

## Author's Rebuttal to the Department of State

**M**r. Morningstar should be recognized for listening to complaints, criticisms, and suggestions on improving aid to the former Soviet Union. He is doubtless the single most influential figure in the United States government to attempt to reform the process. He solved many very serious problems with input from outsiders.

In earlier drafts of "To Russia, With Cash," I gave Mr. Morningstar due credit for shutting down some very wasteful administration initiatives, including questionable deals engineered by the Gore-Chernomyrdin Commission that would have spent more than \$15 million on a project to benefit the wealthy gas monopoly Gazprom. In shortening the final drafts for the magazine, I cut the sections giving him that credit.

Second, I would like to thank Mr. Morningstar for his willingness to go on record in acknowledgement of serious policy problems that other officials have either ignored, explained away, or denied. Though not as frank as they could have been, his acknowledgements nevertheless testify to his ability to identify certain problem areas and attempt to address them.

However, much of Mr. Morningstar's response is out of the article's frame of reference. The article was not simply about his own immediate portfolio—bilateral U.S. "aid" to Russia—but a more comprehensive endeavor: the spending or risking of U.S. tax dollars in Russia through what I termed in the article's second paragraph "a commitment of more than \$20 billion in U.S. aid, financing, trade subsidies and buyouts to back Moscow's reform efforts." In his response, without disputing the \$20 billion figure, Mr. Morningstar inaccurately treats my article as if it discussed only bilateral aid.

### Points of Apparent Agreement

Let us start with the points Mr. Morningstar did not contest:

- Senator Bill Bradley's contention that mishandling of the Russia aid program is backfiring on the United States: "Not only do we fail to influence the course of Russian reform, we actually create an anti-American backlash based on disappointed expectations."
- Former Russian Finance Minister Boris Fyodorov's rejection of an International Monetary Fund (IMF) loan because it continued to subsidize huge, inefficient state industries and "corrupts the system"; the IMF's reluctance to extend further loans, and pressure from President Clinton and Vice President Gore for the IMF to send more money to the Russian Central Bank on easier terms.

- The 1994 resignation of U.S. Ambassador to Belarus David H. Swartz over what he called the administration's policy of "supporting the Communists" at the expense of democratic-minded reformers.
- Vice President Gore's direction of \$100 million in cash to Russian Minister of Atomic Energy Viktor Mikhailov's nuclear empire a month after Mikhailov boasted that his organization was building "new, cheaper and more effective [nuclear] munitions."
- The assertion, "Even though Moscow forges ahead with secret development of deadly nerve gases, the Clinton Administration is giving the green light to fund a chemical-analysis laboratory at the very institute where the research is taking place," despite warnings of a twenty six year veteran of the institute "that any such U.S. aid will only keep the R&D teams together to continue their lethal work" and that "Russian officials still deny U.S. inspectors access to certain nerve-gas facilities."

### **The State Department's Criticisms and the Author's Rebuttals**

The remainder of this article will rebut Mr. Morningstar's criticisms point by point.

#### **Point 1**

**Morningstar:** "Mr. Waller's article questioned food assistance programs in Russia. There has been no U.S. Department of Agriculture food assistance to Russia of the type Mr. Waller discussed since FY1993. At that time, USDA provided bulk commodities through both new commodity exchanges and with the old state monopolies. This created friction between the new fledgling entrepreneurs, whom we wished to encourage, and the old guard, which spread allegations similar to those in the *Reader's Digest* article. Since FY1993, USDA has not provided any bilateral food assistance to the Russian government."

**Response:** My intent in this section was to show how government programs can work at cross-purposes. In this case, USAID was trying to help private Russian farmers break out from the old Soviet grain monopolies, while other programs were pumping life back into those old monopolies in an effort to help private American farmers to export their products.

The "Farm Fiasco" section of the article begins, "Early on," i.e., in the early stages of U.S. assistance to Russia. An independent group established in 1991 by President George Bush and subsequent independent studies adamantly opposed sending grain to the Soviet-built monopolies because it "could be wasteful and have the effect of providing too much support to the old system at a time when a more market-oriented system is emerging."<sup>1</sup> Yet the Bush administration ignored its own advice and sent the grain anyway.

The General Accounting Office (GAO) found in 1994 that "food moved through state food sectors in the [former Soviet Union] is owned by nobody and thus is treated very carelessly, contributing directly to massive food losses."<sup>2</sup> The grain shipments fueled corruption and organized crime. The *Los Angeles Times*

reported that the state grain monopoly Roskhleprodukt was involved in a scam with banks to buy American-provided grain at artificially low prices that undermined private business and depressed domestic grain prices so deeply that thousands of independent farmers were put out of business. Local farmers alleged that the scam was fixed by government monopolies and corrupt grain auction houses and banks.<sup>3</sup> No wonder food aid to the Russian government stopped in FY1994.

To get to Mr. Morningstar's point, the *Reader's Digest* article neither states nor implies that USDA food "assistance" has been shipped to the Russian "government" since FY1993. But the USDA has sent huge amounts of taxpayer-subsidized grain to the old Soviet monopolies since that time. The article states, "Then Washington began to ship in massive quantities of subsidized grain, deeply depressing prices in Russia and hurting the small, private grain farmers." This refers to all forms of taxpayer-funded grain shipments. The point is not whether the grain is going to Russian government entities or "private" entities, though USAID agricultural contractors state that the "private" grain distributors are merely Communist-era agricultural bureaucrats who privatized the systems to themselves.<sup>4</sup> The point is to help Russia become self-sufficient in agriculture, meaning assistance to private farmers. American policymakers sought to send grain shipments that would be monetized in Russia, that is, the grain would be sold for cash and the proceeds used as loans to fund the modernization of private agriculture. This was a great idea—in theory.

As the article reports, USAID workers on the ground in Russia and others "suspect that the old Soviet networks not only ran the distribution systems for American grain, but also owned the banks through which the loans [to private farmers] were administered—effectively blocking the program." The article quotes a successful USAID worker by name who says, "The U.S. taxpayer got snookered." Mr. Morningstar does not explore this problem area, which is unfortunate, because many lessons are to be learned to improve future programming.

As of late 1994, the State Department had drawn no distinctions between U.S. subsidized agricultural commodities shipped to Russia via the old Soviet distribution monopolies and the well-intended shipments after FY1993 of which Mr. Morningstar writes. A State Department "fact sheet" for FY1995 boasts, "USDA programs have supported a total of \$1.2 billion in food assistance to Russia since 1992."<sup>5</sup> The Russian trading house Granitex handled many of these shipments. But Granitex is not a new private company; it represents the worst of the worst of the old regime. Before it was "privatized," Granitex was known as Amtorg, the official Soviet government trading house established by Stalin to generate hard currency for the Soviet Communist Party and to conduct espionage against the United States.<sup>6</sup> Export-Import (Ex-Im) financing has gone through at least two Soviet-era banking institutions: Vneshekonombank (Foreign Trade Bank) and Rosvneshtorg (Russian Internal Trade Bank). This is hardly helping the real entrepreneurial sector.

According to official figures released by Mr. Morningstar's office, USDA "food assistance" to Russia in FY1994 totalled \$31.1 million, and in FY1995 the sum was \$32.7 million.<sup>7</sup> USDA reports that for the marketing year 1993-94, the

U.S. sent Russia 340,400 metric tons of wheat, 2,428,500 metric tons of corn, 627,500 metric tons of soybean meal, and 3,500 metric tons of rice. USDA figures for the marketing year 1994-95 show subsidized shipments to Russia of 374,800 metric tons of wheat, 118,000 metric tons of corn, 10,800 metric tons of barley, and 9,400 metric tons of rice.<sup>8</sup>

Mr. Morningstar made no comment on the article's reference to the failed USAID-funded effort to "help private farmers construct permanent, cost-effective grain storage facilities, free from control of the old state monopolies." Also conspicuously absent from Mr. Morningstar's response was a comment on the statement of Ambassador David H. Swartz, the career foreign service officer who served as U.S. envoy to Belarus from 1992 to 1994. I wrote that Swartz:

witnessed the misuse of funds firsthand. When Washington sent millions of dollars in agricultural commodity aid to the old-line Communists who control grain distribution, a top Belarussian reformer [chief of state Stanislau Shushkevich] asked Swartz, "If the United States wants to foster reform here, why do you keep supporting the Communists?" "Good question," replied the ambassador. He resigned in protest over American policy in 1994.<sup>9</sup>

Ambassador Swartz is one of the few professional diplomats to have come forward to warn about severe deficiencies in and counterproductive aspects of U.S. assistance to the former Soviet Union. Concerning the agricultural commodity aid referenced in the *Reader's Digest* article, Swartz wrote the following for *Demokratizatsiya*:

Interesting . . . is the way skilled NIS diplomats in Washington have managed to "work the system" of interagency rivalries and narrow bureaucratic interests, not infrequently to the detriment of U.S. policy goals. Again, Belarus is a good case in point. Represented in Washington by an exceptionally able ambassador, the Republic of Belarus benefited quite coincidentally from a long-standing acquaintanceship between its self-aggrandizing foreign minister and the Clinton administration's first National Security Council senior director for the NIS region, Ms. Toby Gati. Building on this link, Belarus Ambassador Serguei Martynov developed unhealthily (for the U.S.) intimate access into the NSC, both with Gati and her deputy, Nicholas Burns. When Gati was "kicked upstairs" to the position of assistant secretary of state for intelligence and research, Burns . . . became NSC senior director for the NIS area.

One example of the Belarusians' use of the NSC connection to the detriment of U.S. interests occurred in July 1993. On the eve of a high-level Belarusian visit to Washington, Ambassador Martynov met with Burns to deliver a letter from his (communist) prime minister requesting millions of dollars in additional U.S. agricultural commodity assistance. Without reference to or knowledge of either the State Department or the U.S. embassy in Minsk, Burns, now State Department spokesman, essentially directed that the U.S. Department of Agriculture comply with this request, and it was done. As discussed above, in the Belarus circumstances such agricultural assistance runs counter to U.S. interests by helping prop up the unreformed (and politically hostile to the United States) collective farm system there.<sup>10</sup>

## Point 2

**Morningstar:** "In the economic area, the article and its title and elsewhere leaves the impression that U.S. government programs supply funds directly to Russian

individuals and entities. In fact, the vast majority of U.S. assistance is in the form of know-how, not cash.”

**Response:** This assertion is misleading. Again, the article is not merely about “U.S. assistance,” but about the stewardship of U.S. tax dollars overall in Russia. The vast majority is in the form of cash transfers directly to the Russian government and government-controlled (institutions indicated), as follows:

Direct bilateral aid, as of 30 September 1995	\$3.96 billion <sup>11</sup>
<i>U.S. 18.3% share of \$20 billion in IMF cash loans signed to date</i>	<i>\$3.66 billion<sup>12</sup></i>
Export-Import Bank financing	\$1.80 billion <sup>13</sup>
Overseas Private Investment Corporation	\$1.97 billion <sup>14</sup>
U.S. Department of Agriculture finance & insurance	\$0.42 billion <sup>15</sup>
<i>NASA and NASA-related cash payments</i>	<i>\$0.68 billion<sup>16</sup></i>
<i>U.S. direct buyout of Russian uranium from Minatom</i>	<i>\$12.00 billion<sup>17</sup></i>
Total	\$24.49 billion
<i>Total in cash to the Russian central government (implemented, pending, and pledged)</i>	<i>\$16.34 billion</i>

The “Stuffed With Cash” subsection of the article clearly states that the largest cash transfers were not bilateral but via the IMF, “in which the United States is the largest contributor.” It also states that Washington was the main instigator of easy IMF loans (cash transfers) to the Russian Central Bank under the Bush administration in 1992, and under the Clinton administration since 1993. Mr. Morningstar did not take issue with my contention that the Clinton administration “responded” to President Boris Yeltsin’s request “to pressure the IMF to send more money,” and that the resultant multibillion-dollar loans were largely due to this pressure. Former Russian Finance Minister Boris Fyodorov warned the United States in early 1994 against more IMF loans. His words were prophetic:

Is it not clear that the West is being manipulated to bury the remnants of the reforms?  
Is it not clear that anti-Western and nationalist attitudes are becoming more and more prevalent? . . . The sooner the IMF’s money is handed over, the sooner we will see a change in policy—in the wrong direction.<sup>18</sup>

Time proved him right. That December, Yeltsin sent troops into Chechnya. Russian human rights activists and journalists alleged that the United States and other Western powers, via the IMF, were funding the war. Visiting Moscow in February 1996 to pave the way for an unprecedented \$10.2 billion loan, IMF Managing Director Michel Camdessus was faced by a phalanx of journalists who pressed him to address the issue. The *Washington Post* reported from the Russian capital,

With Russia’s 14-month-old conflict in Chechnya still raging, Camdessus was asked repeatedly during his visit here this week if the IMF’s enormous loans were not in fact financing Moscow’s war effort. The fighting was particularly heavy this week, and Camdessus seemed tense and defensive as he dealt with the question.

“Are we financing Chechnya?” he said. “We are contributing to the overall financing of Russia today. . . . [As for] those who tell me, ‘You are financing Chechnya,’

in some ways, yes, as we finance Russia. . . . You know perfectly [well] that all governments going to war, particularly this kind of war, they cut everything but the expenses for war. I'm sad in telling you that, but it's unfortunately a part of life."<sup>19</sup>

To make matters worse, considerable doubts remain as to whether these loans will ever be repaid. Based on his experience with top officials, including Prime Minister Viktor Chernomyrdin, Fyodorov also warned in 1994 that the West's multibillion-dollar cash transfers to the Russian Central Bank would never be repaid: "There are too many people in senior positions in the Russian government who think it patriotic to take as many loans as possible and then quietly plot to obtain debt forgiveness and debt reductions."<sup>20</sup> Fyodorov later told the author that one of those senior officials is Chernomyrdin.<sup>21</sup>

### Point 3

**Morningstar:** "The voucher privatization program resulted in over 40 million individual shareholders, and privatization of 15,779 medium and large enterprises in 86 regions of Russia. This was the largest privatization in world history, and there are now more individual shareholders in Russia than in the United States. That there were *individual cases* of management manipulation *at some factories* does not invalidate the historical significance of dismantling a state-controlled economy and giving market forces a chance to work." [Emphasis added.]

**Response:** We are all familiar with the numbers of shareholders and privatized enterprises. Sheer numbers seem to be USAID's main criteria for measuring success. USAID Assistant Administrator Thomas A. Dine told congressmen, "There is no need to tell this committee at length about the industrial privatization program and the role that U.S. assistance played in bringing it about. The numbers speak for themselves."<sup>22</sup> The fact that there are more individual shareholders in Russia than in the United States is meaningless, because the shares held by most Russians are practically worthless, and that corrupt elements of the *nomenklatura* have manipulated the process for themselves.

Mr. Morningstar accepts but dismisses the two individual cases of manipulation by plant management mentioned in the article. They are far from the isolated instances he implies. Perhaps I should have cited Gazprom, the natural gas monopoly controlled by the administration's principal partner in Russia, Prime Minister Viktor Chernomyrdin. Gazprom "privatization" was a scam of the highest order. The company's privatization process was controlled by its management (which answered to Chernomyrdin) with government approval (ultimately Chernomyrdin). Management and government, according to a new study by Norway's Fridtjof Nansen Institute and the Russian Academy of Sciences, have controlling interest. A citizen could indeed purchase shares with his voucher, but is forbidden to sell them without permission from Gazprom's board of directors. In this way, Gazprom not only was able to hoard vouchers, but managed to control the prices of its shares and effectively to forbid individual shareholders to sell their shares. The study summarized the problem that emerged:

This monolithic structure has re-created many of the basic features of central planning within its own organization. Gazprom has, with the support of the Russian gov-

ernment, taken significant steps toward the creation of a highly centralized, unified semiprivate monopoly over the supply of gas in Russia. At the same time it has incorporated many of its suppliers and customers into its organizational system and is attempting to extend its control over gas operations in the former Soviet republics. . . . It raises major questions about the overall efficiency of the system and its consequences for the economy and society as a whole.<sup>23</sup>

The company reportedly rigged the sales so it could buy up any shares it permitted to be sold. (Its list of shareholders is secret.)<sup>24</sup> According to *Forbes* magazine, "To further cement their control, [Gazprom Chairman Rem] Vyakhirev and Chernomyrdin structured the privatization so that Gazprom has a right of first refusal to purchase any of its shares that come on the market." Gazprom will not register shareholders who purchase shares without the company's permission. Such rules "have kept the price of the shares artificially low," suiting the management, which "has been very busy buying up shares." So tight is the Soviet-era management's control over the gas behemoth that "in best Soviet style, all management's proposals were approved at the annual meeting by a majority of 99.9 percent."<sup>25</sup> U.S.-backed multilateral lending programs have helped solidify Gazprom's anti-free market position. Russia's wealthiest company is far from an isolated example.

In his 13 June 1996 testimony before Congress, Mr. Morningstar acknowledged that the problem of privatization fraud in Russia is widespread. He told International Relations Committee Chairman Benjamin Gilman that the U.S. government has learned lessons from fraud experiences in Russia and is building in impediments to fraud in the privatization program being designed for Ukraine. Dine, in contrast, seated next to Mr. Morningstar on the witness stand, denied the existence of such problems when asked.

Failure to acknowledge the problem fully, particularly before the congressional authorizing committee, serves no one but the abusers of U.S. aid, and merely raises more questions. Not only does this lack of truthfulness play into the hands of those who want to terminate assistance completely, but it undermines proponents who seek reforms. Yet the administration and USAID, with their "delay, postpone, obfuscate, derail" policy, want to have it both ways. Congress has yet to hold them accountable.

The "largest privatization in world history" doesn't sound so impressive when the average Russian citizen finds his meager share destroyed by inflation or effectively stolen by old Communist managers of huge monopolies like Gazprom, whose shares the citizen shareholder is not free to sell.

#### Point 4

**Morningstar:** "The article implies the U.S. government is to blame because some Russians were able to manipulate the system to ensure privileges and continued positions of power for themselves. The Russians did not pass legislation prohibiting former Communists from participating in the voucher privatization process, so it is not surprising that some of the old guard managed to stay on top. This was not the result of any U.S. policy, nor is it a guarantee that, as market forces begin to operate, that the old guard will not be replaced by new entrepreneurs."

**Response:** The U.S. government must be held accountable for failing to hold Russian officials accountable for corruption of American assistance resources, for failing to notify Congress of the problem, and for failing to take substantive and timely corrective measures. “Some” of those Russians “able to manipulate the system to ensure privileges and continued positions of power for themselves” include the very recipients of U.S. bilateral assistance.<sup>26</sup> The fact is this: the United States made no attempt whatsoever to use its most potent lever—its support for multibillion-dollar IMF loans—to reinforce Russians fighting against the official corruption and organized crime that has consumed the Russian economy and is encroaching on our own economic security. The blind embrace of Chernomyrdin is a case in point.

Nor did the United States attempt to insert any safeguards in the privatization program to minimize its exploitation by organized crime. While many USAID officials turned a blind eye toward corruption of American assistance, one worker, Michael Dasaro, tried to keep track of the problem. The thirty five year-old Harvard graduate was considered the best-informed American on how crime had hijacked privatization. On 13 November 1993, Dasaro was found slashed and stabbed to death in his Moscow apartment. Nothing was stolen; the killing was described as a gangster-style hit. USAID employees reportedly were instructed not to discuss the incident.<sup>27</sup>

When a consultant for a major USAID contractor raised the corruption of privatization issue in Washington after Dasaro’s murder, the contractor’s program manager—a longtime USAID official—denounced the consultant as “a bomb with a lit fuse” because “her hobby horse is that the AID privatization program has been exploited by organized crime.”<sup>28</sup> Rather than alert authorities to her well-founded concerns, the program manager said in an internal memo dated 17 June 1994 to staff in the United States, Russia, and Ukraine:

The privatization program is the showpiece, flagship etc. of the AID program in Russia. [The consultant], without understanding what she is doing, is trying to sink that flagship. Under no circumstances can we be seen as helping that effort. We have no interest whatsoever in damaging the centerpiece of the AID program in Russia.<sup>29</sup>

This example illustrates a fundamental structural and procedural flaw in USAID’s contracting program—a fatal flaw that the agency and its incestuous revolving-door system of contractors has failed to ameliorate: the covering up of reports of major problems and even criminal wrongdoing. The very hour that USAID Assistant Administrator Dine and Mr. Morningstar testified to the House International Relations Committee in the Rayburn Building on 13 June 1996, former Central Intelligence Agency Director R. James Woolsey appeared down the hall as a witness before the National Security Committee. Within minutes of Dine disclaiming knowledge of corruption in the Russian privatization program, Woolsey told lawmakers:

the problem in Russia today is that organized crime is well on the way to becoming a major, perhaps in time a dominating, factor in the Russian polity. . . . I believe its condition is much further along than most public commentary suggests. . . . In Russia, honest and effective institutions, free of organized crime influence, are increasingly rare. . . . This level of corruption substantially affects our ability to

work with the Russian government on a whole range of issues and the ability of Western businessmen to do business with, much less invest in, Russia.

Woolsey's assessment of privatization clashes completely with the line from USAID and the State Department:

The unfairness of privatization in Russia, which has led to most ownerships being concentrated in the hands of the former factory managers and nomenklatura, and increasingly also in the hands of organized crime figures, adds substantially to the average Russian's dissatisfaction with the current political and economic system.<sup>30</sup>

Woolsey's conclusion is supported by journalistic and scholarly accounts. *Washington Post* Moscow correspondent Michael Dobbs reported in July 1995, "The commanding heights of the [Russian] economy are now controlled by former Communist Party and KGB officials, who used official connections to amass enormous power and wealth."<sup>31</sup> An extensive Russian Academy of Sciences survey of Russia's five hundred wealthiest tycoons, cited in "To Russia With Cash," found that "nearly two-thirds of the country's millionaires had been members of the Soviet Communist Party."<sup>32</sup> These individuals do not necessarily include many of the so-called New Russians who came in inordinate numbers from the Communist Party's youth organization, the Komsomol. The survey's author, Olga Kryshтанovskaya, confirmed her findings during a visiting scholarship to Washington at the Kennan Institute for Advanced Russian Studies. Kryshтанovskaya released the results of another survey in January 1996, in which she found that 61 percent of the new Russian business elite and 75 percent of the new political elite come from the Communist nomenklatura.<sup>33</sup> This majority of Russia's nouveau riche is not "some" of the old guard.

One of the reasons the former Communists "managed" to stay on top, as Mr. Morningstar correctly observes, is that the Russians did not pass legislation to prohibit former Communists from taking part in the voucher process. The fact is that the U.S. government failed to leverage its assistance, particularly the bilateral and multilateral cash transfers to the Russian Central Bank, on legislation to limit abuse. Putting conditions on loans and aid is a common practice. The IMF imposes strict conditions in other areas in its transfers to Moscow and elsewhere. With strong U.S. support, the IMF has leveraged its loans on strict and often painful fiscal policy changes the Russian government must follow to remain eligible for continued cash transfers, and has withheld some tranches to force desired policy changes. Bilateral aid programs show that, had it wanted to, the United States government could have prevailed on Russian privatization authorities to create legal barriers to make it easier for the 90 percent of Russians who had never been members of the Communist Party to enjoy the fruits of privatization, and to restrict the ability of the entrenched elites to manipulate the process. Cases in point: USAID's controversial \$77 million health reform program that sought to set up medical care through health insurance, which included an initiative to change Russian law to make the U.S. proposed program legal; and the equally controversial Rule of Law program that specifically tinkered with Russian legislation and the criminal code. Many successful American-backed initia-

tives, funded either privately or through USAID, have worked to help Russian lawmakers update their statutes.<sup>34</sup> American officials simply chose to ignore the corruption problem for as long as they could, rather than offend certain political leaders in Moscow.

### Point 5

**Morningstar:** “There is a misstatement regarding Gazprom. AID’s \$3.2 million program was not a subsidy for a ‘supposedly struggling’ Gazprom, but in fact the program was an energy efficiency and export promotion program that benefitted U.S. firms, in this case, Caterpillar, Inc. Moreover, the program required a 70% co-payment from Gazprom, which they did not provide. As a result, the money was re-allocated to other Russian firms. Gazprom never benefitted from this program.”

**Response:** I was remiss in not crediting Mr. Morningstar with putting a stop to some of the Gazprom-style giveaways engineered by the Gore-Chernomyrdin Commission. Initially, the Gore-Chernomyrdin Commission envisioned a \$15.4 million program for Gazprom. I used this figure in the original draft of my article. *Reader’s Digest* research editor Rich Beattie then asked the office of Vice President Gore for a comment. The responsible official in the vice president’s office explained that much of the deal did not go through, and provided the lower \$3.2 million figure. I agreed to the change—from \$15.4 million to \$3.2 million—suggested by the vice president’s office. The research editor then asked the USAID press office for comment on the Gazprom deal, and USAID did not dispute the sum.

Part of the aid mess is due to the conflicting agendas of different bureaucracies and programs. Who is correct on the figures for the Gazprom deal—the office of the vice president or the special advisor to the president and secretary of state on assistance to the former Soviet Union? Mr. Morningstar acknowledges that the Gazprom project was run from USAID, but adds, “in fact the program was an . . . export promotion program that benefitted U.S. firms.” Is USAID a development and assistance agency or is it in the export promotion business?

### Point 6

**Morningstar:** “The dramatic decline in U.S. assistance resources over the past few years has led us to sharpen the focus of our assistance to Russia. Rather than supporting systemic reform at the federal level, U.S. Government assistance to Russia is focused on developing linkages between U.S. and Russian communities, as well as partnerships between U.S. and Russian nongovernmental organizations (NGOs), small businesses, local and regional governments, hospitals and educational institutions.”

**Response:** This statement contradicts USAID Assistant Administrator Thomas Dine’s congressional testimony of 14 November 1995. Even a charitable reading shows that, at least until that time, there was no question that USAID was dumping large resources into “systemic reform” at the central government level. Again, as with the Gazprom giveaways, Mr. Morningstar is to be credited with turning around a misguided policy, a change many of us had been advocating from the

start. But even at the regional and local levels there are still significant problems and waste. They include programs of dubious value (grants to benefit the Moscow Center for Gender Studies and the Center for the Study of Sexual Culture are cases in point) and major systemic problems in the bureaucratic and contracting processes that squander both time and dwindling resources—and that remain to be addressed.<sup>35</sup> Indeed, it was in blocking congressional moves to try to address the systemic problems that others in the present administration developed the strategy to “delay, postpone, obfuscate, derail,” and to “tar” critics.

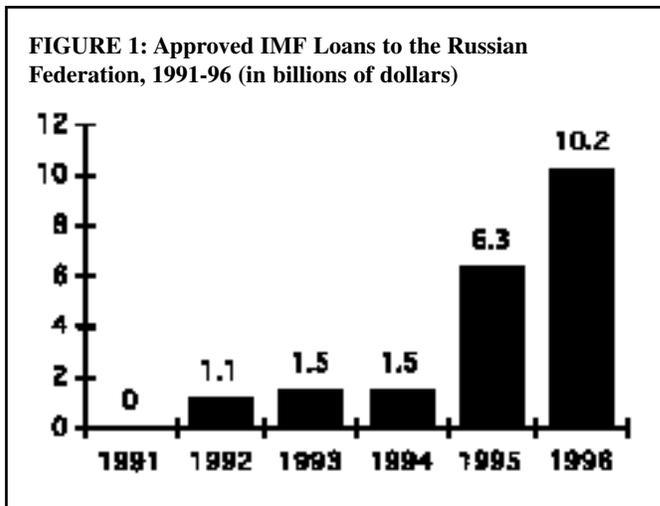
#### Point 7

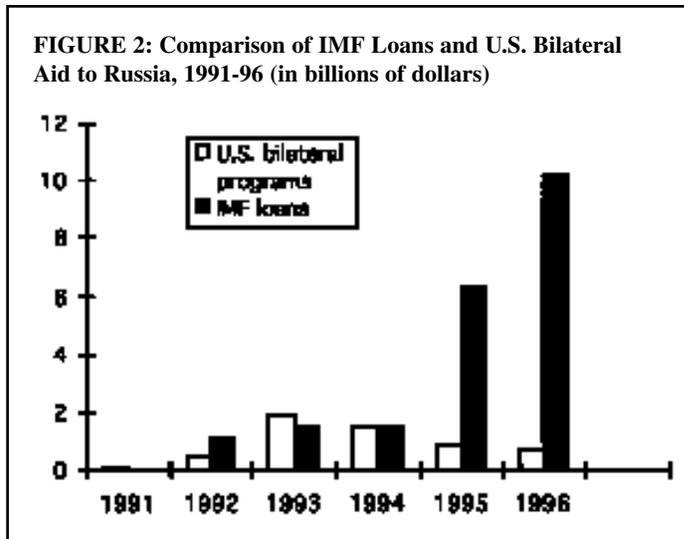
**Morningstar:** “As Mr. Waller correctly points out, targeting assistance at the community level is an excellent way of maximizing the impact of limited U.S. assistance resources. Contrary to Mr. Waller’s assertion, however, the amount of money being devoted to community-based programs is increasing, as privatization and other major economic restructuring programs are phasing down in Russia. . . .”

**Response:** The point is well-taken, and Mr. Morningstar played a big role in turning the problem around. But the change didn’t occur until the administration’s FY 1998 request, well after publication of the *Readers Digest* article. Moreover, the (belatedly) increased funds for community-based programs (within the shrinking overall budget through FY 97) is dwarfed by the geometric, multibillion-dollar increase in direct U.S.-backed cash transfers to the Russian Central Bank via the International Monetary Fund, as figure 1 illustrates:

In comparison to this strengthening of the power of the central government, the increases in U.S. bilateral assistance for regions and communities within the shrinking budget are a pittance, as figure 2 shows.

We can conclude from this data that the United States government is, by its vote in the IMF and its bilateral programs, providing far more resources to the





central government of Russia, while devoting ever-decreasing sums to bilateral programs designed directly to drive reform both within the central government and, more importantly, in the regional and local governments, non-governmental organizations, and the legitimate private sector. Even worse, the resources destined to the latter group are chiefly in-kind, with most monies pocketed by high-overhead American consulting firms, while the resources to the corrupt and increasingly autocratic central government are overwhelmingly in cash.

#### Point 8

**Morningstar:** "We agree with Mr. Waller that crime and corruption in Russia represent serious threats to both political and economic reform. Through the State Department's Anti-Crime Training and Technical Assistance Program, the U.S. Government is helping Russian officials fight crime and corruption, while at the same time supporting criminal justice reform. It is as much in our interest as in Russia's interest to show Russian citizens that their country's transition to a democratic, free-market system does not have to lead to a nationwide breakdown of law and order."

**Response:** Again, the point is well taken, but it is another case of too little, too late. As noted, the administration failed to link economic aid to anti-crime and anti-corruption efforts, and in the beginning it vetoed program proposals to assist civil authorities. In 1993, for example, political appointees at the State Department quashed a proposal approved by the U.S. Information Agency to assist Russian elected officials in the ways and means of exerting civil control over law enforcement.<sup>36</sup> USAID's Rule of Law program strongly resisted funding similar initiatives, and when it finally decided to consider them for funding in 1995, the White House used the Rule of Law budget as a piggy bank for political patron-

age—including a reported six-figure contract to a Little Rock, Arkansas firm to translate and distribute in Russia a book on sexuality.

Ambassador David Swartz repeatedly sent cables from the American embassy in Minsk, warning top officials, including USAID Administrator Brian Atwood, Deputy Secretary of State Strobe Talbott, and Secretary of State Warren Christopher, of waste and favoritism in the bilateral assistance programs. Swartz later wrote, "In the case of Mr. Christopher, I warned of the dangers to the administration in continuing to waste huge sums of taxpayer money earmarked for assistance to the former Soviet Union," adding, "I got no reply." He resigned in protest after twenty-eight years in the foreign service in January 1994.<sup>37</sup>

So complacent was the State Department and the aid community to organized crime and corruption problems in Russia that FBI Director Louis Freeh found himself in the unusual foreign policy role of leading a campaign for cooperative anti-crime and anti-corruption programs in the former Soviet Union. USAID was disinterested even though knowledgeable consultants on retainer—as well as some Russian officials—lobbied hard for such projects. It seems that only after the GAO suggested greater "integration" between the government's minuscule anti-crime aid and with economic restructuring aid did the administration take action.<sup>38</sup> Though Mr. Morningstar attempted to address some of these abuses after his appointment in 1995, we still find that in 1997 the Justice Department is sitting on anti-organized crime/anti-corruption training money that it apparently has little idea of how to spend.

Mr. Morningstar did not respond to my contention that the massive cash transfers and other programs actually help fuel crime and corruption. It would have been useful if he had, because much more public discussion must be devoted to the problem and to potential solutions.

### Point 9

**Morningstar:** "In a section of the article on strategic weapons, Mr. Waller states that ' . . . money intended for dismantling the Soviet nuclear stockpile is being frittered away while Russia rebuilds its arsenals.' Mr. Waller ignores the benefits to U.S. national security from the accelerated pace of weapons dismantlement under the Strategic Arms Reduction Treaty (START I), facilitated by U.S. assistance funds under the Department of Defense's Cooperative Threat Reduction (CTR) program."

**Response:** The CTR or "Nunn-Lugar" resources were "frittered away" under Presidents Bush and Clinton for several reasons: The Department of Defense treated the program as a normal procurement process lasting up to a year and a half before a proposal could be approved; there were turf battles among at least eight government bureaucracies; there was lack of strategic vision and setting of priorities; and the present administration failed to develop a long-term planning process for more than two years after the CTR effort began.<sup>39</sup> Irrecoverable time was lost in a very decisive period. A large portion of the CTR resources has been diverted away from the objective of destroying weapons of mass destruction.

The highly touted "defense conversion" programs are an example. A GAO

investigation concluded, “Although DoD [Department of Defense] claims their conversion efforts reduce the threat of weapons of mass destruction, we found that most of these efforts are converting dormant facilities that once produced items related to weapons of mass destruction,” and that investigators could find “only one facility where an active production line is being converted to civilian use.”<sup>40</sup> According to the GAO, “Many of the companies selected for conversion will continue to produce weapons. Profits and technology from the newly privatized firms could be returned to the parent defense companies. Furthermore, many Russian officials remain interested in preserving a sizable defense industry to earn hard currency by exporting arms.”<sup>41</sup>

The “accelerated pace of weapons dismantlement” under START was *not* a primary objective of the law establishing the CTR program. The present administration’s narrowing of objectives from eliminating Soviet-built weapons of mass destruction to mere speedier compliance with START I shows how CTR resources indeed have been frittered away and may even be contributing to the problem of proliferation of weapons to rogue regimes. At the same time, Russia has indeed been modernizing its strategic weapons arsenals, as discussed in points 14, 16, 17, and 18.

### Point 10

**Morningstar:** “More egregiously, Waller accuses the U.S. assistance program of ‘actually expanding Moscow’s nuclear warhead stockpile by paying for warheads from Belarus, Kazakistan and Ukraine that are transferred to Russia, away from the eyes of U.S. military monitors.’”

**Response:** The fact is that U.S. aid has paid to help transfer warheads from non-Russian republics to Russia, where American military inspectors are forbidden to account for them. One of the visionary creators of the CTR program, Harvard University Professor Ashton Carter, proposed in 1991 that the United States pay for “immediately inventorying and tagging all the nuclear weapons covered by the program and placing them under secure (and in some cases possibly international) safeguards.”<sup>42</sup> However, after becoming assistant secretary of defense for international security policy in 1993, Carter abandoned his own idea. Moscow firmly rejected any such U.S. “assistance” and neither the Bush nor Clinton administrations made a serious effort to persuade Russia to reconsider.<sup>43</sup> By early 1996, the *Washington Post* cited administration officials as saying that “the mutual inspections and data exchanges on weapons and nuclear materials—which [Presidents Clinton and Yeltsin] said would happen—are not about to happen.”<sup>44</sup>

Thus the United States, as observed in a 1996 Harvard study by former Assistant Secretary of Defense Graham Allison, has no independent means of verifying that Russia is indeed destroying the warheads.<sup>45</sup> The GAO came to the same conclusion in a report with which the Department of Defense stated its concurrence.<sup>46</sup> Indeed, elsewhere in his response to my article, Mr. Morningstar acknowledges that not all the warheads that the American taxpayer has been paying to transfer and store will be destroyed, and that the United States “currently” has no means of verifying whether Moscow is dismantling warheads as it claims

to do. Continued modernization of strategic nuclear weapons systems (see below) leads one to conclude that some of these warheads or their components may be redeployed against the United States and its allies in the future. This concern was vindicated by Moscow's redeployment of a regiment of SS-25 mobile intercontinental ballistic missiles (ICBMs) received from Belarus in late 1996. The United States expected the SS-25s to be destroyed under CTR, but the Russian Strategic Rocket Forces had a different idea. On 27 December 1996, just a month after their transfer from Belarus, the SS-25s reportedly were redeployed and placed on "combat duty" at Vypolzovo.<sup>47</sup> Thus for the first time in history we encounter the transfer of operational strategic nuclear missiles from one country to another.

### Point 11

**Morningstar:** "The end of the Cold War resulted in four nuclear successor states capable of threatening U.S. or international security rather than just one—Russia. Monitoring four separate command and control systems and ensuring the security of nuclear weapons and material in four independent nations would not only have been much more costly than the average \$400 million annual cost per year of the CTR program, but the dispersion of such weapons and materials would have greatly increased the potential for proliferation. Additionally, the command and control systems in Belarus, Kazakstan and Ukraine were incomplete, at best, without Russian participation. The nuclear warheads returned to Russia from Ukraine, Kazakstan and Belarus are under better control now, thanks to CTR assistance that has helped Russia to ensure the safe transport and storage of the warheads as they are being returned."

**Response:** The paragraph begins by saying that "four nuclear successor states" were capable of threatening U.S. security, and argues that transfer of warheads to Russia would do away with threats from these countries. However, Mr. Morningstar contradicts himself later by stating, correctly, that "the command and control systems in Belarus, Kazakstan and Ukraine were incomplete, at best, without Russian participation." Ergo, the three non-Russian republics really posed no *strategic missile threat* because they did not have their own command and control.

Furthermore, over the past two years the Clinton administration has denied repeatedly and falsely that the only former Soviet republic that maintains a strategic nuclear arsenal—Russia—presents any missile threat at all. President Clinton has said so himself on no fewer than 130 occasions.<sup>48</sup>

Finally, the argument that "monitoring four separate command and control systems . . . in four independent nations would . . . have been much more costly than the average \$400 million annual cost per year of the CTR program" is specious at best. This is why: The \$400 million per year for CTR is not provided by an extra congressional appropriation, but is budgeted through cuts in existing U.S. defense and energy programs. Among the cuts to pay for CTR was a 25 percent slashing of the Energy Department's budget for research and development of "technical means" to monitor the nuclear command and control systems, and for monitoring the development, production, and maintenance of nuclear weapons in other countries.<sup>49</sup> In other words, the technological advances needed to keep pace with moni-

toring other countries' weapons of mass destruction and arms control compliance, as well as global nuclear proliferation, were deliberately crippled to pay for CTR.

The *proliferation* threat of four nuclear states over one is correctly noted. But solving that problem did not mean handing over all the warheads to Russia. At one point, Ukrainian officials wanted the to dismantle warheads on Ukrainian territory in cooperation with the United States. Washington's policy was to bow to Moscow and compel Ukraine to send the warheads to Russian territory, away from the eyes of U.S. inspectors. Likewise, the government of Kazakstan sold other forms of fissile material to the United States in "Operation Sapphire," showing that there were indeed alternative means of acquiring the material. The administration failed to call a national emergency to educate the public and pressure Congress to come up with the funds to buy up this material, and it failed to leverage other forms of aid—particularly IMF loans and the \$12 billion uranium cash buyout—as greater incentives to true disarmament and cooperation.

### Point 12

**Morningstar:** "Nearly all the warheads being withdrawn to Russia are slated for subsequent dismantlement."

**Response:** Mr. Morningstar thus affirms the very point he found so "egregious." Even if one were to assume that Russia will dismantle the warheads as it says it will, Mr. Morningstar admits that some of the warheads transferred to Russia are not slated to be dismantled. Thus even under the administration's most rosy scenario, Russia is emerging with a net gain of nuclear warheads transferred from Belarus, Kazakstan, and Ukraine, thanks in part to American aid. Either way, there is no way for the United States to verify how many warheads Russia actually dismantles, because Washington has abdicated its role of accounting for them.

### Point 13

**Morningstar:** "After dismantlement, the resultant fissile material will be stored in a new, environmentally-sound, safe and secure fissile material storage facility at Mayak, in the city of Chelyabinsk, Russia, a formerly closed city. The U.S. has provided assistance for design and construction of this facility to include the installation of state-of-the-art safeguards and transparency measures, to which the Russians have agreed."

**Response:** The United States did not envision this facility in the original Cooperative Threat Reduction law. After Russia told the United States that it neither requested nor would accept resources with which to destroy nuclear warheads, Russian officials said that Moscow could not meet its dismantlement deadlines unless the U.S. paid for designing and building a secure warhead storage facility. U.S. officials sharply questioned the value of such a project, but relented.<sup>50</sup>

Even so, as the project enters its sixth year, the U.S. government has not secured rights to maintain permanent access to the facility to account for its contents, witness the destruction of the warheads, and account for the disposal of all fissile material.<sup>51</sup> These points are elaborated further in Points 3, 4, and 5 of the author's rebuttal to the Department of Defense.

### Point 14

**Morningstar:** “Mr. Waller points out that the Russians have launched ‘an ultra-modern intercontinental ballistic missile . . . Topol-M.’ Russian military spending has fallen dramatically in recent years and is expected to continue to decline in the future.”

**Response:** Overall Russian military spending has declined precipitously, and poorly equipped troops usually go unpaid for months. However, it is misleading to equate the decrepit state of conventional forces to the state of strategic forces. All evidence suggests that scarce defense dollars are being directed toward strategic modernization programs. Indeed, as the American Embassy in Moscow noted in a 1994 cable, “the Russian military is attempting to regain military potency with dwindling financial resources.” To compensate for its huge personnel reductions and obsolete production base, the military is making a technological leap requiring Western help:

First, the military is deferring new production to focus on systems upgrades and research. Second, the military is shifting from military-only research to dual-use technology research that will benefit the Russian economy. Third, the Defense Ministry is seeking to guide the creation of thirty defense-industrial-financial conglomerates that would produce both military and civilian high-tech equipment. Finally, the military is broadening beyond an emphasis on weapons procurement to improve weapon maintenance, improved information processing, and better battle management.<sup>52</sup>

This is where the United States and other industrialized democracies come in. Sales of high-tech American products with military applications are now available to Russian military plants with generous subsidies from U.S. aid and export programs. Strategic military production facilities remain state-owned, and will not be subject to privatization. It is a false argument to refer to the defense budget, which is a fraction of what it was in the past and still has little bearing on actual expenditures and obligations, because there is no civilian control over the military. The plants are not necessarily funded from the defense budget; they rely increasingly on exports to countries like the People’s Republic of China, Iran, Iraq, Libya, and other regimes, thus presenting the world with grave proliferation problems. It is likewise false to say that military spending “is expected to continue to decline in the future.” The 1996 federal budget actually increased military spending; in passing the budget the State Duma specifically anticipated that the increased deficit would be bridged in part by the \$10.2 billion loan from the International Monetary Fund.<sup>53</sup>

### Point 15

**Morningstar:** “The Executive Branch in Russia has signed and supports the ratification of the START II Treaty under which it is required to reduce its strategic nuclear forces to one-third of pre-START levels and completely eliminate the most threatening weapons systems, multiple warhead ICBMs.”

**Response:** The Russian executive branch signed START II, but has not made good on its promises to the U.S. to secure ratification. After the United States

Senate ratified the treaty in early 1996, the Russian executive branch never sent the treaty to the State Duma for ratification. According to State Duma Defense Committee Deputy Chairman Aleksei Arbatov, the government did not submit the treaty to the State Duma as a “legislative priority.” Arbatov added, “Here in the Duma it doesn’t look like START II is a high priority with our government and executive branch.”<sup>54</sup>

By giving CTR the far less ambitious goal of hastening Russian compliance with START II, the United States government made its policy even more of a failure. Not only is the Duma unlikely to ratify the treaty; the Russian executive branch has changed its position on START and is now linking it to NATO expansion and the Anti-Ballistic Missile Treaty. So slow has the Russian government been to make good on its promises to secure START II ratification that one of the two original co-sponsors of the CTR program, Senator Richard Lugar, stated in October 1996 that CTR aid should be frozen and made conditional on ratification.<sup>55</sup> Now the United States finds itself, in its politically weaker position, applying the very linkages that from the beginning critics have said it should have applied—and achieving far more modest goals. In addition, at the time of this writing, news reports indicate that, in the face of Duma opposition, the United States is considering scrapping START II completely in favor of an entirely new START III treaty.<sup>56</sup> This is not success.

To address the second part of Mr. Morningstar’s argument, complete elimination of “the most threatening weapons systems, multiple warhead [MIRVed] ICBMs,” is also subject to debate. These systems, most notably the ten-warhead SS-18, are decaying in their silos. The SS-18s must be dismantled simply because they are beyond their service life. Yet as Russia dismantles the SS-18s, it continues to test MIRVed ICBMs such as the SS-19. Strategic Rocket Forces Chief of Staff Viktor Yesin announced that on 6 June 1996, Russia test-launched a six-warhead SS-19 from the Baikonur cosmodrome in Kazakhstan to a range in Kamchatka.<sup>57</sup> Russia has also developed miniaturized nuclear warheads that could transform existing single-warhead ICBMs into MIRVed missiles. This is not “elimination”; this is maintenance and modernization.

### Point 16

**Morningstar:** “Russia is carrying out some military modernization programs such as developing the Topol-M, which is a new single-warhead ICBM that is still undergoing testing; this missile is different from the SS-25 Topol only in that it is silo based as opposed to road-mobile. Mr. Waller fails to note that this modernization is permitted under START I and START II.”

**Response:** The State Department does not dispute the contention, “U.S. [CTR] aid has helped dismantle mostly obsolete military equipment Moscow wanted to scrap anyway.” Why, then, does Mr. Morningstar minimize the extent of modernization with the qualifier, “some”? Given its severe financial straits and Western bailouts, Russian military modernization is quite significant.

The State Department’s description of the Topol-M is inaccurate. According to the authoritative *Jane’s Intelligence Review*, the Topol-M is not, as the State

Department says, "different from the SS-25 Topol only in that it is silo-based as opposed to road-mobile." Rather, according to *JIR*, "the system is not limited to silos can be adapted to the standard mobile launcher as well." It has several qualitative differences, too, including a lifespan that is 50 percent longer than the SS-25 (fifteen versus ten years). Its larger diameter allows it to carry a more powerful nuclear warhead and a new first-stage engine. These and other features reportedly enable the Topol-M to penetrate certain American defenses against incoming missiles: "Russian accounts have stressed the invulnerability of the new missile to anti-ballistic missile defences."<sup>58</sup> Nevertheless, START I legalisms do not consider the Topol-M a "new type" of ICBM.<sup>59</sup>

In addition to the Topol-M, which was first test-launched in late 1994,<sup>60</sup> Russia unveiled in 1995 a new tactical nuclear missile, which NATO has nicknamed SS-X-26 or "Son of 'Scud."<sup>61</sup> At least two next-generation "stealth" strategic cruise missiles, the Kh-101 and Kh-SD, are under development.<sup>62</sup> Also being developed, according to former Defense Secretary William Perry, is new generation submarine-launched ballistic missile to replace the SS-N-20;<sup>63</sup> other sources identify it as the R-39 UTKh (NATO designation: SS-NX-28) to be based aboard a more advanced ballistic missile-firing submarine.<sup>64</sup> Existing Typhoon strategic missile subs have been retrofitted to launch an upgraded SLBM, and Russian authorities have announced construction of the new, more advanced strategic ballistic missile submarine, the *Boreas* class, to replace the Typhoon. The keel-laying ceremony for the first *Boreas*-class vessel, the *Yuri Dolgoruki*, was scheduled for 26 October 1996.<sup>65</sup> (Ironically, the ceremony, in the shipyards of Severodvinsk, was scheduled eight days after Defense Secretary Perry visited the same port to hail the dismantlement of an obsolete Yankee-class submarine with CTR funds. Yet Perry said nothing about the *Boreas*-class replacements.)<sup>66</sup> The State Department has no comment about the new multi-role strategic bomber, the Sukhoi-T-60S, under development, or the next-generation nuclear-capable cruise missiles to be deployed on the strategic bomber fleet.<sup>67</sup> Nor is there any comment on Atomic Energy Minister Viktor Mikhailov's June 1995 revelation, reported in "To Russia, With Cash," that his ministry was building a new generation of nuclear warheads.<sup>68</sup>

### Point 17

**Morningstar:** "By law, in order to continue to provide CTR assistance, the U.S. is required to certify to Congress that Russia is 'committed to forgoing in the future military modernization programs beyond those required for legitimate defense purposes.' The U.S. found this to be the case in the FY1996 certification for Russia."

**Response:** Executive branch certification to Congress that none of the above programs is "beyond those required for legitimate defense purposes" in the post-cold war era raises questions about the administration's commitment to real arms control. It is difficult to believe that the U.S. government really views more Russian nuclear weapons aimed at the United States as being consistent with Russia's *legitimate* defense purposes. Public minimization of the extent of Russian strate-

gic modernization programs—and even justification of these expensive, unnecessary, and destabilizing weapons systems as being “permitted,” particularly when the United States has chosen to forego such modernization—raises more questions than it answers.

Having said that, we turn to the CTR Act that Mr. Morningstar invokes concerning certification to Congress. In addition to compelling the executive to certify the extent of Russia’s military modernization, the law requires certification in areas beyond START II, such as chemical and biological weapons. Lt. Gen. James Clapper, Jr., then director of the Defense Intelligence Agency, told the Senate that despite severe problems within the Russian military, Moscow maintains “active chemical warfare and biological warfare research and development programs.”<sup>69</sup> These programs are in violation of agreements made bilaterally with the United States and multilaterally.<sup>70</sup> President Clinton has stated in writing that Russia is violating its “multilateral obligations concerning biological weapons,” according to the GAO.<sup>71</sup> How, then, can the president credibly certify that these programs are for “legitimate defense purposes” when the government and he personally recognize them as illegal?

### Point 18

**Morningstar:** “The expedited elimination of weapons systems in Russia, Ukraine, Kazakhstan and Belarus is a global security interest. Faced with tough economic choices, it is doubtful these countries would have chosen the elimination of certain weapons systems over modernization. U.S. assistance ensures that the treaty-limited systems are destroyed and removed from a threatening posture, rather than have them continue to exist while newer weapons are brought on line.”

**Response:** First, let us address the arms control jargon. “Weapons systems” and “weapons” are not the same thing, and officials should not hide behind arcane terminology to hide the fact that the actual killing devices are being preserved. According to the *Department of Defense Dictionary of Military and Associated Terms*, a weapon, or for our purposes, a weapon of mass destruction, “can be nuclear, chemical, biological, and radiological weapons, but excludes the means of transporting or propelling the weapon where such means is a separable and divisible part of the weapon.”<sup>72</sup> This “weapon” is what must be destroyed, because, according to the official definition, they “are capable of a high order of destruction and/or of being used in such a manner as to destroy large numbers of people.”<sup>73</sup>

A “weapons system” is much different. According to the *Department of Defense Dictionary*, a weapons system is “a combination of one or more weapons with all related equipment, materials, services, personnel and means of delivery and deployment (if applicable) required for self-sufficiency.”<sup>74</sup> Using these official definitions cuts through the jargon and shows that more than five years after the Soviet collapse, not a single weapon of mass destruction—not one nuclear, chemical, or biological warhead—has been destroyed with U.S. aid. Treaty-limited systems include chemical and biological weapons, but U.S. assistance has done nothing so far to ensure they are “destroyed and removed from a threaten-

ing posture.” The same can be said for most nuclear weapons, though the unclassified Arms Control and Disarmament Agency (ACDA) reports fail to inform the reader. Most of what the public knows of such violations is from leaks of concerned government officials to the press.

Second, Ukraine, Kazakstan, and Belarus did not want their inherited weapons systems, so it is absurd to say they would have “modernized” them at the expense of dismantling them. This was an established fact well before the CTR program began.<sup>75</sup>

Third, Mr. Morningstar has confirmed the most controversial point in the article: that the United States is sending aid to destroy Russia’s obsolete weapons while Moscow replaces them with, in his words, “newer weapons . . . brought on line.” This is a very important admission because it sets the stewardship of the entire macroeconomic and CTR aid programs in their proper context. Even so, Mr. Morningstar’s argument is a false one. As had always been the case during the cold war, Moscow destroyed old nuclear weapons systems as they modernized. Instead of doing away with the threat of weapons of mass destruction, CTR merely frees funds Moscow would have spent on destroying old systems so it can focus on modernizing new ones. The way the program has been executed has been a self-defeating proposition.

Four successive GAO studies have found the Defense Department to have been unable to substantiate its extravagant claims of accomplishments under CTR, and to have exaggerated the results, as I explain below in my rebuttal to the Pentagon.

#### **Poin t 19**

**Morningstar:** Mr. Waller also notes that the U.S. is purchasing 500 metric tons of highly-enriched uranium (HEU) from Russia that has been blended into low-enriched uranium (LEU) for \$12 billion over a period of 20 years. While the U.S. does not currently have assurances that this uranium is from dismantled warheads, it is in the U.S.’ and the international community’s security interests that this fissile material, regardless of its origin, is removed from a situation in which illicit diversion or theft could occur. The security and accounting systems for fissile material in Russia are inadequate, as even the Russians have admitted.”

**Response:** The intended purpose of the program is to recycle fuel from dismantled nuclear warheads. It is not to recycle civilian fissile material “regardless of its origin.” The State Department response shows the evolution of the official line from its 1994 assurance that Russian warhead accounting and protection appeared quite robust.<sup>76</sup> Early in 1996, the Clinton administration found itself “scrambling to fend off accusations that it cannot verify whether Moscow is cheating” on the deal by selling surplus uranium instead of HEU from dismantled warheads.<sup>77</sup> Then, a study led by former Assistant Secretary of Defense Graham Allison was made public, stating that the United States “currently does not have adequate inspection rights” to ensure against cheating.<sup>78</sup> Now, Mr. Morningstar says, following Russian admissions, that Russian security and accounting systems are “inadequate.” This reversal is important and should be pursued.

### Point 20

**Morningstar:** “Purchasing the at-risk material is a unique, creative and effective use of limited U.S. resources.”

**Response:** Few doubt the extreme urgency of securing as much fissile material as possible. Former Defense Secretary Perry called the potential acquisition of fissile material in the former Soviet Union the greatest national security threat this country faces. The original plan supported by President George Bush in August 1992 was to buy up as much Russian HEU “as soon as practicable,” with the first shipments to begin in October 1993. But Bush was out of office within months, and President Clinton was unwilling to invest the time to convince the public to support the multibillion-dollar deal, so the program languished and precious time was lost.

Instead of treating the proliferation threat as a national emergency, the Clinton administration and Congress opted to stretch out the acquisition process over a twenty-year period through a newly created corporation. The problem was that the company’s legitimate business interests (to keep from flooding the U.S. nuclear fuel market with Russian HEU) ran counter to the U.S. government’s national security interests (to buy up as much Russian HEU as quickly as possible). The limits of U.S. resources were self-imposed. According to Frank Von Hippel, former assistant director for national security in President Clinton’s National Security Council and a noted authority on nonproliferation, “The U.S. government has shown it is not willing to put this kind of money into nuclear security, even if that is the most important national security threat we face.”<sup>79</sup>

### Point 21

**Morningstar:** “The purchase of the blended-down LEU provides additional economic benefits domestically, as cheaper nuclear fuel used in the production of energy can translate into lower energy bills for many U.S. consumers. The HEU deal is being executed successfully.”

**Response:** The success of the deal is dubious at best. The *New York Times* reported in January 1996 that “U.S. experts are split on whether the uranium deal is a boon or a boondoggle.”<sup>80</sup> The deal cannot be executed successfully if the business interests of the company chartered to carry out the program conflict with the national security interests of the United States government. A September 1996 investigative report by the *Rocky Mountain News*, the home paper of Rocky Flats Arsenal, concluded, “the Clinton administration nearly lost control” of the entire deal and described administration policy as being in “disarray.”<sup>81</sup>

The U.S. Enrichment Corp., established by the government in 1993 to recycle nuclear warhead components into nuclear power plant fuel and now being privatized, can produce fuel on its own at two Department of Energy facilities much more cheaply (at \$50 to \$68 per SWU) than the price the United States agreed to pay Russia (\$82.10 per SWU). Hence the conflict: it is in the company’s interests not to purchase Russian uranium. Even when the Russians devised means of converting HEU to fuel more quickly for faster delivery to the United States in larger quantities, the Clinton administration balked.<sup>82</sup>

### Point 22

**Morningstar:** “Mr. Waller also mentions a recent GAO report that stated that the International Science and Technology Center (ISTC) projects may not be employing all the former weapons scientists participating in the program full-time. What Mr. Waller fails to note is that the ISTC *intentionally* targets weapons scientists in order to redirect their research toward peaceful activities.”

**Response:** Significantly, Mr. Morningstar does not dispute GAO findings that U.S. aid money through ISTC is paying the salaries of scientists who *are continuing to work on weapons of mass destruction*. This is not what the law intended. Consistent with the law, the Department of Defense publication *Cooperative Threat Reduction* states unequivocally that the scientists are no longer involved in weapons work, calling them “former Soviet weapon scientists once engaged in nuclear weapons research.”<sup>83</sup> Yet the administration changed the policy to pay active weapon scientists presently engaged in nuclear weapons research. Mr. Morningstar offers an unusual qualifier that the recipients are former *Soviet* scientists, not former *weapons* scientists.

### Point 23

**Morningstar:** “The U.S. has no illusions that all former Soviet weapons scientists could be fully re-employed on peaceful civilian research endeavors, especially not for \$35 million, the amount of the U.S. commitment to ISTC projects in Russia. However, every day that these scientists spend on peaceful projects reduces the time they have available to spend on weapons research.”

**Response:** Mr. Morningstar is correct about the minuscule amount of funding—less than the cost of a tactical fighter plane. This is a sorry indication of American commitment to projects deemed so vital. What is worse, however, is the inane defense of aiding those very individuals who still develop weapons of mass destruction. It overlooks the fact that military industry lags badly in meeting payroll; therefore, U.S. aid to active-duty weapons scientists through ISTC salaries in effect helps them make ends meet *while they still work on their weapons programs back at their institutes*. As ISTC and other scientific programs are administered, U.S. aid inadvertently helps keep Russia’s military design bureaus in place, a main sticking point raised by dissident scientists and disarmament activists who wanted to break them up.<sup>84</sup> The real incentive would be for U.S. aid to attract only “former” weapons scientists, and thus help break up the Soviet-era institutes while helping the individuals make the transition. Russian scientists and other experts no longer publicly object to American aid and “disarmament” programs because the few who have spoken out—people like Vil Mirzayanov, Vladimir Petrenko, Vladimir Uglev, and Alexander Nikitin—have been persecuted.<sup>85</sup>

### Point 24

**Morningstar:** “The Science Centers are subject to extensive financial audits and technical monitoring procedures to ensure that the funds are being spent as intended. The funds are paid directly to the scientists rather than the institutes

precisely for that reason. These procedures include visits to the project sites to verify that the scientists are in fact working on assistance-funded projects and not weapons-related research.”

**Response:** This explanation contradicts the GAO findings and skirts the main issue: The scientists draw ISTC paychecks while they continue to work at their weapons institutes. GAO investigators report, “We found that Center [ISTC]-supported scientists are not necessarily employed full-time on Center projects and that they may spend part of their time working on Russian weapons of mass destruction.” The ISTC project sites are not necessarily at those weapons institutes, yet the GAO reported that the ISTC failed to monitor its projects (130 at the time) sufficiently, and did not track what the sponsored scientists did at their other institutes.<sup>86</sup> Therefore, U.S. audits had no way of determining whether or not the recipients continue to work on weapons at their own institutes. Furthermore, the GAO reported severe auditing problems brought about by staff shortages at the ISTC, allowing personnel to monitor projects only intermittently; and foot-dragging within the Russian government.

### Point 25

**Morningstar:** “Mr. Waller cites the GAO report’s finding that an ISTC-funded project dealt with a camera that could be used for recording nuclear weapons tests. . . . There is no evidence to support Mr. Waller’s claim that ISTC-funded projects have led to products with direct weapons applications.”

**Response:** The GAO insists otherwise. When the Department of Defense made the same allegation against GAO conclusions, the GAO responded,

The example cited in the report does not display a basic misunderstanding on our part. The report uses streak cameras as an example of an item, funded by the Center [ISTC], that is dual-use in nature. Streak cameras are relevant in nuclear testing, the project was subject to the dual-use review by the U.S. officials, and the final product could be subject to export licensing.<sup>87</sup>

Furthermore, as we have seen, the GAO has expressed concern that profits from civilian production of ISTC-developed technologies would be plowed back into military research and development.<sup>88</sup>

The “delay, postpone, obfuscate, derail” strategy as outlined by the senior USAID official, and the then-national security advisor’s tactic to “tar” critics as “back-door isolationist,” underscores how certain officials and institutions have subverted public debate over how best to administer national resources to assist countries like Russia in their difficult transitions. Outright intimidation of non-governmental organizations and other contractors, and the permanent, unspoken sword of Damocles held over all those working with federal dollars has placed the United States in a situation whereby assistance has been underproductive at best, and often counterproductive. For these reasons, federal officials administering assistance and cooperation programs in the New Independent States must be held accountable for their stewardship.

—J. MICHAEL WALLER

## NOTES

1. General Accounting Office, *Former Soviet Union: Agricultural Reform and Food Situation in Its Successor States*, GAO/GGD-94-17, November 1993, 49.
2. *Ibid.*, 42n.
3. Sonni Efron, "U.S. Aid to Russia Farmers Fails to Make It to the Silo," *Los Angeles Times*, 31 January 1994.
4. One of the USAID contractors, Brian Foster, was quoted by name in the article.
5. "Fact Sheet: U.S.-Russian Economic Relations and Military Issues," U.S. Department of State, Dispatch 5:52, 26 December 1994, 847-50.
6. Brian Duffy, "The Old Guard Feeds at the Aid Trough: Ex-Soviet Apparatchiks Get Rich Off U.S. Grain," *U.S. News & World Report*, 23 August 1993, 39.
7. "Cumulative Expenditures of Major NIS Assistance Programs by Country as of 9/30/95," chart in "U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union, Quarterly Report, July-September 1995," Prepared by the Office of Mr. Richard Morningstar, Special Adviser to the President and Secretary of State on Assistance to the New Independent States of the Former Soviet Union and Coordinator of U.S. Assistance to the NIS," Report to Congress, 18 January 1996.
8. U.S. Department of Agriculture, Foreign Agricultural Service, "The Export Sales Report," 7 March 1996 and 13 June 1996.
9. Ambassador Swartz said he sent repeated cables detailing his concerns to Secretary of State Warren Christopher, Deputy Secretary of State Strobe Talbott, and USAID Administrator Brian Atwood, yet none of them responded. See David H. Swartz, "Problems in American Assistance Policy Toward the Former Soviet Union: The Belarus Prism," *Demokratizatsiya: The Journal of Post-Soviet Democratization* 4:1 (Winter 1996): 97-108.
10. Swartz, 105-106.
11. "Cumulative Obligations of Major NIS Assistance Programs by Country as of 9/30/95," chart, office of the Coordinator of U.S. Assistance to the New Independent States, Richard L. Morningstar, 18 January 1996.
12. Official IMF loan statistics provided by David Hawley, public affairs officer, International Monetary Fund. The dollar figures are based on the IMF's "special drawing rights" (SDR) denomination, converted to dollars at the 9 February 1996 rate of 1SDR=\$1.46174. The IMF does not quantify the U.S. share of its loans to individual countries. The author has divided the value of IMF loans to Russia by the percentage of overall U.S. contributions to the IMF (18.3 percent) to illustrate the approximate dollar value of the U.S. share of loans to Russia.
13. "Cumulative USG Commercial Financing and Insurance as of 9/30/95," chart, office of the Coordinator of U.S. Assistance to the New Independent States, Richard L. Morningstar, 18 January 1996. Note that even though this appears in the above "Cumulative Obligations" chart, it is not included in that chart as a Russia line-item. The Russia line-item is broken out in the "Cumulative USG Commercial Financing" chart.
14. *Ibid.*, "Cumulative USG Commercial Financing" chart.
15. *Ibid.*
16. Source: Committee on Science, U.S. House of Representatives.
17. Mr. Morningstar confirms the figure in his rebuttal to the article.
18. Boris Fyodorov, "Moscow Without Mirrors," *New York Times*, 1 April 1994.
19. Lee Hockstader, "IMF Deal Should Keep Russia on Strict Reform Track," *Washington Post*, 24 February 1996.
20. Fyodorov, "Moscow Without Mirrors"
21. Boris Fyodorov, interviews with the author for "To Russia, With Cash," Washington and New York, February 1996.
22. Thomas A. Dine, written testimony before the International Relations Committee, U.S. House of Representatives, 13 June 1996.

23. Valery Anatolievich Kryukov and Arild Moe, *The New Russian Corporatism? A Case Study of Gazprom* (London: Royal Institute for International Affairs, 1996). Kryukov is a department head at the Western Siberian Oil & Gas Complex, Russian Academy of Sciences, in Novosibirsk. Moe is a Russian environment and energy program director of the Fridtjof Nansen Institute in Norway.

24. Peter Rutland, "Dubious Dealings with Gazprom Shares," *OMRI Daily Digest*, 17 January 1997, 4.

25. Peter Fuhrman, "Robber Baron," *Forbes*, 11 September 1995, 208-20.

26. Janine Wedel, "Clique-Run Organizations and U.S. Economic Aid: An Institutional Analysis," *Demokratizatsiya* 4:4 (Fall 1996), 571-602.

27. Seymour M. Hersh, "The Wild East," *The Atlantic Monthly*, (June 1994), 61-62.

28. David Bronheim, project manager, Rule of Law Consortium, ARD/Checchi Joint Venture, electronic memorandum to staff in Russia, Ukraine, and the United States, 17 June 1994.

29. *Ibid.*

30. R. James Woolsey, written text of testimony before the National Security Committee, U.S. House of Representatives, 13 June 1996.

31. Michael Dobbs, "Washington Putting Less Stock in Yeltsin," *Washington Post*, 30 July 1995.

32. Olga Kryshstanovskaya, Head of the Department of Elite Studies, Russian Academy of Sciences, conducted a four-year survey of 580 of Russia's wealthiest citizens. According to her findings, "more than 60 percent" of those surveyed had been members of the Soviet Communist Party elite. See Geoffrey York, "Majority of Russia's rich once were top Communists," *Toronto Globe & Mail* story reprinted in the *Washington Times*, 24 September 1994.

33. *Izvestiya*, 10 January 1996; Peter Rutland, "Anatomy of the Russian Elite," *OMRI Daily Digest*, 12 January 1996.

34. The American Bar Association's Central and East European Law Initiative (CEELI) and other groups have a strong track record in helping former communist countries modernize their laws, regulations, and even their constitutions.

35. See, for example, Peter J. Stavakis, "Bull in a China Shop: USAID's Post-Soviet Mission," *Demokratizatsiya* 4:2 (Spring 1996), 247-70; and Wedel, "Clique-Run Organizations."

36. The proposal was developed by the author for a program in Nizhny Novgorod, with the support of the mayor of the city. USIA officials later told the author that the proposal had passed the review process and was recommended for funding, but that unnamed political appointees in the State Department rejected it.

37. David H. Swartz, letter to the editor, *Washington Times*, 8 June 1995.

38. Constantine Menges, "An Initial Assessment of U.S. Aid to Russia, 1992-95, And a Strategy for More Effective Assistance," *Demokratizatsiya* 4:4 (Fall 1996). Also see, General Accounting Office, Former Soviet Union: Information on U.S. Bilateral Program Funding, Report to Congress, GAO/NSIAD-96-37, December 1995.

39. General Accounting Office, *Weapons of Mass Destruction: Reducing the Threat from the Former Soviet Union*, GAO/NSIAD-95-7, October 1994, 13, 26, 30, 42, 46. Also see the GAO's strong critique of the Bush administration's failures to set priorities, in *Soviet Nuclear Weapons: Priorities and Costs Associated With U.S. Dismantlement Assistance, Report to the Honorable Hank Brown, U.S. Senate*, GAO/NSIAD-93-154, March 1993.

40. General Accounting Office, "Weapons of Mass Destruction: Helping the Former Soviet Union Reduce the Nuclear Threat," unpublished draft, Code 7111118, 24 May 1994.

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50. Under Secretary of State Reginald Bartholomew, p. 11; Rich Kelley, "The Nunn-Lugar Act: A Wasteful and Dangerous Illusion," *Foreign Policy Briefing* 39, Cato Institute, 18 March 1996.
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88. GAO/NSIAD-95-7, 13.