

“On Reports that Someone in Washington Has Mislaid Russia”

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Who lost Russia? That was the question posed by a September report from Republican leaders in the US Congress, which referred to the devaluation and default of August 1998. The phrase “Who lost Russia?” obviously presupposes not only that the country has been lost, but also that if someone in the United States government had been paying more attention or putting in more resources towards helping the Russian government, things would have been better.

But the recent domestic critique has been that the Clinton Administration tried too hard to help, not that it did not try hard enough. There is something contradictory about using the phrase “Who lost Russia” to mean that the U.S. has tried too hard to help. Hardly anyone today thinks the U.S. should have been putting more money into Russia in 1998, or even that the U.S. should have been helping Yeltsin, and now Putin, in other ways to a greater extent than it already has been. Instead, the harshest criticism comes from those -- including some advisers to Republican presidential candidate George W. Bush -- who say the U.S. sent money down a rat-hole and that instead it should follow the so-called Yellowstone Park strategy, “stand back and let it burn.”

All in all, I think that, under the circumstances, the approach of the U.S. has been roughly right, with a policy of patient calibrated engagement over the last 8 years. This is a surprising claim with which most would disagree, probably even some of those in the U.S. government. Let me hastily add that I am not claiming that things are good in Russia, or that the U.S. has had a big positive effect, or that there isn't corruption, misery, and so on.

One could point out that the current situation for the U.S. is more satisfactory, not just than where it was 10 or 20 years ago, when the fall of the Soviet Union did not appear to be even a remote possibility, but also than where it might have been given the economic hardship and social instability there. Russia pulled back from hyperinflation in 1995; it has not veered off either in the direction of rightwing dictatorship nor toward a return to Communism; nor has it entirely degenerated into anarchic chaos. This is quite an accomplishment considering that (unlike, e.g., Poland) Russia had never had historical experience with any sort of democracy or market system. Russia probably hasn't even done as badly as Ukraine, Belarus, and Central Asia. But I wouldn't claim that the United States has necessarily had much effect on this outcome -- beyond doing what it does best: thriving domestically, and thus making others want to become like America. What happens in Russia is mainly determined by the Russians.

Consider the specific choices the West faced and the specific decisions that were made. Not an imaginary menu that includes the option “Establish rule of law first, eliminating all corruption and inequality, then proceed with market reforms and aid.” That was not one of the choices.

The choices made by the West attempted to strike a balance between too much and too little. These big decisions made over the decade were

- (1) approving Russian membership in the IMF in 1992 and immediately giving it a \$1 billion stand-by arrangement, with the usual conditions;
- (2) continuing to work closely with Yeltsin in the run-up to the Russian presidential election of 1996 and thereafter despite his severe personal shortcomings and the highly questionable “shares-for-loans” manner of privatization in the summer of 1995;
- (3) subsequently augmenting the IMF lending agreement by making more resources available, even though most of the earlier conditions had not been fully met, especially the elimination of unsustainably large Russian budget deficits because of a poorly-functioning national tax collection system;
- (4) pulling the plug in August 1998 when the IMF program didn’t work (much of the money having quickly flowed back out of the banking system), with the result that the Russians immediately devalued the rouble, defaulted on domestic debt, and imposed controls on capital outflows (whence contagion spread throughout the world, in the worst phase of the 1997-98 financial turmoil); and
- (5) adding some new conditions to those required for an IMF program in the latter part of 1999.

Although the odds for the success of the 1991-2 measures were not great, the West had to try. Not to try would have been to send the signal that the West would never help. And, despite moral hazard, which we have heard so much about and which everyone agrees was greatest with respect to nuclear-armed Russia, the West did in 1998 let Russia default. This was a good lesson for the world – debtors and creditors alike – that conditionality is more than mere rhetoric, and bailouts are less than unlimited.

Europeans complain that the United States used the IMF as its own tool for political purposes. It may be true that the mandate of the IMF, which in theory is supposed to make program decisions strictly on objective economic criteria rather than broader political goals, has at times been stretched a bit. The Americans may have given Russia more attention than it would otherwise have gotten. But the basic principles of conditionality were not twisted unrecognizably. Moreover, in the real world there was no other way of helping. It is not only the U.S. who has a special stake in Russia prospering peacefully, but everyone.

In general, the guiding principle for the U.S. in the future should be to continue to stand ready to help if the social and political conditions for rule of law and economic reform should manifest themselves. Standing ready includes mustering more U.S. support domestically than is currently available in a highly skeptical congress – not whipping up popular anti-Russian feeling with discoveries of money-laundering. But support should always be conditional on fundamentals. And the U.S. must recognize that much of the time there will be little it can do.