments. I strenuously objected, noting that any resumption of debt service payments would kill the stabilization program and throw Bolivia back into hyperinflation. This was a battle royal with the IMF and the banks, since the principle of debt reduction was not yet established in international circles. I led the negotiations, and Bolivia prevailed. It cancelled around 90 percent of the external debt on the books.

The second step was a measure of tax reform in the spring of 1986. This time, the opposition came from large landowners who would face taxation, some for the first time. This was the government's fight, not mine. Fortunately it prevailed. Unfortunately, Bolivia's tax system did not reach the level of revenues of fairness needed for a society so unequal and with so many social needs.

In the spring of 1986 I conceived and helped to establish a new, major social program, which became known as the Emergency Social Fund[2] (ESF), supported by the World Bank, to help cushion the ongoing macroeconomic shocks in poor communities. This fund provided resources to local communities for poverty alleviation projects, for example building local schools, clinics, and infrastructure. The ESF could not, of course, address all of Bolivia's social problems but it provided a meaningful start towards addressing local social and infrastructure needs.

All of these measures were carried out peacefully and under democratic, constitutional rule. There was a short-term constitutional state of siege for 90 days at the very start of the emergency measures, and this was carried out peacefully, without violence, and without any deaths. The emergency period ended within a few weeks. The few who were arrested were all released. The country was open and democratic. This peaceful and democratic approach was all the more remarkable because Bolivia was a tumultuous and unstable country with a tradition of coups, violence, and military rule.

I ended my active advisory role by the end of 1986, but continued to watch Bolivia from afar. In the years after stabilization, Bolivia enjoyed a restoration of economic growth, low inflation, democratic governance, and improvements in social indicators[3] such as life expectancy and infant mortality. Bolivia's rate of economic growth[4] turned positive but remained modest. To this day, Bolivia demonstrates a precarious reliance on a few primary commodity exports. Many of Bolivia's economic weaknesses relate to its extraordinary geographical situation as a landlocked[5] Andean country divided between the extreme highlands (4,000 meters) and tropical rainforest lowlands. Bolivia is also an ethnically highly divided society, and for more than a century has suffered from strained relations with one of its key coastal neighbors, Chile, which offers the natural exit to the Pacific (and which Bolivia lost in the War of the Pacific in 1879).

I emphasize again that I went to Bolivia as a macroeconomist, not as a development economist. I went with a short-term assignment, to help end a hyperinflation, not with a long-term assignment of Bolivia's economic development. I did not know enough about development then to play a useful role as a long-term development advisor. Bolivia helped to reorient me towards long-term development issues but my reorientation towards development was not part of the roughly two years of macroeconomic advising in Bolivia.

During 1987-89, I was asked by national leaders throughout Latin America to comment on their national reform strategies, and I discussed those reform strategies with government leaders in Argentina, Brazil, Ecuador, and Venezuela. I also wrote a book of recommendations[6] for Peruvian economic reforms, and continued part-time advising for the Bolivian Government.

Poland's Big Bang

In January 1989, I was contacted by the Polish Government, then a reform-minded communist government, with a request that I come to Poland to advise on the management of its external debt. I declined to come on the grounds that the Solidarity Movement, led by Lech Walesa, was still outlawed. I explained that I would be happy to come at a future date, when Solidarity was legalized, and when I could act perhaps as an adviser both to the Government and to the Solidarity movement. Wonderfully, I was called back several weeks later and told that the Solidarity Movement would indeed be legalized in early April 1989. I therefore planned a trip to Warsaw accordingly and arrived on the day of the signing of the so-called "Roundtable Agreement" that legalized Solidarity. The trip to Warsaw was added at the tail end of a three-day visit to Moscow to a conference on Soviet Economic Reforms, hosted by then-Gorbachev adviser Abel Aganbegyan. That was my first trip to the Soviet Union since a tourist trip in 1969.

Starting with the April 5 visit to Warsaw, I began to work closely with a team of economists in the Solidarity movement, as well as meet with officials in the government. The Solidarity economic team was headed at the time by Prof. Witold Tzreciakowski. During this time, I was joined by Dr. David Lipton, with whom I worked closely during the period 1989-91. In May, Lipton and I worked with the Solidarity economists to prepare a request for aid from Western governments in what subsequently became called the "Brussels Project" of Solidarity. Among the participants in that early stage was future Prime Minister Jan Krzysztof Bialecksi.

During June and July, Lipton and I had extensive discussions with the Solidarity leadership about a strategy for economic reform. I urged the leadership to adopt an economic plan and to use their electoral success in the partially free June 4 elections to organize the next government, the first post-communist government in Eastern Europe. At the request of Jacek Kuron, Lipton and I prepared a document[7] that, as far as I know, became the first attempt to write down a strategy and timetable for the dismantling of a centrally planned economy and its replacement by a market economy. We presented this blueprint to the Solidarity leadership, including Lech Walesa, in July, and in testimony to a Solidarity-led Senate Commission on economic reform during the summer months.

In August 1989, I was invited to speak to the Solidarity Club (OKP) of the Parliament on the day of the installation of Central Europe's first post-communist government, headed by Tadeusz Mazowiecki. I shared the podium on that day with then-Senate majority leader Robert Dole, who was visiting Warsaw to offer congratulations and support to the new Government on behalf of the U.S.

In my speech, I outlined the basis of a rapid transformation of Poland to a normal, market-based European economy. I urged the Solidarity leadership to abandon visions of "market socialism," and to go for a market-capitalist economy. My argument, in a nutshell, later spelled out in the 1991 Robbins Lectures at the London School of Economics (published as *Poland's Jump to the Market Economy*, MIT Press, 1993) [8] was that Poland had a natural place as member of the Western European economic area, and indeed as a member of the European Union (then the European Community). I believed that the slogan of Poland's revolution, "the Return to Europe," should also be the guidepost for economic reforms.

As was central in my thinking, I believed that Poland would need a combination of factors to achieve success, including relief from an overhang of unpayable debt. As of mid-1989, Poland was suffering from hyperinflation[9] and economic decline. There were massive shortages in the retail outlets, and widespread fears of hunger in the cities. Many people thought that Poland would descend into civil war. Moreover, there were real fears of a Soviet crackdown at some point, given the long history of aborted reform movements in communist Central Europe in the post-war era. The situation was fraught with uncertainty, risk of panic, and extreme deprivation in many Polish households.

My recommendations in Poland contained the following major points: (1) a quick liberalization of prices, to allow supply and demand to operate, and to end the acute shortages afflicting producer and consumer markets; (2) an immediate opening of the economy to trade, for several inter-connected reasons: to relieve extreme shortages of consumer goods, to relieve shortages of key producer goods, to establish competition for Poland's heavily concentrated basic industries, to "import" a rational relative price structure to replace the decades-long pattern of bureaucratically set prices, to attract foreign direct investment, and to begin the process of integration of Poland into the Western European economic area; (3) the development of market-based commercial law in conformity with Western European law; and (4) the mobilization of large-scale support from the West to ensure the consolidation of democracy, to avoid social chaos, and to facilitate macroeconomic stabilization without undue social hardship. I put off the issue of privatization of major state-controlled industries in my early recommendations, since I did not have much of a detailed strategy, but I warned that it would take several years, perhaps around five, to complete. (For some of this early thinking, see the essay "What is to be Done," *Economist Magazine*, January 1990).[10]

In my first meeting with Prime Minister Tadeusz Mazowiecki on August 24, 1989, I suggested the need to adopt rapid and decisive economic reform measures. He responded by saying that he was "looking for his Ludwig Erhard," making reference to the post-War German economic architect who had implemented bold reform measures. He found his Ludwig Erhard in the person of Leszek Balcerowicz, who became the leader of Poland's reforms. Lipton and I met Balcerowicz in early September 1989. He showed us outlines of his plans for reform and for organization of the economic team, and he asked us for continuing help as advisers. We of course gladly accepted this request.

During September 1989, we worked closely with Balcerowicz and his team, helping to prepare the outline of an economic program to be launched on January 1, 1990, based on the principles of rapid stabilization and transformation to a market economy. We helped to prepare a memorandum for circulation in Washington at the Annual IMF/World Bank meetings in September 1989, which would explain Poland's reform intentions and its need for international assistance. We returned to Washington with Balcerowicz, and provided further assistance during those meetings.

I had an important role in formulating the international assistance strategy. It was based on four components: (1) a continued suspension of debt servicing, to be followed by a partial cancellation of the debt burden[11]; (2) an emergency $1 billion Zloty stabilization fund[12] from the major countries, to provide Poland with foreign exchange reserves to help back the currency after a depreciation and introduction of current-account convertibility at the start of 1990; (3) an IMF standby loan to begin at the start of 1990; and (4) increased balance of payments support and commodity assistance (e.g. emergency food aid) at the start of 1990. The debt cancellation ideas were highly controversial at the start.

Policymakers in the U.S. Government and Bretton Woods institutions told Polish officials that the ideas were dangerous and unrealistic, and warned them not to listen to me. Fortunately, the proposals were in fact sound financially and politically, and Poland did indeed achieve a 50 percent reduction of its debts by 1991. So too, IMF officials initially opposed the Zloty Stabilization fund, claiming that it would be impossible to raise the funds. I met with Senator Dole, National Security Adviser Brent Scowcroft, and others to describe, explain, and justify the request for the fund. In the end, the U.S. Government endorsed the proposal, and eventually other leading countries did as well, so that the $1 billion was raised by the launch of Poland's program.

The Polish program was launched on January 1, 1990. Despite huge controversy, deep fears, and great intellectual and political debates, the program proved its worth.[13] The high inflation subsided within a couple of months; macroeconomic balance was restored, ending decades of chronic shortages within weeks; the currency was made convertible and stable from January 1, 1990 onward; and hundreds of thousands of small businesses began to form – some emerging from the black market, and others forming for the first time. Poland experienced a "transformational recession" (a term later coined by Prof. Janos Kornai) in 1990 and 91, though the depth of the recession is unclear even till today. Official data recorded a decline of 11 percent of GDP in 1990 and 7 percent of GDP in 1991, followed by economic growth thereafter. Several studies have argued, however, that the actual size of the decline was much less, the difference reflecting problems of over-measurement of declining sectors and serious under-measurement of rising sectors (such as services). In any event, Poland was growing solidly by 1992, and by the mid-1990s Poland was one of the fastest growing countries in Europe (in some years the fastest) and in the world. Poland's overall growth performance is easily the best of all transition economies in Central and Eastern Europe and the Former Soviet Union.

I remained as a part-time adviser to Poland during 1990 and 1991, but my involvement became less intensive than in 1989. I continued to work closely with the government in international negotiations, in monitoring macroeconomic indicators, and in discussions on privatization strategy. The privatization strategy was not agreed at the start of the Polish reform effort, since the focus was initially on stabilization, liberalization, commercial law reform, integration with the European Community, and the fostering of a new small business sector. (To see my own uncertainties surrounding privatization, see my Economist article at the beginning of 1990.)[14] The debate over privatization intensified in the middle of 1990. I began to support the idea of national investment funds (NIFs) as methods of creating private ownership combined with adequate corporate governance for the large enterprises (for the smaller enterprises, I supported direct sales and auctions, as was successfully carried out). The proposal for a limited program of NIFs was adopted, but implementation was slow and controversial. In the end, the NIFs played only a modest role in Poland's privatization program. I don't know whether or not the NIFs were a good idea under the circumstances, but they were not *necessary* to the success of Poland's reforms. I think it fair to say that since the NIFs were both unnecessary and highly experimental, it is probably a good thing in the end that they were not adopted on a large scale.

Based on the experience in Poland, I was asked by many other governments in the region to offer short-term technical assistance, though nowhere near the level of involvement as in Poland. The last Federal Prime Minister of Yugoslavia, Mr. Ante Markovic, asked me for advice in November 1989, and I worked with him to design a last-ditch stabilization attempt. The early results of the stabilization program, between January and June 1990, were highly successful. However, Europe and the U.S. denied any aid to Yugoslavia, and Milosevic, then head of Serbia, took extraordinary steps to bring down the Federal Government, which he succeeded in doing during 1990-91. After the breakup of Yugoslavia, I became an adviser to the first post-Communist Government of independent Slovenia in 1991, and helped to design[15] the introduction of the new currency, the Tolar, and the early reform measures. These reforms helped to put Slovenia on a path of financial stability and economic growth that has also been exemplary in the region. I also helped Estonia[16] to design and introduce its new national currency, the Kroon, which has proven to be the most stable currency in the whole Former Soviet Union (FSU), helping to make Estonia's economy a great success story of the FSU.

The Beginning of My Russian Involvement

Poland's big bang attracted worldwide interest, and of course very intense interest from within the Soviet Union. Mikhail Gorbachev's advisers were famously divided between gradualists and radicals, and the experience of the Polish reform – especially the dramatic end to shortages and inflation – was a major boost to the radical faction. The economist Grigory Yavlinsky went to Poland early in 1990 to observe the Polish experience. When he tried to telex a favorable report back to the Kremlin, it was blocked by the Soviet Ambassador in Warsaw. Undaunted, Yavlinsky assembled a team of young Soviet reformers, to begin to draft a program of radical reform. This first was proposed as the 400-day plan in mid-1990, and then later as the 500-day plan[17] in early 1991.

I met Yavlinsky and his team when that group took a trip to the United States in the fall of 1990. We discussed the practicalities of radical reform in the Soviet Union. I agreed to provide whatever support I could. My initial work therefore began informally with Gorbachev's economic advisors during 1990-1991, and then was formalized when I became an economic advisor to Boris Yeltsin's economic team in December 1991.

In the spring of 1991, I worked on a Harvard-based project, led by Graham Allison of the Harvard Kennedy School of Government and Grigory Yavlinsky, to design a package of Soviet and U.S. actions to facilitate democratization and economic reform, backed by a large-scale infusion of Western financial and technical assistance. The project took on the nickname of the "Grand Bargain,"[18] and a short book[19] was published by the team in the summer of 1991. My estimate, which became somewhat notorious at the time, was that the Soviet Union (and later the successor republics) would need an infusion of Western aid (envisioned as grants and highly concessional loans) of around $30 billion per year[20] over five years, or $150 billion in total. That is still a number that I would endorse. Alas, nothing like that ever materialized.

Mikhail Gorbachev was in contact with Yavlinsky while the latter was at Harvard, hopeful that a grand bargain could indeed be assembled. Gorbachev actually traveled to the G7 Summit in Houston in search of aid.[21] He was famously rebuffed by the G7. [22] This denial of financial support would continue even after the fall of the Soviet Union. Gorbachev's failure to win backing from the G7 raised the ante in Moscow, and likely contributed to the timing of the attempted putsch[23] against Gorbachev in August 1991.

In October 1991 I received a call from Moscow, telling me that Yegor Gaidar[24] was likely to become the head of Yeltsin's economic team, and that Russia would launch radical market reforms with or without the rest of the Soviet Union. By this time, of course, the Soviet leadership had lost all power and initiative, and the break-up of the Soviet Union was increasingly expected. The Bush Administration, however, was still dealing almost exclusively with the Soviet Government, at least in the economic sphere. There was virtually no contact between Gaidar's emerging team and the rest of the world's officialdom.

I was asked by Gaidar to come to Moscow to help with the planning of economic reforms. This was now almost two years to the month following the launch of Poland's reforms, which were widely seen at that point to be working exceptionally well. I would be able to provide lessons and insights from the Polish experience, and maybe some pointers as well as to how to mobilize large-scale Western assistance, as I had been successful in doing in the case of Poland. I was eager to try to help. Dismantling the Soviet-era system seemed to be a mission of great moral rightness. I certainly hoped, and rather expected, that Russia would feel a wave of elation at the new freedom. In this I was somewhat mistaken. The period of elation was remarkably short, and the period of political civility was even shorter.

I worked with Gaidar's team at a Dacha outside of Moscow for about one week, and agreed to return to Moscow for a briefing of President Yeltsin in the first half of December 1991. Two meetings with invited foreign economic advisers took place with the President, on December 11th and 13th. President Yeltsin was extremely coherent and engaged in these two meetings, asking detailed questions and taking extensive notes. I was asked by the group of external advisers to serve as the spokesman for the group, laying out our understanding of the reform tasks facing Russia. Until the start of the first meeting we still did not know the status of Russia vis-à-vis the Soviet Union. In a remarkable moment, President Yeltsin entered the room and began with the announcement that the Soviet Union was no more – specifically that in a meeting with the Soviet military leadership, he had reached agreement with them concerning the dissolution of the Soviet Union.

In the meetings with Yeltsin, I laid out the reform challenges as I understood them (and as per agreement with the broader external advisory group). The main themes[25] were:

- The transformation would be very difficult and would last for several years
- Russia should aim to become a "normal" market economy, based on private ownership
- The first and most urgent necessary actions were macroeconomic stabilization,[26] liberalization of markets, and the establishment of the legal infrastructure of open trade and private contractual relations
- Macroeconomic stabilization should begin with the elimination of price controls (as in Poland) to end the crippling shortages, backed by strong fiscal policies to maintain a low budget deficit, and by tight monetary policy, to prevent the one-time rise in prices from turning into a wage-price-money spiral
- Privatization would be important but would take a considerable amount of time
- Large-scale Western assistance would be needed, along the lines of the Polish experience. Rather than a $1 billion stabilization fund, Russia would need approximately a $5 billion stabilization fund. Rather than a few billion dollars of aid, Russia would need around $15 billion of assistance (grants and highly concessional loans) per year for many years. Russia would also need deep debt relief from the inherited Soviet-era debt. This financial assistance would provide a financial and social cushion for the Russian people, making possible the provision of large-scale social services to help support and sustain the reform process

This basic approach was summarized in the Economist article of December 1991.[27]

President Yeltsin received the two briefings with great interest and asked the group to continue to work with the Russian Government as economic advisers. We were given the ultimate measure of trust in those days: a permanent pass ("proposk") to the Council of Ministers building and a few offices inside for our permanent Moscow-based employees. I planned, as I had with Poland, to commute to Russia approximately once every six weeks, for a few days at a time.

Russia's economic realities and starting conditions in 1992

I fully understand from the start that the reform task would be vastly more difficult and complex than in Poland. There were several critical and quite obvious reasons for this concern:

- Russia's economic mainstay, oil and gas production, was already plummeting by the late 1980s, and this was causing a financial catastrophe for the government because oil revenues were a vital source of budget income and foreign exchange
- Russia was entering into an acute external debt crisis as a result of heavy external borrowing during

the Gorbachev years
- Russia's economic structure was far more distorted than in Eastern Europe, with a vast proportion of Soviet industry producing "negative value added" (output worth less at world market prices than inputs such as energy and other raw materials)
- The Soviet region utterly lacked the history and practice of market economics and democratic governance
- The size and complexity of the Soviet Union, with 15 republics and 150 million people stretched over 11 times zones, was incomparably greater than the complexity of Polish or Czech or other Central European circumstances

Here is how I put it at the end of 1991 in an article for the Economist Magazine in December 1991, "Goodwill is Not Enough":

> Russia and the other republics bear the deep economic cancer of seven decades of communism: over-extended heavy industry; bloated, bureaucratic enterprises; a starved service sector; and the absence of market institutions, in law, finance, and administration. Now, on top of systemic disease, the republics face a financial crisis . . . Inflation has become hyperinflation. The foreign-exchange coffers are empty. The old administrative structures have collapsed . . . A deeper need for industrial retrenchment and restructuring will last for years, even decades, as the former Soviet Union scale back its old heavy industry…

Indeed, a constant theme[28] of mine was that the transformation was going to be so difficult and harrowing that the Soviet Union (and later Russia) would need vast Western aid for success. Far from preaching a miracle cure, I was trying to preach realism to the United States – that market reforms could not, by themselves, solve deep structural and societal problems, and that large-scale help would be needed from the West.

The Period as Economic Adviser, December 1991 to January 1994

Gaidar's reforms started in a tumultuous and calamitous economic situation, one so precarious and destabilizing that it had already led to the collapse of the world's second superpower. Many of the terrible dislocations that were to befall Russia in the early 1990s were the result of powerful forces that predated the reforms, and that would destabilize Russia right through the reform period. Nonetheless, the reforms were often blamed for the hardships, something like blaming the emergency-room doctor for the poor condition of the patient just arriving by ambulance. Yet outsiders and armchair critics did just that.

Probably the least appreciated but most dramatic reality of the Russian reforms is that Russian oil production and earnings were in a state of sharp decline. The quantity of oil production was plummeting as old oil fields were depleted and new ones were not being developed. At the same time, the world price of oil collapsed in the mid-1980s, putting the Soviet Union, and then Russia, into a terrible fiscal vice. The Soviet Union faced that squeeze initially by borrowing from abroad, but its access to foreign credits dried up during 1990-91. The ensuing balance of payments crisis played a huge role in the Soviet collapse and the ensuing hardships in Russia.

The combination of falling oil earning, balance of payments crisis, and soaring budget deficit, led to a combination of intense shortages, soaring black market prices, and a collapsing value of the ruble in the black market. The economy, in short, was spinning out of control, into high inflation, mass shortages, and a breakdown of production. Moreover, with the collapse of Soviet power, the forced allocation of resources by central planning was dead.

This set of considerations led Yegor Gaidar, the acting Prime Minister and head of the economic team, to adopt a decisive end to price controls at the start of 1992. Prices were decontrolled on January 2, 1992. Gaidar rightly feared that with the collapse of central planning and the lack of incentives for delivery of food supplies from rural to urban areas, the cities might even be without food unless price controls were quickly lifted. There was not an option to move gradually. Either the economy would move to markets based on supply and demand, or it would face devastating shortages of food and other critical goods, with massive black markets and corruption. With or without development aid, Gaidar insisted, it was necessary to end pervasive price controls.

As in Poland, this price decontrol led to a large one-time jump in price levels because of repressed inflation. I had suggested to Gaidar some possible steps to moderate the effects of this one-time elimination of the overhang of money, but he felt that anything other than a simple straightforward elimination of price controls would be politically impossible. Goods began to return to the shops within days, and after a few weeks the surveys of goods availability carried out for the Government showed that extreme shortages were being eased. But the similarities between Russia and Poland ended at that point, both for me personally as an adviser, and in the course of the economy itself.

The debate over reform strategies

Let me summarize the main issues in the Russian reform debate, the position that I took, and the outcome. This will help to clarify what I actually believed and recommended, and to compare that with what actually happened.

I believed that price controls should be eliminated to enable supply and demand to operate. This was largely done at the start of 1992.

I believed that the money supply should be tightened and subsidies to firms should be ended. This would stabilize prices but at the cost of initial unemployment. This advice was rejected. High inflation continued unabated for several years.

I believed in the need for a strong social safety net, partly funded by the West. This was not accomplished. The health care system, for example, fell into shocking collapse.

I believed that the West should provide large-scale and timely foreign assistance to Russia, as it had to Poland. The United States and the IMF rejected this advice. Russia fell into a deep balance of payments crisis.

I believed that Russia should "commercialize" its enterprises by turning them into corporations with state ownership. This was generally done.

I believed that Russia's privatization should be quick but transparent and law-based. Care should be taken to prevent corruption. This was not done. The privatizers went ahead outside of transparency and the law. Corruption and insider dealing were rampant.

I believed that the large natural resource companies should remain in state hands. This was to ensure that the Russian Government got the revenues from the production of metals, hydrocarbons, and other valuable commodities. This was not done. The natural resource sector was corruptly privatized, giving rise to the new oligarchy.

My area of responsibility for advising was macroeconomics, not privatization. I had no responsibility for the corrupt privatization, though I was often blamed wrongly for it. I actually opposed it strenuously, but was no longer even an advisor to the Russian Government when it occurred (especially 1994-1996).

The three main areas where my direct advice went unheeded were the following: (1) the need for large-scale financial assistance[29] for Russia, which I deemed (and still deem) to have been essential to molding a political consensus around reforms, and to bolstering the financial situation enough to achieve a modicum of success in the fight against hyperinflation; (2) the need for strong monetary and fiscal policy to achieve a rapid end to inflation[30]; and (3) the urgency of establishing a social safety net[31], especially in health care and pensions, to ensure an adequate social and political base for societal transformation and democratization. This safety net can be financed through foreign assistance, a standstill on debt servicing, or other emergency means.

The lack of Western assistance

The lack of Western assistance was grim and was my greatest frustration[32] during late 1991 and 1992. The early days were inauspicious to say the least. When the G-7 deputies came to Moscow in late November 1991, just a few days after Gaidar had come to power as head of Yeltsin's economic team, the main focus of the G-7 message was the urgency that the Soviet Union should continue to service the external debts at any cost. There was no discussion of the upcoming economic reforms, and no realism among the G-7 deputies about the extreme desperation of the economic scene. Gaidar was warned by the assembled powers that day that any suspension of debt payments would result in the immediate suspension of urgent food aid, and that ships nearly arrived at the Black Sea ports would turn around. Russia in fact continued to service the debts for a few more weeks before completely running out of cash by February 1992.

In December 1991 I had continuing discussions with the IMF about Western assistance for Russia. The IMF's point man, Mr. John Odling Smee, who lasted for a decade as the head of the IMF's efforts, was busy telling the G-7 that Russia needed no aid, that the "balance of payments gap" as calculated by the IMF was essentially zero. I believe that the IMF was simply parroting the political decisions already decided by the United States, rather than making an independent assessment. This is just a conjecture, but I make it because of the very low quality of IMF analysis and deliberations. They seemed to be driving towards conclusions irrespective of the evidence. The IMF's approach was in any event just what the rich countries wanted to hear. The technical methodology was primitive beyond belief.

To summarize a long saga succinctly, Russia never received much in grant aid, stabilization support,[33] or debt relief. What little did come was far too late to save the collapsing initial momentum of reforms, as most of the reformers were long gone from the scene or at least from the center of power. A very senior U.S. official, Lawrence Eagleburger, told me bluntly in the spring of 1992: "Jeffrey, you must understand. Assume for the sake of argument that I agree with you. It doesn't matter. Do you know what this year is? It's an election year. There will be no large-scale financial support." I had heard that before, many times indeed, in Bolivia, Poland, and elsewhere. In those earlier cases, persistent persuasion had made a difference. I did not take Eagleburger's statement at face value, though perhaps I should have done so. He was, of course, proved accurate in subsequent events. U.S. policy on aiding Russia was indeed intransigent, and wrongheaded.

The IMF advisory process was dangerously narrow and misconceived.[34] Not only did the IMF technical staff, led by John Odling-Smee, argue against the requisite Western assistance to support stabilization, but the IMF played a disastrous role by pressing Russia to maintain a common currency[35] among the successor states of the former Soviet Union. As long as the 15 new countries, each with its own central bank, continued to use the Soviet ruble as currency, each central bank had the incentive to issue ruble credits, thereby enjoying seignorage gains (the benefits of money issue) while imposing inflation on all the others. This point obviously suggested the urgent need to adopt national currencies. For inexplicable reasons, the IMF championed the continuation of the Soviet ruble zone, rather than a system of 15 national currencies with flexible exchange rates between them. I argued strenuously[36] with the IMF over this point, and as always, lost the argument. The IMF contributed to more than a one-year delay in the introduction of national currencies, and thereby to a significant delay in achieving stabilization[37]. The IMF staffing was incredibly thin in 1992, with (as far as I know) not a single resident adviser, yet because of their influence over Western aid, this team remained highly influential.

The other great macroeconomics debate[38] in the second half of 1992 was with the Central Bank. Mr. Viktor Gerashchenko, former Chairman of Gosbank (Central Bank) in the Soviet days, somehow returned to power as the new Chairman of the Russian Central Bank. Gerashchenko's return was basically mandated by the Duma, which controlled the appointment under the Constitution. I doubted Gerashchenko's ability to manage the Bank from the very first meeting I had with him. He declared, unbelievably, that the Russian problem was too little money growth, not too much money growth, and that he planned deliberately to increase the money supply by around 30 percent per month in order to get the factories moving again. This, he assured me, would increase the output supply, put more goods on the markets, and thereby reduce prices (!). I strenuously disagreed with him, but to no avail. To this day, I do not know whether this policy was the result of massive corruption (channeling resources to cronies), macroeconomic ignorance, or a combination of the two.

I somewhat famously referred[39] to Mr. Gerashchenko as "the world's worst Central Bank governor" at the time. What he accomplished was to fuel a high inflation[40], and to bring Russia to the brink of outright hyperinflation. As usual, the reformers in power received most of the blame for this wrong-headed policy, since Gaidar was the visible leader of the reform. The critics claimed that the high inflation resulted from the fact that we had unleashed uncontrollable monopoly power on society. In fact, it resulted from the failings of monetary policy.

Throughout 1992 I warned everybody that I could that the reform process was dangerously blocked, that the IMF was making one mistake after another, and that Western assistance was vital.[41] I worked with the U.S. Ambassador, Robert Strauss, in trying to mobilize greater conditional assistance, but the efforts were in vain. I did not meet again with Yeltsin all during 1992, except at a couple of social events (including a soccer game played by the Government senior officials!), so that almost all my advising went through then-Acting Prime Minister Gaidar. Yeltsin seemed to have no detailed interest in the economic issues. When Gaidar lost his position in December 1992, I also planned to leave immediately my own role as adviser. I had learned sadly during 1992 that I could contribute little or nothing to turn the tide against hyperinflation, lack of Western interest, and the growing mismanagement of microeconomic issues (such as trade restrictions which were promoted by highly corrupt vested interests in the natural resource sectors).

My brief stint as adviser would have lasted twelve months in total but for a phone call that I received while on Christmas vacation at the end of 1992. Boris Federov, a very tough-minded reformer from Yavlinsky days, had suddenly been appointed Finance Minister in the new Chernomyrdin Government. Federov called me to ask for my support. This was a ray of light in an otherwise dark panorama.

I agreed to meet with Federov in Washington in the first days of January 1993. When we met, he declared his intention to fight the Russian Central Bank with all vigor, and to insist on a rational macroeconomic policy within the cabinet. He asked me to stay on as an adviser to him, and indeed to open an analytical center in the Ministry of Finance that became known as the Macroeconomics and Finance Unit (MFU), which I co-directed with my friend and colleague Anders Aslund. I also harbored hopes that the incoming Clinton Administration would be different from the outgoing Bush Administration with regard to assistance and to formulating a broad policy of Western engagement.

My hopes were soon dashed. The year 1993 was even more dreadful than 1992. When the incoming Clinton Administration declared "It's the Economy, Stupid," they meant it. Foreign policy issues were remarkably low on the radar screen. There was absolutely no interest in a significant assistance plan for Russia, nor did key officials on Russian policy have any knowledge of economics. At that point the Treasury Secretary was Lloyd Bentsen, and neither he nor his deputy Roger Altman had any interest or knowledge of this issue. Larry Summers, who might have, was just getting started as an Undersecretary of Treasury. Key foreign policy campaign adviser Michael Mandelbaum refused to join the Administration in part because he realized that Clinton indeed would not support a major Western assistance effort to Russia.

I traveled to Moscow about a half-dozen times during 1993 to meet with Federov and to lead the MFU. I tried, and failed, to get the World Bank to focus on the growing social crisis, especially health. It was quite obvious that there was a critical shortage of drugs, medical equipment, and other basic health needs, and that this would spill over into a public health crisis. Indeed, various epidemics (diphtheria, multi-drug resistant TB) broke out, without any Western attention or help. The World Bank did not deliver a loan to relieve the growing crisis. I met with the head of the "health mission," but discovered that the World Bank planned to take its time to get help to Russia, since there was apparently a need for the Bank to study the situation for some years first. In the meantime, the MFU staff of young Russian and Western economists continued to churn out detailed and highly competent analyses of Russian inflation, monetary and budget policy, and structural issues relating especially to international trade, but to little avail. Federov's hold on power and influence in the Chernomyrdin Government was tenuous. Federov very rarely saw or spoke with Yeltsin, who was even further removed from economic policy, and I had no chance during the entire year to speak directly with President Yeltsin. All my advice in 1993 went through the Finance Minister.

Russia came to blows in October 1993, when the Duma leaders led an attempted putsch against President Yeltsin. War raged in the streets. Power struggle and political turmoil utterly consumed the scene until the end of the year. In the December 1993 elections, the reformers did badly. Chernomyrdin strengthened his hold on power. I resolved immediately to resign from any advisory role at that point, had no further inputs at all, and announced my resignation[42] publicly in January 1994 together with Anders Aslund. I stated at the time that I viewed the Russian prospects with great fear and that I deeply bemoaned the lost opportunities of the preceding two years.

When Chernomyrdin gained even more power at the end of 1993, he said that Russian would rely more on its own traditions rather than on the "mechanical transfer of Western economic methods." This sounds good. Indeed, countries should turn to their own traditions if they provide useful, timely working models. Alas, there is often rhetoric rather than reality to this kind of nationalist sentiment. And in Chernomyrdin's case, the main effect of the loss of reformers in the cabinet was the even more brazen corruption rather than some new approach well-tailored to local conditions.

In fact, it is correct to say that my role had really come to an end as early as the start of 1992, after the ideas from Poland's successful reform program had helped to launch the Russian reforms. I had accomplished little since then. My disdain for the IMF had grown by the day. My worries about Russian corruption were growing steadily. The loss of initiative and power of the early reformers was obvious. I helped to train dozens of young Russian economists, and I am very proud of that. I also helped to inject some sensible ideas into the Russian discussion (e.g. the role of monetary expansion in Russia's inflation) but to little practical avail. It was surely time to leave the scene, especially since every bad event was blamed on reform, not on the absence of reform.

After I resigned from being a government adviser in January 1994, I did not burn all bridges with Russia. I suggested to the Ford Foundation in 1994 to help set up an independent, non-governmental research institute in Moscow, which became the Institute for Economic Analysis (IEA). For a year I served as Chairman of the Board of the new center. Both the Ford Foundation and I left our support of the center in 1995, after policy disagreements with the Russian management. The Center continued its operation. I was in Russia about four or five times during 1994 and early 1995, and did not participate at all in policy advising with senior Government officials.

Privatization and the Oligarchs

During the entire period of my advising, I had only a tangential role in the plans for privatization of major industries. In late 1991, I briefed Anatoly Chubais, the incoming head of the State Property Commission, about alternative strategies for privatization. I believed that small shops should be privatized through auctions, with a bias towards the internal workforce. For small and medium enterprises, of which there were tens of thousands, I supported a mixed approach, including quick sales or leases to workers. For the natural resource sectors, I saw no urgency at all in privatization. For the oil and gas sector, the core of the Russian hard currency earnings, it was critical in fact for the Russian Government (and Russian society) to continue to reap the income stream from these resources.

My main concern was governance of the large enterprises, specifically how to establish some measure of corporate governance over management and workers.[43] My proposal was to convert current state-owned enterprises, which by now reported to nobody, into a corporate form with a supervisory board. My hope was that a proper supervisory board, largely appointed by the state as the main shareholder (perhaps a combination of federal, provincial, and local government-appointed members, plus representatives of workers and management) would stop the self-dealing of managers and the stripping of enterprise assets. Once corporatization was completed I envisioned that there would be many pathways to privatizing the state-owned shares in subsequent years:

> . . . including further sales to insiders (workers and managers), transfers of shares to investment funds (as in Poland's MPP [Mass Privatization Program]), voucher sales (as in Czechoslovakia), or conventional trade sales, public offerings, and joint ventures (as in 'British-style' privatization). Assuming that the initial steps [of corporatization] are undertaken, the urgency of completing these remaining measures would be somewhat reduced.[44]

However, during the actual process of privatization I played no role. Prof. Andrei Shleifer, a Russian-American colleague on the Harvard faculty, became the key Western adviser on privatization, and he insisted on his own turf. I mostly stayed away, aside from a meeting every three months or so with Chubais to catch up on general reform issues. I was not invited to participate in any detailed strategizing on privatization, nor did I try. In the book *Privatizing Russia*, by Shleifer and his colleagues in the Russian privatization program, I am not mentioned or cited even once, other than in the Preface where it notes that in November 1991 I was "beginning to advise the Russian Government on macroeconomic reform," not on privatization.

The Government's privatization strategy was to move radically and quickly, so that there would be no reversal in political power and no reversion to a communist regime. The idea was to push the assets out into private hands as quickly as possible, even if corruption and unfairness ensued. This was not my approach, and I disagree with it. I was worried from the start of this process in Poland that corruption in privatization or manifest unfairness would not only damage the economy but also damage the society, by undermining the support for democracy, economic reforms, and social justice.

In the end, Russia went the course of quick and reckless privatization, to my dismay. Even many of my "reformer" friends accepted this situation. Why did they do so? Did they really fear a return to Soviet communism? Were they naïve? Was the lure of corruption and personal gain too much for some? I do not know.

During my final trip to Moscow in early 1995, the infamous "loans-for-shares" deal was just getting underway. This deal involved a massive and corrupt transfer of natural resource enterprises to the Government's cronies, disguised as a collateralized loan to the Russian Government by Russian banks. The arrangements were blatantly corrupt from the start. I spent my final visit in Moscow visiting Western officials to warn them about what was happening. I felt that my antennae were pretty sound at that point, and that my perspective would be helpful to head off a disaster. I was stunned by the obtuseness of the response, from the IMF, an OECD visiting mission, and later from very senior U.S. officials, including Larry Summers.

Nobody wanted to look closely at the abuses, and certainly nobody wanted to blow the whistle. Most close observers believe that the hyper-corruption surrounding the massive giveaways of the oil and gas sectors was linked to the campaign financing for President Yeltsin's re-election. Tens of billions of dollars of natural resource assets were given away, and hundreds of millions were collected in return as campaign contributions. It was a pretty lousy and inefficient way to finance an election campaign, but such a linkage perhaps explains the remarkable reticence of the U.S. Government in responding to this flagrant corruption – a level of corruption that easily outpaces anything seen in other parts of the world in recent years.

From 1995 onward, I wrote and spoke extensively about the growing corruption, and even ran a lecture series about it at the Harvard Russian Research Center, subsequently published as The Rule of Law and Russia's Economic Reforms[45] (Westview Press). I never once recommended the privatization of the oil and the gas sector by vouchers, or giveaways, or loans-for-shares deals, and to this day regard these actions as abominable and corrupt missteps.

For a solid and close study of what really happened, see Dimitri Simes, *After the Collapse: Russia Seeks its Place as a Great Power*, New York: Simon & Schuster, 1999. He describes in detail the rise of the oligarchs, and the fact that many of the reformers participated in that process. And he understands my role perfectly: "Some [Western economists], such as Harvard's Jeffrey Sachs, eventually left their advisory position in disgust and criticized Moscow's corruption and errors." (p. 186)

Reflections on the Meaning of "Shock Therapy"

Ever since my work in Poland I have been described as a practitioner of "shock therapy." The term is misleading because it has been used to convey two extremely different meanings.

In one meaning, shock therapy refers to the rapid end of price controls in order to re-establish supply-demand equilibrium in a context of pervasive rationing and blocked trade. One important element of such a rapid liberalization may be the trade in foreign exchange, to allow for free convertibility of the currency for purposes of international trade in goods and services.

In its second meaning, shock therapy refers to the dismantling of all government intervention in the economy in order to establish a "free-market" economy. This second variant of shock therapy is also sometimes called "neoliberalism."

As a historical matter, "shock therapy" in the correct sense – a sudden end to price controls – has its modern first episode in postwar Germany in 1948. At that time, the German economy was subject to pervasive price controls (as in Poland and Russia, and more selectively in Bolivia). The money supply was soared over the years as the German government printed money to pay its bills. With a high growth of money compared to controlled prices, pervasive shortages were bound to emerge. The key German economics official during U.S. occupation, Ludwig Erhard, recommended a sudden combination of currency reform (replacing the old marks with a much smaller stock of new deutschemarks) and the sudden end of price controls. Suddenly, the shops filled, and the endless hoarding, queues, and even trips of city people to the countryside for food, ended. This famous episode of shock therapy became an inspiration not only to economists but also to Bolivian, Polish, and other reformers who were intent on ending a debilitating situation of mass shortages and rationing, often one combined with high inflation.

I have occasionally been an advocate of the first kind of shock therapy (notably in Bolivia, Poland, Russia, and some other post-Communist transition economies), always in the context of specific conditions of high inflation, shortages and inconvertible currencies. **I never have been an advocate of shock therapy in its second, neoliberal context.** I regard a pure "free-market" economy as a textbook fiction, not a practical or desirable reality.

Consider, for example, shock therapy in Poland. My idea, and much more importantly, the idea of the Polish leadership and people, was "the return to Europe." I was never to create a free-market economy, since such a free-market economy does not exist in Europe. Poland's goal was to become a normal country in Europe. This can be verified, many times over, by reading my early lectures on Poland's reforms, *Poland's Jump to the Market Economy* (MIT Press, 1993). I put it this way in the lectures:

> Poland's goal is to be like the states of the European Community. Although there are many submodels within Western Europe, with distinct versions of the modern welfare state, the Western European economies share a common core of capitalist institutions. It is that common core that should be the aim of the Eastern European reforms. The finer points of choosing between different submodels – the Scandinavian social welfare state, Thatcherism, the German social market – can be put off until later, once the core institutions are firmly in place.

What then was the essence of shock therapy as I actually practiced it, not as critics have interpreted my advice after the fact? The key initial steps to ending a hyperinflation and mass shortages have been: (1) an end to most price controls; (2) a quick convertibility of the currency for current-account transactions; (3) an end of the budget deficit; (4) stability of the newly convertible currency, backed by a stabilization fund if possible; and (5) bolstering of the social safety net, through compensatory transfers, and often through a standstill on external debt servicing. These steps were designed to end shortages, create market price signals, end high inflation, and provide social protection, and they accomplished that task. They were not designed to create a pure free-market economy.

Financial Aspects of My Involvement with Russia

I have always regarded it as both prudent and ethical to carry out my country advisory activities as part of my University activities, rather than as a privately paid consultant. I did not earn a penny as adviser to Russia, directly or indirectly. Claims that I "got rich" on Russia are outlandish, false, and defamatory. I follow two strictures in all of my activities:

1. Never invest or undertake any business dealings at all in a country in which I have an advisory responsibility, so that there is absolutely no conflict of interest;
2. Never accept compensation other than my academic salary.

My early work in Poland was supported by the Open Society Institute, which covered travel costs and staff, and I received no salary.

During 1990-92 my work in Central Europe and the former Soviet Union was supported by the United Nations University, Helsinki. I was on academic leave and the UNU supported my academic time.

During 1992-93, my advisory team in Russia was supported by[46] the Ford Foundation, the Swedish

Government, and briefly by USAID (for two summer months of academic salary). During this entire time, I earned my academic salary and no more.

The Shleifer Debacle

In mid-1995 I became Director of the Harvard Institute for International Development (HIID). The HIID was a Harvard program to support advisory work and field research in developing and transition economies. HIID operated as a collegial enterprise, in which Harvard faculty in addition to HIID permanent staff, could initiate projects and manage contracts through the institute. When I became Director, there were about 60 projects around the world, including the ongoing privatization project in Russia, managed and directed by Professor Andrei Shleifer. I was not involved in the project. The normal HIID administrative apparatus – financial office, contracts office, human resource office, auditors, and central administration – oversaw the project as usual. Various HIID officials visited the project to check on management, organization, and finances.

As it turned out, Prof. Shleifer was investing in Russian securities while leading the project, in violation[47] of HIID and US Government conflict-of-interest rules. He kept this secret from HIID management, including from me, as well as from USAID. During 1996, the U.S. Government Accountability Office audited the project, given its large scale, and did not turn up any information that led me or any other senior management at Harvard to suspect any inappropriate behavior by Prof. Shleifer. When the behavior ultimately came to USAID's knowledge, and I was notified about it, I moved immediately to remove Shleifer from the project. After a lengthy investigation, Harvard and Shleifer ended up paying hefty fines as the result of Shleifer's misbehavior.

Conclusion

My brief role in Russia has often been enlarged in the media to mythic, indeed horrific, proportions, and to this day I am sometimes blamed for every ill that befell Russia. Compared with that, a more accurate rendering of my actual role is found in Yegor Gaidar's memoir, *Days of Defeat and Victory*, in which my name does not appear once, not even in a footnote! I believe that my role was bigger than nothing, but hardly of the magnitude or scale for which I am often castigated. My main role came at the start: the idea of how to shift from Soviet-style central planning to a market economy, guided by the successful case next door in Poland. It was indeed Poland's success that led to my brief engagement in Russia. As an actual adviser, however, during two tumultuous years, 1992 and 1993, I had a front-row seat to an extraordinary revolution, but I had very little influence if any. My specific ideas on macroeconomic stabilization were adopted neither by the West nor by Russia. Much time was lost. Much that could have been accomplished quickly in stabilization, social support, and the start of a new Russian economy was sadly postponed for many years. I had even less to do with privatization. I regard the creation of the "oligarch" class in Russia to have been a historic and costly mistake and I opposed it from the start.

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I suddenly had this strong urge to send an e-mail with a couple of questions in it to Naomi Klein. I like her book very much (The Shock Doctrine), but I must admit I have never been able to fit the Jeffrey Sachs off that book and the Jeffrey Sachs I have seen and read elsewhere into the same box. Are the two of them talking to each other, I wonder?

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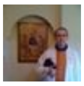

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