Lessons of the Russian 'aid' program for Balkan reconstruction

by Edward Spannaus

On April 15, President Clinton launched the idea of a postwar reconstruction program for the Balkans—what many are calling a "new Marshall Plan," and what the President himself termed "a post-conflict strategy for reconstruction and renewal." Ten days later, at the NATO summit in Washington, postwar reconstruction became a major focus of discussions, and plans were laid for the May 27 conference in Bonn for a "stability pact" for southeastern Europe—which is a far cry from a "new Marshall Plan."

It was already apparent at the NATO summit that there were radically differing ideas as to how this should be approached. In an April 23 speech, President Emil Constantinescu of Romania warned the West not to repeat the mistakes of the post-Dayton Bosnia reconstruction program. "Let us not make the errors that were made in the case of Bosnia, where hardly anything has been reconstructed, even though military operations ceased long ago," he cautioned. He also stressed the importance of rebuilding "heavy industry" and providing transportation routes.

Two days later, President Peter Stoyanov of Bulgaria called for a "new Marshall Plan," including methods for financing regional infrastructure. President Kiro Gligorov of Macedonia cited the original Marshall Plan as a program that worked because it had a sound financial basis and an organizational structure, and he emphasized the need for infrastructure, energy, water, and industrial projects.

This was also the vision of the late U.S. Commerce Secretary Ron Brown, who died in a plane crash in Croatia while on a mission with high-level U.S. engineering executives and others, who were planning extensive infrastructure projects for Bosnia. After Brown's tragic death in April 1996, plans for the development of Bosnia's infrastructure were pushed aside in favor of International Monetary Fund (IMF)-style "market reforms," privatization, and other policies that strangled economic growth.

Earlier, at the time of fall of the Berlin Wall, there was also discussion of a "new Marshall Plan." *EIR*'s founding editor Lyndon LaRouche, and the Schiller Institute led by Helga Zepp-LaRouche, developed the concept of the European Productive Triangle, and published a proposal entitled "A New Economic Miracle for Eastern Europe," which set forth in the clearest terms the idea of building a new energy and transport infrastructure for Europe, and which warned of the disaster which would ensue if monetarist "free market reforms" were imposed on eastern Europe and the Soviet Union.

This is what in fact happened. Any idea of large-scale reconstruction was sabotaged, and much of eastern Europe and the former Soviet Union accepted the snake-oil advice of monetarism and "market reforms," so-called "shock therapy," which led to a collapse of production, looting of those economies, and capital flight. But now, the idea of a "new Marshall Plan" is back on the agenda.

In the following interview, Dr. Janine R. Wedel, one of the foremost critics of Western aid programs to eastern Europe, discusses, from her own standpoint, how these programs have been conducted in the post-1989 era, and how the focus was shifted from capital assistance to what is called "technical assistance." *EIR* believes that Dr. Wedel's critical analysis of these programs can make an important contribution to the current debate over aid and reconstruction programs for southeastern Europe.

Dr. Wedel is Associate Research Professor of Anthropology and a research fellow at the Institute of European, Russian, and Eurasian Studies at George Washington University, Washington, D.C. She is the author of three books, the first two of which are on Poland. Her third book, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998,* was recently released by St. Martin's Press. This interview is based on research she conducted over a 10-year period for *Collision and Collusion*. Dr. Wedel was interviewed by this author on May 25.

Interview: Janine R. Wedel

EIR: Could you contrast the current notion of aid programs, with the postwar Marshall Plan?

Wedel: There were three essential differences. The first is that the Marshall Plan was largely capital assistance in the form of loans for reconstruction, infrastructure development, roads, bridges, highways—that sort of thing. There was a small but very important technical assistance component, but it was strategically targetted and integrated with the capital assistance.

In the central and eastern European case, on the other hand, there's been technical assistance, as well as capital assistance—the latter largely in the form of loans provided by the World Bank and the International Monetary Fund. But the assistance hasn't been very strategic or targetted, generally speaking, and the technical assistance has generally not been very helpful. In some cases, technical assistance has even been counterproductive. Technical assistance makes up the bulk of the aid to central and eastern Europe from the bilateral donors and the European Union.

EIR: How do you define "technical assistance"?
Wedel: Technical assistance is basically money (in salaries, expenses, and overhead) paid to experts and consultants sent to provide advice to the recipients. In the central and eastern European case, the big beneficiaries of technical assistance monies were often the Big Six accounting firms—Coopers & Lybrand, KPMG Peat Marwick, Arthur Anderson, Deloitte & Touche, Ernst & Young, and Price Waterhouse. These firms received many of the contracts in the economic and privatization areas.

EIR: On the eastern European side, who were the beneficiaries?
Wedel: In terms of central and eastern Europe, the recipients were generally local officials, sometimes local organizations. . . . And depending on the time and the nature of the assistance, the recipients saw it as not at all useful, or somewhat useful. In the early days, in 1990-91, the Poles coined a term, "the Marriott Brigade," to denote the consultants who came to stay in Warsaw's only five-star hotel at the time, and then moved on to Budapest and Prague for a few days. In Russia, the major beneficiary of U.S. economic aid, and of much Western economic aid, was the so-called "Chubais Clan," which virtually controlled hundreds of millions of dollars in U.S. and Western aid. U.S. economic aid to Russia was jointly managed by the Chubais Clan and a group from the Harvard Institute for International Development.

EIR: What was the net effect of this aid in terms of the economy, and whether the economy progressed or fell backwards?
Wedel: If you look at the state of the Russian economy, and you compare it with ten years ago, it's hard to make an assessment that things have gotten better, and I think it's pretty easy to make an argument that things have gotten worse.

EIR: After the fall of the Berlin Wall, there was discussion about a Marshall Plan, or a different kind of approach; what happened to that?
Wedel: I think we like to use the idiom of the Marshall Plan—and to some extent this continues today—partly because the Marshall Plan is seen as a positive example in U.S. history. Also, Europe is a case of "First World" as opposed to "Third World," and we see central and eastern Europeans in some sense as our poorer cousins.

But the Marshall Plan bore little resemblance to what was actually done in central and eastern Europe. To begin with, the bilateral donors largely sent technical assistance, not capital assistance, unlike under the Marshall Plan. Further, the United States was the major donor country, whereas in the case of aid to central and eastern Europe, there were many players that got into the act, with very little coordination. Moreover, the Marshall Plan was a high-level, targetted, strategic operation—which cannot at all be said for aid efforts to central and eastern Europe.

EIR: What do you mean by "high-level, strategic"?
Wedel: In the case of U.S. aid after the fall of the Berlin Wall, it seemed that nearly everybody got into the act. So many players had to get a piece of the pie. If you look at the Support for East European Democracy, the so-called SEED legislation that was passed at the tail end of 1989 by the U.S. Congress, you see that many players and constituency groups got a piece of the pie. Consulting groups are the major beneficiaries of the big pots of money. Aid wasn't given the thought, priority, and high-level consideration and coordination that characterizes the Marshall Plan. And there was a tremendous premium placed on privatization—at all costs, without regard, as we've seen in the grossest form in the Russian case—to developing the legal and regulatory infrastructure for a market economy. That was ideological, and wrong-headed, and did not take into account the legacies of communism or the starting points of the recipient countries.

In some cases, Western aid pundits attempted to do in central and eastern Europe what couldn't and hadn't been done (albeit not for lack of trying), in certain Western countries . . . i.e., the privatization efforts of the Thatcher and Reagan periods. The ideologues of privatization sometimes showed up in central and eastern Europe, and urged officials to divest everything, in a situation where most everything was under state control. . . .

EIR: Going back to the original Marshall Plan, as I've looked at that, the emphasis was, at least at the beginning, was to get production restarted, to get raw materials in there, to get manufacturing, to get transportation, and so forth—with much less emphasis on the ideological side; the emphasis was getting the physical economy moving and recovered again.
Wedel: That's my understanding as well. There was certainly ideology involved, don't get me wrong, but it wasn't this gross emphasis on privatization at all costs, on making the system in our own image—at least the economic system. In terms of the political system, that may be a different case.

EIR: In the case of Russia, there would seem to be no emphasis on making sure that the economy itself, the industrial side

of the economy, the physical side, was functioning. The emphasis was on what you would call the ideological side.
Wedel: Yes, to a large degree. They wanted to show the trappings of a market economy, so they introduced stock markets and financial markets, in which Westerners participated, and which the IMF supported—and bailed out—for a while. But aid planners weren't concerned enough with property rights, contract enforcement, the legal and regulatory infrastructure of a market economy, or with wealth creation and encouraging productive enterprises. These fundamentals were often neglected.

U.S. AID's [Agency for International Development] way of dealing with legal reform in Russia was largely to hand the Chubais-Harvard group a pot of money to set up an organization they called the Institute for a Law-Based Economy. That is the same organization whose Russian directors eventually made off with $500,000 in U.S.-purchased equipment—furniture, computers, etc. This is the U.S.-funded "Institute for a Law-Based Economy"!

EIR: Going back to the question of privatization, which is something also being pushed in the so-called Bosnia "reconstruction" program: In Russia, what was the net effect of the privatization; did it benefit the economy, or did it benefit certain individuals?
Wedel: Privatization was, generally speaking, more about wealth confiscation than it was about wealth creation. It's pretty clear, if you look at the record, that it mostly benefitted the seven major "oligarchs" and associated Financial Industrial Groups, or FIGs.

EIR: You mentioned earlier the creation of the stock market. Accounts I've seen indicated that one of the consequences of that was that investors, instead of investing money where it was actually invested in the physical side of enterprises—building a factory, or capital investment—it ended up that they just invested in the market, in stocks, bonds, etc., so it became speculative as opposed to actual productive investment.
Wedel: Yes, and many managers were also stripping enterprises of productive wealth and sending it offshore. There was very little investment in the Russian economy per se, in the real economy.

EIR: Do you mean actually selling off the physical assets?
Wedel: The physical assets, the financial assets—whatever was of value or could be sold. . . .

EIR: This shift into the idea of "technical assistance," as opposed to the idea of actually reconstructing or building up an economy. When did that shift in aid programs take place?
Wedel: In terms of U.S. and bilateral aid to central and eastern Europe, "technical assistance" was always what was in the works. There was talk of a "Marshall Plan," but it was empty. The idea that billions of dollars would be allocated in capital assistance was simply not in the cards. . . .

EIR: A broader question: Many people in Russia and elsewhere see the effect of these programs as almost colonial, that they're being re-colonized—
Wedel: Oh, yes. And they even talk about it in those terms. One of the striking things about my study over a ten-year period, was that many of the same reactions that I heard in Poland circa 1990-91 were repeated almost verbatim in Russia a few years later, and in Ukraine still later—even though Poland and Russia and Ukraine are very different. Things like: "These guys really don't want our industries to be productive. They're just coming here to spy on us, to get our secrets, so that they can quash our industry. It's industrial espionage." And I heard that time and time again. Even if true only in a very few cases, one can understand how it might look that way from the other side. Let's say that you're the manager of an enterprise deluged with foreign delegations. You have a World Bank delegation one week, an IMF group the next, and the third week you get U.S. AID or the EU. . . . You've got people on fact-finding missions who generally don't know much. They're asking you for your most sensitive data, your markets, your sales, your technology, and then they go home. And most of them you never hear from again. Chapter Two in *Collision and Collusion* has a section called "A Paradise for Spies." This is after an official who told me in 1991 that Poland had become "a paradise for spies." He meant industrial espionage.

EIR: That's one side of it. The other is that the economy as a whole is kept subordinate to international financial markets.
Wedel: There's truth in that—

EIR: —as opposed to itself being built up as an economic powerhouse.
Wedel: Also.

EIR: What would your advice be to the countries of southeast Europe, the Balkans, with respect to the discussions now ongoing about reconstruction?
Wedel: I think they should look very closely at the record of the other experiences in the regions, and very closely at what the donors are purporting to do and how the aid is being organized. Very closely, and very critically. In particular, prospective recipients should examine the type of aid being offered, the delivery mechanisms and methods of implementation being proposed, and the extent to which recipient input is taken into account. Assessments are best made by gathering firsthand information from people with whom the donor organizations have dealt in previous recipient countries.

The recipients can have input into decisions but they will have to leverage it. There are ways of creating leverage, and they will have to be creative about that.