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## **How proving the Washington Consensus in Russia caused anti-Western illiberalism 1992-1999**

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# How proving the Washington Consensus in Russia caused anti-Western illiberalism 1992-1999



MA History Thesis:  
Politics Culture and National Identities, 1789 to the Present

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Front Page Image: Symbol of the IMF in front of the flag of the Russian Federation. Source: Andrew Korybko “Why’s Russia Re-Engaging With The IMF?” September 13 2024. Last visited June 16 2025. <https://eestiest.com/whys-russia-re-engaging-with-the-imf/>

## Introduction

“Instead of crummy boots and frumpy dresses, we finally got the stuff we’d always dreamed of: blue jeans, winter coats, lingerie, decent dishware...Everything bright and beautiful. Our old Soviet stuff was gray, ascetic, and looked as if it had been manufactured in wartime. The libraries and theaters stood empty. Markets and stores had taken their place. Everyone decided that they wanted to be happy and they wanted it now.”

- Svetlana Aleksievich, *Secondhand Time*<sup>1</sup>

When researching 1990s Russia, it can be difficult to match the image one gets with the optimism described in this quote from Svetlana Aleksievich *Secondhand Time*. In fact, even the book itself quickly switches to stories full of poverty, inequality and suicide. Yet the book paints a perfect picture of how the fall of the Soviet Union brought a sense of optimism with it. The Soviet economy is described as grey, restricting and stale. The author describes how gladly she wanted Russia to become like the west. “The world shattered into dozens of colorful little pieces. We were so terribly eager for the gray Soviet everyday to turn into a scene from an American movie!”<sup>2</sup>

Yet the wonderful transformation would not take place. Annex 1 -using statistics from the World Bank- shows how Russian GDP fell from \$554.83 billion in 1989 to \$195.91 billion in 2000. As former World Bank economist Joseph Stiglitz puts it: “For the majority of those living in the former Soviet Union, economic life under capitalism has been even worse than the old Communist leaders had said it would be.”<sup>3</sup> Describing a collapsed middle class, crony capitalism and a failing democracy, Stiglitz paints with a top-down view the same bleak 90s that Aleksievich shows in her book.

Documents from both the Bush and Clinton administration show how the United States was interested in reforming Russia into a friendly and ideologically aligned state.<sup>4</sup> With the collapse of the USSR, the US found itself as a hegemon in the world, and seemed to use this to place its ideology as leading on the world stage. US financial advisors travelled to Moscow,

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<sup>1</sup> Svetlana Aleksievich, *Secondhand time: the last of the Soviets* (First U.S. edition.; New York: Random House 2016) 35.

<sup>2</sup> Ibidem, 34.

<sup>3</sup> Joseph E. Stiglitz, *Globalization and its discontents revisited: anti-globalization in the era of Trump* (New York, W.W. Norton & Company 2018) 263.

<sup>4</sup> "Presidential National Security Directive 23, "United States Relations with the Soviet Union"", September 22, 1989, Wilson Center Digital Archive, George H. W. Bush Library; “National security strategy of engagement and enlargement”. The White House July 1994.

and the IMF and World Bank were assigned to provide assistance.<sup>5</sup> These economists brought with them the so called ‘Washington Consensus’, a set of economic doctrines created by the US treasury, IMF and World Bank that transitioning economies should follow in their economic transitions.

By the end of the decade, none of these initiatives seem to have gone as planned. While the Russian economy has slowly managed to recover after 2000, this has gone together with a move towards illiberalism.<sup>6</sup> This thesis will address the debate on how a Russia that was seemingly eager to adopt western ideas of liberalism slid back into illiberalism.

## Problem Statement

The discussion on what went wrong in Russia is a debate mostly started by economists during the 90s themselves, when it became clear that the reforms were causing economic recession in most of Eastern Europe.<sup>7</sup> These economists were then joined by political scientists, who took a particular interest in the constitutional developments. While the current nature of the debate will be explained further in chapter one, it is important for the foundation of this thesis to understand that historiography tends to see Russia’s move towards illiberalism as a result of increased inequality and social unrest created by economic reform.<sup>8</sup>

The current debate concerning the US and Russia in the 1990s mainly talks about the role of neoliberalism and something called the Washington Consensus.<sup>9</sup> Sources on this topic like David Harvey’s *Brief History of Neoliberalism* or Bartell’s ‘The Illusions of the United States’ Great Power Politics’ focus heavily on the way neoliberalism had become the foundational ideology in the US at a time where it found itself sole hegemon in the world, and how the US responded by seeking to spread its neoliberal ideology.<sup>10</sup>

In order to achieve this, it managed to bind the International Monetary Fund and World Bank to work with the US treasury, allowing the US to use these institutions to spread its

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<sup>5</sup> Marc Flandreau, *Money Doctors: The Experience of International Financial Advising 1850-2000* (1st edition.; Oxford: Routledge 2003) 106.

<sup>6</sup> McFaul, Michael, *From Cold War to hot peace an American ambassador in Putin’s Russia* (Boston: Houghton Mifflin Harcourt 2018) 58-59.

<sup>7</sup> John Marangos, ‘Shock Therapy and its Consequences in Transition Economies’, *Development* (Society for International Development) 48 (2005) 71.

<sup>8</sup> Fritz Bartell, ‘The Illusions of the United States’ Great Power Politics after the Cold War’ In: David C. Engerman, Max Paul Friedman and Melani McAlister ed., *The Cambridge History of America and the World* (Cambridge University Press, 2021) 542; David Harvey, *A Brief History of Neoliberalism* (1<sup>st</sup> edition, Oxford: Oxford University Press, 2007) 156-157.

<sup>9</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 2-4, 39-40.

<sup>10</sup> *Ibidem*.

ideology outward.<sup>11</sup> These institutions together created a set of policies called the Washington Consensus that many developing nations would be coerced to follow.<sup>12</sup>

The debate points out that the neoliberal Washington Consensus would fall under heavy criticism, as it was not able to produce the promised democratic principles or economic development.<sup>13</sup> The IMF however would have insisted on using this strategy regardless, resulting in a series of economic failures while elites took over power within their nations at the expense of the wider population.<sup>14</sup> As will be discussed in chapter one however, the first problem is that the historiography does not fully explain why the IMF kept insisting on this strategy despite criticism.

This thesis argues that the reason for the IMF's insistence to keep using the neoliberal Washington Consensus strategy requires further research. As will be explored later, the Washington Consensus was already openly being criticized even before the IMF started its programs in Russia.<sup>15</sup> Earlier applications of the Washington Consensus in Latin-America and Africa had resulted in failure,<sup>16</sup> and this thesis will look at how this insistence marked the IMF's program in Russia.

As will be discussed further in chapter one, the current debate uses this insistence on the Washington Consensus to state the failed economic reform that this flawed ideology caused would have resulted in anti-Western and illiberal ideologies.<sup>17</sup> Here again a problem arises. The current narrative works from the idea that the IMF's insistence on the flawed Washington Consensus created economic hardship that resulted in an anger of the Russians with the IMF that had advised this policy.<sup>18</sup> It does not however fully address the fact that it was the Russian reformers rather than the IMF that were ultimately responsible for policy.<sup>19</sup> The debate fairly brings up a number of instances in which the IMF seemed to condone corrupt or illegitimate

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<sup>11</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 152-153.

<sup>12</sup> John Williamson, 'What Should the World Bank Think about the Washington Consensus?', *The World Bank research observer* 15 (2000) 251-264.

<sup>13</sup> Carlos Lopes, 'Economic Growth and Inequality: The New Post Washington Consensus', *RCCS Annual Review* 4 (Centro de Estudos Sociais da Universidade de Coimbra 2012) 75.

<sup>14</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 156-157.

<sup>15</sup> Steven Mufson, 'Riding Herd On Russia's Reform Effort: IMF Girds to See That Moscow, Other Republics Keep Aid Terms' *The Washington Post* (26 April 1992).

<https://www.proquest.com/history/docview/140777787/300CE6AD94224A0FPQ/7?accountid=12045&source=Newsletters>.

<sup>16</sup> Carlos Lopes, 'Economic Growth and Inequality', *RCCS Annual Review* 4 (2012) 71.

<sup>17</sup> *Ibidem*, 75.

<sup>18</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 11-13.

<sup>19</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 344.

behaviour in Russia as cause for such anger,<sup>20</sup> but once again does not explain why the IMF would act in such ‘short-sighted’ manner.

Using the ability of historical researchers to look back at the wider context in which events took place allows for an insight into this insistence of the IMF. The argument that this thesis will make is that the IMF wanted to use Russia to prove to the world it could succeed after it was facing criticism about earlier failures. This need for quick results and the necessity to prove the Washington Consensus would cause it to engage in behaviour that would not only fail the economic transition but make the Russians see the IMF as complicit in the deeply corrupt reform strategy followed by the Russian government.

The goal of the thesis is to connect the IMF’s need to prove itself in Russia to the wider debate on how the neoliberal strategy resulted in Russian illiberalism. In order to properly define the research goal of this thesis, a central research question can be defined as follows:

*What was the significance of the IMF’s insistence on proving the Washington Consensus strategy in its economic reform of Russia in Russia’s move towards illiberalism in the period 1992-1999?*

The period 1992-1999 is chosen because this is the period of cooperation between the IMF and Russia. The Russian government gained membership of the IMF in 1992<sup>21</sup>, and in 2000 Russia’s president Putin would end cooperation with the IMF.<sup>22</sup> While the Russian reform had already begun before 1992<sup>23</sup>, these reforms did not involve the IMF as they were internal reforms.<sup>24</sup> Instead, the thesis will focus on the period of interaction between the IMF’s Washington Consensus strategy and the Russian Government, which would shape the economic reform of Russia.<sup>25</sup> In order to support this, a methodology must first be established.

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<sup>20</sup> Padma Desai, ‘Russian Retrospectives on Reforms from Yeltsin to Putin’, *The Journal of economic perspectives* 19 (2005) 97.

<sup>21</sup> Martin Walker, ‘Russia accepted by IMF’, *The Guardian* (1 April 1992).  
<https://www.proquest.com/history/docview/187297179/300CE6AD94224A0FPQ/14?accountid=12045&sourcectype=Newspapers>

<sup>22</sup> Haluk Dogan, ‘Power, Culture, and Elite Interactions’ (2022).

<sup>23</sup> Yegor Gaidar, ‘The IMF and Russia’, *The American economic review* 87 (1997) 14.

<sup>24</sup> Louis Sell, *From Washington to Moscow: US-Soviet relations and the collapse of the USSR* (Durham: Duke University Press 2016) 240-244.

<sup>25</sup> James Boys, *Clinton’s Grand Strategy* (First Edition; London: Bloomsbury Publishing Plc 2015) 81; Haluk Dogan, ‘Power, Culture, and Elite Interactions: A Neoclassical Realist Analysis of US Grand Strategy and Foreign Policy towards Russia, 1993-2001’ (University of Exeter, February 2022) 85.

## Methodology

This thesis will seek to explain the rise of illiberalism in Russia as the consequence of the IMF's desire to prove the validity of IMF assistance and the Washington Consensus strategy. Through the use of a case study, the argument will be made that the IMF felt its credibility was tied to success in Russia, causing the IMF to keep forcing an unworkable neoliberal strategy despite problems with the Russian government. This would result in an anti-western and illiberal counterreaction from the Russian population when the reform failed.

First, a theoretical groundwork must be laid upon which the thesis can expand. This will allow the thesis to improve the current understanding of the debate.<sup>26</sup> Chapter one will therefore provide an insight into the current historiographical debate about US neoliberalism, the Washington Consensus and 1990s Russia. This chapter will also establish the definitions of the discussed concepts and how they are used in the current historiography. Using some of the most meaningful contributions to the debate, chapter one will discuss how neoliberalism is discussed as the defining ideology for US leadership throughout the 1980s and 1990s.<sup>27</sup> With the end of the cold war in 1991 the US suddenly found itself as the sole hegemon in the world order, and sought to secure this position by spreading its neoliberal ideology to the developing nations of the world.<sup>28</sup> This will then bring up the aforementioned application of the Washington Consensus to Russia, in which the debate discusses how the failure of this flawed ideology caused anger among the Russian population. It will be discussed how the debate emphasises the IMF's insistence on the Washington Consensus over its reasoning, which will allow further expansion into this reasoning in the case study chapter.

Chapter two will provide a historical background of how the neoliberal Washington Consensus strategy caused the failure of the economic transition and the illiberal response of the Russian population. This chapter will use secondary literature to provide an insight into the conventional narratives of this process. It will provide an overview on how the narrative on economic failure is strongly tied to political failure, emphasising corruption and a decay of democratic processes in Russia.<sup>29</sup> This will provide the setup for the case study of chapter three.

Finally, chapter three consists of a case study analysis on the actions of the IMF in Russia, reinterpreting current narratives on how the IMF's insistence on the Washington

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<sup>26</sup> Kamp, Jeannette, e.a., *Geschiedenis schrijven!: wegwijzer voor historici* (Amsterdam: Amsterdam University Press 2016) 14-15.

<sup>27</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 1-4, 39-40.

<sup>28</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 537-538.

<sup>29</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 13.

Consensus led to illiberalism. Using the available primary source material, it will provide depth to the current reasoning of the IMF on choosing the Washington Consensus strategy, and how these motivations defined the events that followed. Quotations will be provided throughout the chapter to give an insight into the nature of the sources and their relation to the argumentation. The basis of chapter three's argument will be how the Russian economic transition became a test for the IMF's credibility.<sup>30</sup> This led the IMF into an increasingly difficult position becoming implicated in the Russian governments illegitimate actions.<sup>31</sup> The need for success would have caused it to engage in a series of increasingly reckless policies when it failed to create results after several years,<sup>32</sup> while being held responsible for the failures of the Russian government.<sup>33</sup>

This research is somewhat limited by the lack of availability of IMF archival material from the period of the Russian program. This tends to be a general issue with the debate on neoliberalism, as its recency causes many internal documents of this time to have not yet been made open to the public.<sup>34</sup> For IMF archival material, the most notable sources available are the minutes from the Executive Board meetings.<sup>35</sup> Additionally, the archives provide a small number of statements from IMF managing director Camdessus<sup>36</sup> and reports from IMF delegates to Russia.<sup>37</sup> Executive board meetings were a yearly occurrence, meaning that the IMF's strategy for Russia can only be viewed once per year. This means that it is difficult to gain an insight into the general cooperation between the IMF and Russia, as it can only be considered from a small number of points, generally with a year in between. These sources will however allow an insight into the internal decision-making process of the IMF, providing an insight into how the IMF staff members kept doubling down on their strategy in Russia.

This thesis will make arguments on the IMF's actions by interpreting it from the historical context within which events happened, giving more depth to the current narratives.

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<sup>30</sup> "The IMF Test", *The Washington Post* (10 February 1992).

<https://www.proquest.com/history/docview/140613844/300CE6AD94224A0FPQ/32?accountid=12045&sourceType=Newspapers>

<sup>31</sup> Martin G. Gilman, *No precedent, no plan* (2010) 39; "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 260.

<sup>32</sup> Clay Chandler, "Russia Rescue Saps IMF's Ready Cash: Aid Renews U.S. Debate on Contributions", *The Washington Post* (15 July 1998).

<https://www.proquest.com/history/docview/1620842490/723C71FBA30D4919PQ/19?accountid=12045&sourceType=Newspapers>

<sup>33</sup> "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 221, 261.

<sup>34</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 558.

<sup>35</sup> International Monetary Fund Archives: Ref ID 413465; Ref ID 439045; Ref ID 447402; Ref ID 455578; Ref ID 473184; Ref ID 444470. <https://archivscatalog.imf.org/>

<sup>36</sup> International Monetary Fund Archives: Ref ID 400323; Ref ID 404609; Ref ID 405473; Ref ID 416211. <https://archivscatalog.imf.org/>

<sup>37</sup> "Back to the office reports – Russia 1993-1996" Ref ID 138424. International Monetary Fund Archives.

Establishing this context will mainly be achieved by looking at a number of Western newspapers available through the ProQuest historical newspapers archive.<sup>38</sup> These newspapers will be used to show how the events were considered in the Western media, providing an insight into interpretations and topics of discussion at the time. These are generally outside perspectives that do not typically show the thoughts of the IMF staff itself. However, combining these newspapers with other primary sources will allow arguments to be made on how the IMF was influenced by the perceptions of the West. This will for example give an insight into how the IMF came to see Russia as chance to prove its neoliberal ideas,<sup>39</sup> or how it became negatively associated with aspects of Russian corruption.<sup>40</sup>

While these documents provide an insight into how IMF strategy concerning Russia changed over time, more insider information is necessary to gain a clear understanding of how negotiations went. Leading in this discussion will be a number of personal accounts from individuals that were themselves deeply involved in the developments. For example, this thesis will use the accounts of World Bank economist Joseph Stiglitz<sup>41</sup> who also served in Clintons board of economic advisors, head of the IMF office in Russia Martin Gilman<sup>42</sup>, a collection of interviews with Russian reformers<sup>43</sup> and E. Wayne Merry<sup>44</sup>, international political officer at the US embassy in Moscow. Such personal accounts are however strongly biased to either defend or criticise the IMF, posing a danger to the objectivity of the reports.<sup>45</sup> This thesis will therefore have to look at the available material critically, putting sources next to each other to show

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<sup>38</sup> ProQuest historical newspapers (Ann Arbor: ProQuest.).

<https://www.proquest.com/index?accountid=12045&parentSessionId=afRGOsddr06PT3gSnJyii6tYW%2FW4uP u5FYc7pWOON38%3D&selectids=1006051,1006910,1005685,1006359>

<sup>39</sup> Steven Greenhouse, “Point Man for the Rescue of the Century: Michel Camdessus and the I.M.F must now snatch Russia from the jaws of chaos.”, *New York Times* (26th April 1992).

<https://www.proquest.com/history/docview/108930860/300CE6AD94224A0FPQ/13?accountid=12045&source type=Newspapers>

<sup>40</sup> Lee Hockstader, “IMF, Russia Set Loan for \$10 Billion: Credits Could Boost Yeltsin's Campaign For a Second Term”, *The Washington Post* (23 February 1996).

<https://www.proquest.com/history/docview/1030535241/723C71FBA30D4919PQ/9?accountid=12045&parentSessionId=jrhE9KkWJPNybptr3JVuJ2Eso%2FyKBI7X0XqDI6kqW1Y%3D&source type=Newspapers>

<sup>41</sup> Stiglitz was part of Clinton's board of economic advisors from 1995 to 1997, after which he became chief economist of the World Bank from 1997 till 2000: Joseph E. Stiglitz, *Globalization and its discontents revisited: anti-globalization in the era of Trump* (New York, W.W. Norton & Company 2018).

<sup>42</sup> Gilman served as senior representative of the International Monetary Fund in Moscow throughout the reforms: Martin G. Gilman, *No precedent, no plan: inside Russia's 1998 default* (1st ed.; Cambridge, MA: MIT Press 2010).

<sup>43</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar's revolution: the inside account of the economic transformation of Russia* (First edition; London: I.B. Tauris 2015).

<sup>44</sup> E. Wayne Merry held this position between 1991 and 1994, after which he quit over disagreement on the Embassy's policy: “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST's Oral History Collection.

<sup>45</sup> Lucy Faire and Simon Gunn, *Research Methods for History* (2nd ed.; Edinburgh: Edinburgh University 2016) 107.

different arguments and check consistency with different evidence.<sup>46</sup> This approach should still allow for substantiated conclusions to be drawn.

Finally, some remarks on the ethics of using these sources should be made. A number of primary sources used in this thesis have been produced by IMF personnel. With the failure of the economic transition, the actions of the IMF have been heavily criticised.<sup>47</sup> It is not the purpose of this thesis to accuse these individuals of mismanagement, but rather to explore how their approach might have missed a few key aspects that could give insight into why the reform failed. This criticism on the IMF will be relevant going into chapter one, that will show most scientific debates were born out of this criticism.

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<sup>46</sup> Lucy Faire and Simon Gunn, *Research Methods for History* (2nd ed.; Edinburgh: Edinburgh University 2016) 117.

<sup>47</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 220.

# Chapter 1: Historiographic overview

This chapter will provide an overview into the historiographic debate surrounding the topic of neoliberalism and the US role in Russian reform in the 1990s. This will provide definitions and the theoretical groundwork upon which the thesis can expand. Using some of the most meaningful contributions to the debate, chapter one will discuss how neoliberalism is discussed as the defining ideology for US leadership throughout the 1980s and 1990s.<sup>48</sup> The chapter will show the current focus of the debate on the IMF's insistence on a neoliberal approach, but that explaining the reasons for this insistence are largely background to discussion on the flawed nature of neoliberalism.

## Neoliberalism: Elitist Illusions?

The historiographic debate on neoliberalism seems to have largely started around 2005, when author David Harvey published his foundational work *A Brief History of Neoliberalism*.<sup>49</sup> While some debate already existed on many of the topics we now view as being part of the debate on neoliberalism, the exact terminology of neoliberalism had until then mainly been used only by anti-capitalist movements<sup>50</sup>. It is perhaps not a coincidence that Harvey spends much of his later chapters attacking the principles of neoliberalism in the aptly named chapter 'neoliberalism on trial'.<sup>51</sup>

Drawing upon existing debates from various fields, this his new neoliberal debate sought to gain an insight into the ideology that had shaped world history starting from the 1970s.<sup>52</sup> To Harvey, the end of the 20th century should be seen as an important moment of change in the socioeconomic world order.<sup>53</sup> Neoliberalism had been a minority ideology of extreme liberalism, but was suddenly spread by globalization to become the dominant economic ideology during the 1980s and 1990s. Its advocates had hoped that this would improve lives and create a fairer and better world order, although it soon would create failing economies throughout the regions it was applied.<sup>54</sup>

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<sup>48</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 1-4, 39-40.

<sup>49</sup> Ibidem.

<sup>50</sup> Damien Cahill, e.a., *The SAGE handbook of neoliberalism* (Los Angeles: SAGE Reference 2018) xxvii.

<sup>51</sup> David Harvey, 'neoliberalism on trial' in: *A Brief History of Neoliberalism* (2007) 152–182.

<sup>52</sup> Damien Cahill, e.a., *The SAGE handbook of neoliberalism* (Los Angeles: SAGE Reference 2018) xxvii.

<sup>53</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 1-2.

<sup>54</sup> David Harvey, 'neoliberalism on trial' in: *A Brief History of Neoliberalism* (2007) 152–182.

Defining neoliberalism can be a difficult matter, considering that the term was mostly a term of criticism and not typically used by those that were themselves considered neoliberals.<sup>55</sup> Harvey himself defined it as an economic-political ideology that assumes human society can best advance when entrepreneurship is encouraged through personal freedoms, strong private property rights and free trade. The perfect state in this scenario is considered to be passive, providing just the bare minimum stability and guaranteeing these rights without intervening in the free market.<sup>56</sup> In most recent additions to the debate, it is this trust in and reliance on the free market that acts as a defining factor of neoliberal thinking.<sup>57</sup>

A defining factor of the historiography on neoliberalism is the idea that neoliberal ideology is deeply flawed.<sup>58</sup> This is perhaps not surprising considering what was just discussed on the origins of the debate, and literature is full of examples of populations angry at their leadership for pushing neoliberal policies.<sup>59</sup> While not all sources<sup>60</sup> are as vocal with their criticism as Harvey, finding the nature of the failures of neoliberal policy is ultimately the goal.<sup>61</sup> Authors such as William Davies may for example defend some aspects of neoliberalism, but his research ultimately serves to seek out the limits that caused the ideology to cause such problems.<sup>62</sup>

In order to understand how arguments within this field are structured it is important to discuss how much of the current research has focused on the connection between elitism and neoliberalism. Possibly influenced by the focus Harvey gave to this aspect, many contributions to the debate focus on its elitist nature.<sup>63</sup> The general narrative focuses on how US elites spread neoliberalism in such a way that it came to define and how it defined governing decision-making processes even when contrary to the desires and interests of the general population.<sup>64</sup>

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<sup>55</sup> Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 19.

<sup>56</sup> David Harvey, 'neoliberalism on trial' in: *A Brief History of Neoliberalism* (2007) 2.

<sup>57</sup> Damien Cahill, and Martijn Konings, *Neoliberalism* (Cambridge; Polity Press 2017) 12-13.

<sup>58</sup> Kathryn Stoner and Michael McFaul, 'Who Lost Russia (This Time)? Vladimir Putin', *The Washington Quarterly* 38:2 (2015) 167.

<sup>59</sup> Damien Cahill, and Martijn Konings, *Neoliberalism* (Cambridge; Polity Press 2017) 11-13.

<sup>60</sup> William Davies, *The limits of neoliberalism: authority, sovereignty and the logic of competition* (London: SAGE Publications Ltd 2017).

<sup>61</sup> Ibidem.

<sup>62</sup> Ibidem, 7.

<sup>63</sup> Some of the most explicit examples outside of Harvey would be: Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) or Michael Mandelbaum, *Mission failure: America and the World in the post-Cold War era* (2016).

<sup>64</sup> Michael Mandelbaum, *Mission failure* (2016) 16; David Harvey, *A Brief History of Neoliberalism* (2007); Daniel Sargent 'Neoliberalism as a Form of US Power' In: *The Cambridge History of America and the World* (2021) 572.

This first step concerns how elitist neoliberalism spread within the US. Neoliberalism as an ideology would have originated as an extreme form of liberalism among elites who managed to spread it to become the defining ideology in the world order.<sup>65</sup> These elites are often portrayed as short-sighted and stuck in their own worlds, failing to understand their theories would not work in reality.<sup>66</sup> Harvey's own contribution mainly focused on how US elites convinced the US population to accept this neoliberalism. While authors such as Angus Burgin<sup>67</sup> have provided a lot of depth on those involved in this process, for the sake of further research the main arguments remained largely the same.<sup>68</sup>

The debate sees the rise of neoliberalism as part of a larger movement to the expression of freedom in its most extreme form.<sup>69</sup> The idea is that, partially due to the Cold War, most Western countries already defined themselves with a more centrist form of liberalism that stood in stark contrast to the communist ideology of the Eastern Block. During the cold war US elites managed to push for ever extremer liberalism since the US population could easily be convinced to support any policy its elite described with the word freedom, regardless of its content.<sup>70</sup>

Harvey argues that the normal reasons to resist the more extreme neoliberalism remained absent within the situation.<sup>71</sup> Normally there would have been a pushback, since a problem with neoliberalism is that the reduced role of the state leaves it unable to protect any marginalized groups within an economy. This pushback remained absent however due to the fear of the Soviet Union. Harvey explains how the USSR as illiberal enemy pushed the conflict between social justice and neoliberalism to the background, allowing neoliberalism to become the dominant ideology of US decision making processes without openly being challenged.<sup>72</sup> Traditional liberalism already considered personal freedoms to stand above what Harvey describes as social justice, and this would have made it easy to make the step towards the more extreme neoliberalism.<sup>73</sup>

The second step of the spread of neoliberalism is how neoliberalism became a leading ideology in the world order. This step is much more present in the debate, and is used broadly to argue how flawed neoliberalism caused an anti-globalization sentiments among

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<sup>65</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 39.

<sup>66</sup> Rutland, Peter, 'Mission Impossible? The IMF and the failure of the market transition in Russia', *Review of international studies* 25 (1999) 184.

<sup>67</sup> Angus Burgin, *The great persuasion: reinventing free markets since the Depression* (1st ed.; Cambridge, Harvard University Press 2012).

<sup>68</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 2-4.

<sup>69</sup> Ibidem, 39.

<sup>70</sup> Ibidem, 39.

<sup>71</sup> Ibidem, 40.

<sup>72</sup> Ibidem, 40.

<sup>73</sup> Ibidem, 39.

populations.<sup>74</sup> Lopes for example argues that in the 1980s and 1990s leading economists and politicians became blinded by a ‘myth’ of market supremacy. When the flaws of neoliberalism inevitably caused problems, it caused a wave of criticism and anti-globalization movements.<sup>75</sup>

This assumption of a flawed neoliberalism being spread is the reason for the debates focus on elitism. This neoliberal elite is often described as living in a false reality, assuming a superiority of market forces and having ideals about the world order that were simply unrealistic. Authors like Peter Rutland use this to explain that these elites pushed the flawed neoliberal ideology, which was not the natural desire or interest of the population it represented. These elites were however so convinced of neoliberalism that they forced it anyway, leading to conflicts between these neoliberal leaders and their populations.<sup>76</sup>

The argument of misguided elites hurting many trying to apply neoliberalism has been further explored in relation to how it became a common practice in world governance.<sup>77</sup> In his ‘The Illusions of the United States’ Great Power Politics’<sup>78</sup> Fritz Bartell states that neoliberals mistakenly took the end of the Cold War as proof that their ideology was perfect, and that the US would gain a leading role in a new neoliberal world order. These neoliberals would have assumed that other nations would naturally accept this, acknowledging the US as leader of the supreme neoliberalist ideology.<sup>79</sup> As part of this belief, the US would therefore use its position to spread its ideology of democracy and market capitalism to other nations.<sup>80</sup> Bartell however claims this was an illusion, as it was never a possibility that a country like Russia or China would have become a liberal capitalist democracy.<sup>81</sup>

Discussing the spread of neoliberalism into a dominant position is generally explained from the field of geo-economics. Author Daniel Sargent argues that with the central role the US played in the world economy, a prevalence of neoliberalism in the US made it almost automatically prevalent in the rest of the world.<sup>82</sup> More geo-political explanations do exist within the works of Harvey or Bartell, but typically focus on the spread of neoliberalism to

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<sup>74</sup> This idea goes back to the very beginning of this debate, before it was historical. See for example the economist John Gray: John Gray, *False Dawn: The Illusions of Global Capitalism* (London: Granta Press, 1998).

<sup>75</sup> Carlos Lopes, ‘Economic Growth and Inequality’, *RCCS Annual Review* 4 (2012) 75.

<sup>76</sup> Rutland, Peter, ‘Mission Impossible?’, *Review of international studies* 25 (1999) 184.

<sup>77</sup> Fritz Bartell, ‘The Illusions of the United States’ Great Power Politics’ In: *The Cambridge History of America and the World* (2021) 537-538.

<sup>78</sup> Ibidem.

<sup>79</sup> Ibidem, 537.

<sup>80</sup> Ibidem, 538-540.

<sup>81</sup> Ibidem, 537-538.

<sup>82</sup> Daniel Sargent ‘Neoliberalism as a Form of US Power’, in: *The Cambridge History of America and the World* (2021) 560-585.

developing nations.<sup>83</sup> Think of how elites in Chile and Argentine established it through military coups, or how the IMF economically coerced Mozambique.<sup>84</sup> This connects to the debates theme of elites enforcing neoliberalism, but authors like Sargent prefer to explain the rise of neoliberalism more from the concept of economic dominance.

Sargent argues that even before the end of the Cold War, the US position in the world was defined by an economic predominance.<sup>85</sup> Through initiatives like the Bretton Woods Conference,<sup>86</sup> the US had managed to briefly gain economic dominance. However, these had always proved short-term, as the US was not the sole hegemon and therefore could not maintain such initiatives for long. The US was however capable of pushing the international economic order, as most of its communist rivals did not take part in the world economy. This economic predominance provided the US with the initial setup to start taking a central role in the economic order, that they would be able to take advantage of when the Cold War ended.<sup>87</sup>

The geo-economical argument has been further expanded upon by looking at how this economic predominance was used by the US to embed neoliberalism within the world order so extensively that it became not only standard but also near impossible to challenge. Andrew Gamble<sup>88</sup> looks at how during the Cold War the way the US had rebuild its half of the bipolar world order on the foundation of neoliberalism<sup>89</sup>, using its powerful position in the world to shape the international order to its desire.<sup>90</sup> Using its dominant economic position, it built the foundation of an economic liberal world order that would be so imbedded in the different layers of governance that it could not be challenged.<sup>91</sup> This is how the neoliberal approach would become the first and only approach the US would take when reforming other countries -such as

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<sup>83</sup> Fritz Bartell, 'An Authoritative Accessory. The IMF's Role in the 1993 Russian Constitutional Crisis', *Russian History* 50 (Brill, Feb 2024) 21–45; David Harvey, *A Brief History of Neoliberalism* (2007).

<sup>84</sup> David Harvey, *A Brief History of Neoliberalism* (2007) 40.

<sup>85</sup> Daniel Sargent 'Neoliberalism as a Form of US Power' In: *The Cambridge History of America and the World* (2021) 564-566.

<sup>86</sup> Throughout the Second World War, many countries had been unable to maintain the gold reserves necessary to back their currency in gold. The US therefore allowed nations to back their currency in dollars, which were still backed by gold. This led to a rise in the importance of the dollar, but also in its overvaluation. This led to countries starting to exchange their dollar reserves for the US gold reserves forcing the US to let go of its gold standard in 1971 and resulting in the free exchange rates known today. See: Daniel Sargent 'Neoliberalism as a Form of US Power' In: *The Cambridge History of America and the World* (2021) 561-562.

<sup>87</sup> Daniel Sargent 'Neoliberalism as a Form of US Power' In: *The Cambridge History of America and the World* (2021) 564-566.

<sup>88</sup> Andrew Gamble, 'Ideologies of governance', in: Nicola Phillips and Anthony Payne, *Handbook of the International Political Economy of Governance* (Edward Elgar Publishing 2014) 24.

<sup>89</sup> Within his work, Gamble often uses the slightly broader term 'economic liberalism' for terminology reasons. See: Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 19.

<sup>90</sup> *Ibidem*.

<sup>91</sup> *Ibidem*, 23.

Russia-. Even when flaws in the approach became clear, the established neoliberal approach could not be challenged as it was too imbedded in the way governance on all levels worked.<sup>92</sup>

This is also the first time the debate addresses the question why these elites insisted on the neoliberal strategy instead of acknowledging mistakes and adapting. Sargent and Gamble imply that the reason the neoliberal elites were so short-sighted was because neoliberalism had spread so widely that it had become the only ideological approach elites were willing to consider.<sup>93</sup> The next paragraph will explore question further in relation to Russia to provide the theoretical basis for the later case study of chapter three. In order to do this, the next paragraph must first discuss how the neoliberalism debate interacts with international economic institutions and Russia.

## Reforming Russia: Insisting on the Washington Consensus

As discussed in the introduction, this thesis will mainly discuss the insistence on the neoliberal strategy by looking at the IMF. More case-study focused contributions to the neoliberalism debate show that it would was international economic institutions like the IMF and World Bank that would act as ambassadors of this neoliberal ideology. In the case of 1990s Russia, this has been extensively discussed within the works of Haluk Dogan<sup>94</sup> or James Boys<sup>95</sup>. Dogan argues that while the original Bretton Woods system had been disbanded, it had managed to give the US a lingering influence over international economic institutions that allowed it to shape their actions to its will.<sup>96</sup> Boys meanwhile argues that it was simply the enormous size of the US at this point in time that made it not just the most important member within these organizations but the defining factor in determining their policy.<sup>97</sup>

This is where the debate on Neoliberalism touches upon another, somewhat broader debate: The Washington Consensus. Unlike the debate on neoliberalism, which is largely a historical debate, the concept of the Washington Consensus originated from outside historiography and is discussed much more widely.

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<sup>92</sup> Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 26, 29-30.

<sup>93</sup> Ibidem, 26, 29-30.

<sup>94</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022).

<sup>95</sup> James Boys, *Clinton's Grand Strategy* (2015).

<sup>96</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) 115.

<sup>97</sup> James Boys, *Clinton's Grand Strategy* (2015) 170-171, 176-177.

The term was initially framed by economist John Williamson in 1990.<sup>98</sup> His intention had been to create a term for the policies that were formed based on the liberal economic thinking of the 1980s being applied to South-American developing economies.<sup>99</sup> As he explains in a later article “I have gradually developed a second and more significant concern, however. I find that the term has been invested with a meaning that is significantly different from that which I had intended and is now used as a synonym for what is often called "neoliberalism" in Latin America.”<sup>100</sup> While this would have been fair if considering the historiographic understanding of neoliberalism discussed before, it should be noted that this is not the same neoliberalism as in the historiography. Instead, it became synonymous with the original anti-capitalist term that was popular among South-Americans who were unhappy with the way these economic reforms affected their society.<sup>101</sup> The term has since then been used by anyone writing about the economic transitions of the 1980s and 1990s, its exact definition changing per discipline or even per individual researcher earning it the name Washington Confusion in the process.<sup>102</sup>

Within the historiographical debate, its use is largely tied to the aspect of neoliberal ideology spreading that was discussed earlier, and the economic failures caused by its inherent failures.<sup>103</sup> This connection between the term that originated from economics into the understanding of historiographic neoliberal thinking has for example been established by Sarah Babb<sup>104</sup>. She reinterpreted the place of the Washington Consensus within the existing debate as going beyond the original list of policies from Williamson to a framework that was institutionalized by the nations that adopted these policies and the US led international institutions. She also argues in line with the debate on neoliberalism that the Washington Consensus was weakened by its own internal vulnerabilities, as the policies it created were simply not realistic for the countries they were designed for.<sup>105</sup>

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<sup>98</sup> John Williamson, ‘What Washington Means by Policy Reform’ In: John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington D.C.: Institute for International Economics 1990).

<sup>99</sup> John Williamson, ‘What Should the World Bank Think about the Washington Consensus?’, *The World Bank research observer* 15 (2000) 251.

<sup>100</sup> Ibidem, 251-252.

<sup>101</sup> Damien Cahill, e.a., *The SAGE handbook of neoliberalism* (Los Angeles: SAGE Reference 2018) xxvii.

<sup>102</sup> Mario Cedrini, ‘Consensus versus freedom or consensus upon freedom? From Washington disorder to the rediscovery of Keynes’, *Journal of Post Keynesian Economics* 30:4 (Taylor & Francis 2008) 499.

<sup>103</sup> Sarah Babb, ‘The Washington Consensus as transnational policy paradigm: Its origins, trajectory and likely successor’, *Review of International Political Economy* 20:2 (2013) 289.

<sup>104</sup> Ibidem, 268-297.

<sup>105</sup> Ibidem, 289.

That last connection of confidence in unrealistic policies is a common denominator in historiographic writing on the Washington Consensus. The work of Dani Rodrik<sup>106</sup> describes the actions of these neoliberal economists as ‘peddling’ the traditional principles of market economics to developing nations with little regard for the viability of these reforms.<sup>107</sup> These economists were so convinced of their successful ideology, that they simply failed to see that their strategies would not work.<sup>108</sup> It largely ties back to the earlier ideas in the neoliberalism debate of elites being blinded by a misguided neoliberal ideology.<sup>109</sup>

The role of neoliberal advisors is also a main topic on the debate of how neoliberalism was applied to Russia. With the fall of the USSR in 1991 it had seemed to many as if the conflict between the US and Russia was something of the past. The failure of this initiative became obvious when in 2000 Russia once again moved towards illiberalism. As a result, a scientific debate arose in which authors asked themselves: ‘Who Lost Russia?’. In the article of Stoner and McFaul<sup>110</sup> it can be seen how, like the debate on neoliberalism, sources were largely written with the intention of criticizing western institutions and leadership.<sup>111</sup>

The debate seeks to understand who is ‘responsible’ for the failed transition, and many authors take one particular group or aspect and emphasise it as responsible for ‘losing Russia’.<sup>112</sup> For example, a particular tendency of more generalist historical works within this debate is to describe the rise of Putin as a continuance of an already authoritarian tradition. Think for example of Peter Conradi’s work<sup>113</sup>, in which he argues Russia isolated itself through fear and a desire for respect by being feared.<sup>114</sup> While these sources are interesting, this thesis will mainly look at the sources that combine these arguments with the debate on neoliberalism.

Within the historiography on neoliberalism, the debate has focused increasingly on the interaction between the IMF and Russian political processes. This can be clearly seen when comparing the works of Peter Rutland<sup>115</sup>, who has made some widely quoted contributions to

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<sup>106</sup> Dani Rodrik and World Bank ‘Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank’s “Economic Growth in the 1990s: Learning from a Decade of Reform”’, *Journal of Economic Literature* Vol. 44, No. 4 (2006) 973-987.

<sup>107</sup> Ibidem, 973-974.

<sup>108</sup> Ibidem, 973-974.

<sup>109</sup> Rutland, Peter, ‘Mission Impossible?’, *Review of international studies* 25 (1999) 184.

<sup>110</sup> Kathryn Stoner and Michael McFaul, ‘Who Lost Russia (This Time)?’, *The Washington quarterly* 38 (2015) 167-187.

<sup>111</sup> Ibidem, 167.

<sup>112</sup> Ibidem, 167-175.

<sup>113</sup> Peter Conradi, *Who Lost Russia? How the World Entered a New Cold War* (Oneworld Publications 2017).

<sup>114</sup> Ibidem, 341-342.

<sup>115</sup> Rutland, Peter, ‘Neoliberalism and the Russian transition’, *Review of international political economy: RIPE* 20 (2013) 332-362; Rutland, Peter, ‘The Roots of Authoritarianism in Russia’, *Asia policy* 26 (2019) 93-96; Rutland, Peter, ‘Mission Impossible?’, *Review of international studies* 25 (1999) 183-200.

the debate from its very beginning. His works from the early days of the debate focused mainly on how the IMF failed economically<sup>116</sup>, while his more recent works integrated into the debate on neoliberalism to focus increasingly on the matter of political processes. In these later contributions he argues that the IMF was simply unable to meaningfully affect the Russian government on the most important policies, resulting in a failed economic transition<sup>117</sup> but also a failure to pull Russia away from its authoritarian traditions.<sup>118</sup>

This idea of a failure to use neoliberalism to break with Russia's authoritarian past is popular, and combines well with more Russia-focused sources within this debate. It was for example further expanded upon by Dabrowska and Zweynert, who speak of the Russian transition as a 'near miss'.<sup>119</sup> Their idea is that the Russian people were ready to move towards a more western way of thinking, and the task of the IMF was not economic but ideological-political. They argue however that the IMF in reality only encouraged old Soviet-style corruption through their strategy, as the neoliberal strategy of privatisation and large grants created opportunity for these practices of corruption.<sup>120</sup>

The consequences of this failure to use neoliberalism to break with old customs of corruption has been a matter of much interest within the debate. Heiko Pleines<sup>121</sup> for example argues that the actions of the IMF in 1990s Russia show "how toxic IMF involvement in domestic politics can become".<sup>122</sup> He makes this statement based on the fact that the IMF was pushing through reform policy even though there was no real support for it within the Russian parliament, causing the IMF to ignore forms of corruption from the executive branch in order to push their desired reforms through. Although the Russian government showed itself to be irresponsible, the IMF kept providing new grants that prolonged this unsustainable behaviour.<sup>123</sup>

The insistence on the Washington Consensus strategy by US elites is perhaps one of the most fundamental questions of the debate on neoliberalism. As most sources fairly point out, by the time of 1991 the US had already been working with the Washington Consensus strategy

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<sup>116</sup> Rutland, Peter, 'Mission Impossible?', *Review of international studies* 25 (1999) 199-200.

<sup>117</sup> Rutland, Peter, 'Neoliberalism and the Russian transition', *Review of international political economy: RIPE* 20 (2013) 357-358.

<sup>118</sup> Rutland, Peter, 'The Roots of Authoritarianism in Russia', *Asia policy* 26 (2019) 93-96.

<sup>119</sup> Ewa Dabrowska and Joachim Zweynert, 'Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund', *New political economy* 20 (2015) 518-544.

<sup>120</sup> *Ibidem*, 537-538.

<sup>121</sup> Heiko Pleines, 'Opposition to the Washington Consensus: The IMF and Social Policy Reforms in Post-Soviet Russia' In: Frank Nullmeier, e.a., *International Impacts on Social Policy: short histories in perspective* (Palgrave Macmillan 2022) 275-285.

<sup>122</sup> *Ibidem*, 282.

<sup>123</sup> *Ibidem*, 282-283.

for some years. Yet even from the start of the 1990s the strategy had been criticised by various economists, pointing at economic hardships in countries that had already tried to follow the policies. Carlos Lopes<sup>124</sup> for example points out that the IMF had already pushed the strategy to countries in Latin-America and Africa, where it had given rise to enormous hardships with little economic growth to show for it. Even in 1987 UNICEF published a report urging policies to take a more careful approach to prevent extreme poverty.<sup>125</sup>

This ties back into the question posed in the previous paragraph on why the neoliberal strategy kept being used despite earlier failures. It has been discussed how Gamble argued for the idea that neoliberalism had become too dominant for any other ideology to be considered.<sup>126</sup> Another idea more focused on the case of Russia is to go back to the aspect of elitism, working from the idea that neoliberalism as strategy was considered appealing by both Russian and US elites.<sup>127</sup> Dogan argues that to US elites Russia was considered part of a domino. Unlike with earlier nations where neoliberalism was enforced, Russia seemed to welcome western ideas. Making it neoliberal would make the US so much more successful in its strategy of spreading its ideology.<sup>128</sup> Russian elites on their turn would have recognized the tendency of neoliberalism to allow elites to reform a nation to their interests, and cooperated seeing opportunity to restructure Russia's society to their benefit.<sup>129</sup> This then allowed these Russian elites to become the later oligarchs, a concept that is broadly discussed within this debate.<sup>130</sup>

The idea of Russian oligarchs as driving force of failure has been extensively discussed, but exactly how this happened remains largely abstract.<sup>131</sup> The most in-depth research into this probably comes from Juliet Johnson<sup>132</sup>, who looks specifically at how these oligarchs managed to achieve wealth through their control over the banking sector. She explains most of the later Oligarchs were themselves bankers, and they had convinced or bribed- the Russian government to give them control over the privatisation auctions. This allowed the oligarchs to acquire enormous possessions through banking conglomerates, with estimates stating that by 1997 just six of these banking corporations managed to control around 50% of the entire Russian

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<sup>124</sup> Carlos Lopes, 'Economic Growth and Inequality', *RCCS Annual Review* 4 (2012) 69-85.

<sup>125</sup> *Ibidem*, 71.

<sup>126</sup> Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 26, 29-30.

<sup>127</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) 116, 148.

<sup>128</sup> *Ibidem*, 116.

<sup>129</sup> *Ibidem*, 148.

<sup>130</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) 148; Nigel Gould-Davies and Ngaire Wood, 'Russia and the IMF' *International Affairs* 75 (London, 1999) 1-22.

<sup>131</sup> Juliet Johnson, *A Fistful of Rubles: the rise and fall of the Russian banking system* (2000) ix-xi.

<sup>132</sup> Juliet Johnson, *A Fistful of Rubles* (2000).

economy.<sup>133</sup> This enormous wealth allowed them to gain significant control over various political processes, resulting in rampant corruption while creating the foundations for the extreme inequality that would come to mark Russia.<sup>134</sup>

Tying back into the more generalist neoliberalism debate offers an insight into why the elites in charge of these institutions did not recognize the failures of their ideology. Ignoring the more conspiratorial thinking that Harvey inspired<sup>135</sup>, a good and more technical explanation can be seen from Sargent. Sargent explains that it was this powerful position that allowed the US to escape the dangers of neoliberalism for domestic policy, as the normal problems of market inefficiency were not felt the same by the US. It had the financial power to deal with any temporary shortcomings, which prevented many US politicians and economists from seeing its dangers.<sup>136</sup> As investing in the US was attractive even during times of crisis, it did not see the most fundamental problems that could be seen when neoliberalism was applied to poorer countries.<sup>137</sup> The result in the US was an economic elite that became convinced of the market-focused principles of neoliberal economics, that held a central role in the world that sought to export its ideology abroad.<sup>138</sup>

These arguments deepen Gamble's explanation that neoliberalism managed to spread to all layers of international governance, explaining how neoliberalism became defining for the actions of the IMF and World Bank and how the US could mobilize these international institutions in their goal of spreading neoliberalism.<sup>139</sup> It was further confirmed by the work of Mark Copelovitch<sup>140</sup> on the politics behind IMF lending policy. Writing his work in 2010, he sought to explain why the IMF had not managed to keep a consistent lending policy over time, referring to what the historiographic debate sees as the development of neoliberalist ideology within the IMF.

Copelovitch largely confirms and deepens Gamble's arguments, although he achieves it through different terminology.<sup>141</sup> Because Copelovitch does not take part in the at that point young historiographic debate on neoliberalism, he does not recognize this change in IMF policy

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<sup>133</sup> Juliet Johnson, *A Fistful of Rubles* (2000) 173-174, 178.

<sup>134</sup> *Ibidem*, 10.

<sup>135</sup> David Harvey, 'neoliberalism on trial' in: *A Brief History of Neoliberalism* (2007) 152-182.

<sup>136</sup> Daniel Sargent 'Neoliberalism as a Form of US Power' In: *The Cambridge History of America and the World* (2021) 572-582.

<sup>137</sup> *Ibidem*, 572.

<sup>138</sup> *Ibidem*, 580-582.

<sup>139</sup> Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 26, 29-30

<sup>140</sup> Mark S. Copelovitch, *The International Monetary Fund in the Global Economy* (Cambridge University Press 2010).

<sup>141</sup> *Ibidem*.

as bound to neoliberalism in the historiographic sense. His description of a change to market-focused policies does however seem to fit. He came to the conclusion that because IMF decision-making power is spread across IMF bureaucrats and states finance ministries, meaning that the only common factor that defines policy is the dominant financial ideology within the most economically dominant countries.<sup>142</sup>

In order to finalize this discussion on the current historiographic debate, there is one last element that needs to be discussed: the narrow-mindedness of the neoliberal approach. Many sources<sup>143</sup> agree that the neoliberal advisors of the IMF that went to Russia believed only a small group of neoliberal and Western-minded Russian reformers were willing to work with the IMF, while all other elements of the Russian state inherently opposed the reforms. To these neoliberal advisors, this opposition was the reason the neoliberal approach failed.<sup>144</sup>

This idea was originally pitched by defenders of neoliberalism in the early stages of the Washington Consensus debate,<sup>145</sup> but the validity of this widely discussed. Pleines for example criticises the IMF for pushing reform despite parliament opposition and accepting activities of the Russian government to subvert the democratic process just to push their reforms through.<sup>146</sup>

The idea has however been used to imply a futility in the US strategy. Bartell describes Yeltsin as the only supporter of democratic movements, and the wide opposition to reforms meant that the US goal for spreading neoliberalism in Russia was just an illusion. It did however cause the US to unconditionally support Yeltsin even when he took steps that the US should have disagreed with.<sup>147</sup> Think of how in 1993 during a conflict with parliament Yeltsin ordered

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<sup>142</sup> Mark S. Copelovitch, *The International Monetary Fund in the Global Economy* (Cambridge University Press 2010) 5-11.

<sup>143</sup> Examples include: Fritz Bartell, 'An Authoritative Accessory. The IMF's Role in the 1993 Russian Constitutional Crisis', *Russian History* 50 (Brill, Feb 2024) 29; Peter Rutland, 'The Roots of Authoritarianism in Russia', *Asia policy* 26 (2019) 348; Peter Conradi, *Who Lost Russia? How the World Entered a New Cold War* (Oneworld Publications 2017) 44; Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283; Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 541-542.

<sup>144</sup> John Odling-Smee, 'The IMF and Russia in the 1990s', *IMF Staff Papers* 53:1 (2006) 154-155.

<sup>145</sup> This idea is also particularly present in the personal accounts of neoliberal thinkers within the IMF. Think for example of the works of Martin Gilman and Odling-Smee discussed in chapter 3. See: John Odling-Smee, 'The IMF and Russia in the 1990s', *IMF Staff Papers* 53:1 (2006) 155; Martin G. Gilman, *No precedent, no plan* (2010) 10.

<sup>146</sup> Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283.

<sup>147</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 541-542.

the army to shell the parliament building. While this seems fundamentally opposed to the concept of democracy, the US simply remained quiet.<sup>148</sup>

Within Russia, this has given much rise to more conspiratorial lines of thinking. Padma Desai<sup>149</sup> writes about the anger of the Russian people with the neoliberal reforms, and the illiberalism that arose as result.<sup>150</sup> The Russian neoliberal reformers are often seen as complicit to a US plot to purposefully fail the transition, removing Russia as a credible threat while giving its wealth to a group of friendly neoliberals.<sup>151</sup> The result was that when in 2000 Putin rose to power, many Russians supported his positioning of Russia as opponent of the west.<sup>152</sup>

More scientific interpretations<sup>153</sup> tend to take a slightly different approach than Russian public opinion, arguing that the IMF falsely believed that the Russians neoliberals were the only allies they had. This be seen in the work of Dogan, who earlier discussed how the US elites were working with a small group of Russian elites because of coinciding interests. Dogan argues that the Clinton administration persuaded the IMF and World Bank to provide massive loans before the 1996 election to strengthened Yeltsin's position in the eyes of public.<sup>154</sup>

Dogan's argument coincides with Bartell's explanation that the US had no way to ensure a broad enough support for the painful economic reforms that were necessary, resulting in the reforms getting out of hand and Yeltsin's popularity dropping. Since their entire strategy depended on supporting Yeltsin, the US and Yeltsin had to work together with Russian Oligarchs to ensure re-election. Bartell argues that while this did allow the 'hope for democracy to continue a while longer', it only served to increase corruption while the democratization of Russia was a futile goal from the start.<sup>155</sup>

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<sup>148</sup> Fritz Bartell, 'An Authoritative Accessory. The IMF's Role in the 1993 Russian Constitutional Crisis', *Russian History* 50 (Brill, Feb 2024) 21–45; Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 541-542.

<sup>149</sup> Padma Desai, 'Russian Retrospectives on Reforms from Yeltsin to Putin', *The Journal of economic perspectives* 19 (2005).

<sup>150</sup> Ibidem, 101.

<sup>151</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 299.

<sup>152</sup> Padma Desai, 'Russian Retrospectives on Reforms from Yeltsin to Putin', *The Journal of economic perspectives* 19 (2005) 101.

<sup>153</sup> Examples include: Fritz Bartell, 'An Authoritative Accessory. The IMF's Role in the 1993 Russian Constitutional Crisis', *Russian History* 50 (Brill, Feb 2024) 29; Peter Rutland, 'The Roots of Authoritarianism in Russia', *Asia policy* 26 (2019) 348; Peter Conradi, *Who Lost Russia? How the World Entered a New Cold War* (Oneworld Publications 2017) 44; Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283; Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 541-542.

<sup>154</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) 269.

<sup>155</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 542-544.

The current debate on neoliberalism can be considered a relatively new field, although drawing upon a broad interdisciplinary scholarship has allowed the debate to raise significant questions on the nature of world governance throughout the 1980s and 1990s. This thesis will seek to address two points that are of particular importance to the neoliberal reform of Russia.

The first is the question why the IMF kept insisting on the neoliberal Washington Consensus strategy despite earlier failures and criticism. The geo-economic approach mostly argues how neoliberalism had become so dominant it was the only ideological approach that was considered, while the more elitist approach of Dogan blamed coinciding interests from US and Russian elites. Chapter three will re-evaluate this question by looking at the context within which the IMF made this decision. The argument will be made that it was precisely because of criticism that the IMF refused to take a different approach, hoping it could prove the validity of the Washington Consensus believing earlier failures had been a problem of implementation rather than strategy.

The second point is the way in which the reform cause illiberalism in Russia. This is largely tied to the idea of arrogant neoliberal reformers who did not care about the suffering of the Russians, leading to a counterreaction of anti-western illiberalism. Within the Russia debate it is often tied to the narrow view the IMF took in supporting Yeltsin, even though his leadership was marked by corruption and the rise of oligarchs. This narrative will be shown in more detail in chapter two, explaining how the IMF kept supporting Yeltsin at the expense of all others leading to a loss of reputation when Yeltsin and his reformers became unpopular.

## Chapter 2: Historiographic Narrative: Losing Russia

This chapter seeks to provide an insight into the common narrative within the historiography on how the neoliberal Washington Consensus caused illiberalism within Russia. The chapter will put particular focus on explaining the IMF's role within this narrative, citing the IMF's insistence on a failing Washington Consensus strategy while continuing to support the corrupt Yeltsin government. The economic hardship caused by the failed reform and the corruption involved would have led to anger from the Russian population.

Chapter one gave an overview into the nature of the historiographic debates on the IMF and Russia. This chapter will now look at the narrative that these sources use to explain the rise of illiberalism in Russia. The purpose is to set up a framework of the traditional narrative of the debate, within which the case study of chapter three can be imbedded.

### Saving Russia

While the historical debate mainly focuses on the validity of neoliberalism and the Washington Consensus from an ideological perspective, it should be noted that the IMF was not ultimately responsible for the economic transition. Instead, it was simply the ambassador of an idea that had already been accepted by the Russian reformers themselves.<sup>156</sup> In fact, it took half a year just to approve Russian membership to the IMF. This means the Russian reform was ultimately the responsibility of the Russians themselves.<sup>157</sup> These Russian reformers had decided to take the neoliberal approach, which the literature largely sees as consequence of the dominance of neoliberalism throughout the world.<sup>158</sup>

With the absence of the IMF Russia started working on the advised neoliberal approach.<sup>159</sup> Transitioning an economy however proved difficult, and the Russian government had no way to properly implement policies. Bartell explains how the transition required very unpopular reforms, for which the Yeltsin administration could simply not get political consensus. The result was that the reform was carried out in a poor manner,<sup>160</sup> creating chaos,

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<sup>156</sup> Yegor Gaidar, 'The IMF and Russia', *The American economic review* 87 (1997).

<sup>157</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 2.

<sup>158</sup> Andrew Gamble, 'Ideologies of governance', in: *Handbook of the International Political Economy of Governance* (2014) 26, 29-30.

<sup>159</sup> Yegor Gaidar, 'The IMF and Russia', *The American economic review* 87 (1997) 14.

<sup>160</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 542.

unemployment and massive inflation. Savings became worthless and goods unaffordable, and public support for the reform was harmed immensely.<sup>161</sup>

By end 1991 beginning 1992 the Russian economy was in chaos, and the west needed to intervene if it wanted to succeed in Russia's neoliberal reform.<sup>162</sup> Russia was already in enormous debt problems since expenditures were high and revenues low, which was so bad author Gould-Davies states it was kept under wraps by the Bush administration since it could cause congress to rethink on contributing money to IMF for the reform.<sup>163</sup>

Instead of working on the policy of the reform, the IMF focused on managing this budget crisis. Rutland explains how IMF assistance in Russia mostly took the form of helping it managing debt and providing loans to cover budget shortfalls.<sup>164</sup> Pleines confirms "the IMF strongly focused on the state budget. This was not just the logic of neoliberalism, but also the logic of a bank, as which the IMF in fact acted."<sup>165</sup> Even in years where it became more involved, the IMF was ultimately only a minor influence on the actual policy creation. Instead, it served mostly as financier, setting requirements for the goals Russia should pursue but not getting involved in the process by which these reforms are achieved.<sup>166</sup>

The problem was that this budgetary approach did not solve the issues of the Russian government. The issues of the reform were political, not economic.<sup>167</sup> Gaidar and Miller explain that before the transition the Russian economy had been dominated by a corrupt political elite, that managed to subvert any attempt at reform for their own benefit.<sup>168</sup> The Russian reformers had tried to take state assets out of their hands and into the free market, as this would be central to the neoliberal idea of market supremacy.<sup>169</sup>

Western neoliberals had advised these policies expecting fair auctions, but did not realize this privatisation would be implemented by this corrupt party elite, Author Juliet Johnson explains how a number of influential bankers managed to convince -or rather bribe- the Russian government into giving them control over the privatisation auctions. State

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<sup>161</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 341.

<sup>162</sup> James Boys, *Clinton's Grand Strategy* (First Edition; London: Bloomsbury Publishing Plc 2015) 43.

<sup>163</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 4.

<sup>164</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 344.

<sup>165</sup> Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 276.

<sup>166</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 344.

<sup>167</sup> *Ibidem*, 345.

<sup>168</sup> Yegor Gaidar and Jane A. Miller, *State and Evolution: Russia's Search for a Free Market* (Seattle: University of Washington Press 2011) 84.

<sup>169</sup> *Ibidem*, 85-87.

companies were then being sold to political allies, creating a new class of incredibly wealthy oligarchs. Estimates state that by 1997 just six of these banking conglomerates managed to control around 50% of the entire Russian economy<sup>170</sup> These oligarchs could then use their new wealth to manipulate the political process, subverting any policy that could tax them causing the Russian government to miss out on enormous revenue streams.<sup>171</sup> At the same time the IMF was trying to solve the failing budget of the Russian government through economic policy advice.<sup>172</sup>

The IMF's objective in Russia was simple. It believed that in order to solve the economic downturn, it needed to stabilize the extreme inflation of Russia.<sup>173</sup> This was however a problem, since every attempt to influence the value of the Ruble gave opportunity to a number of corruption schemes that meant to abuse or subvert the rules.<sup>174</sup> Johnson explains how when the Russian Central Bank (CBR) launched a faulty deflation program in 1994, many of the rising oligarchs turned a profit while CBR reserves were drained.<sup>175</sup>

The result was that the first years of cooperation between IMF and Russia were wasted trying to gain control over state processes.<sup>176</sup> This delay caused many political groups within Russia to lose faith in the reforms, resulting in massive protests against Yeltsin.<sup>177</sup> The government's response was to draw increasingly more authority to itself in an attempt to bypass the political process and avoid opposition.<sup>178</sup> Bartell explains that when Yeltsin sought to give himself new powers in a new 1993 constitution, large protests erupted that occupied the Russian White House. Yeltsin in response ordered the army to open fire on the crowd, violently crushing any opposition in a military crackdown. This would set the tone for the following years, in which Yeltsin would take increasingly authoritarian measures.<sup>179</sup>

The IMF meanwhile largely ignored the rising corruption and authoritarianism, likely because it felt the reform success was dependent on supporting Yeltsin.<sup>180</sup> Bartell argues that

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<sup>170</sup> Juliet Johnson, *A Fistful of Rubles* (2000) 173-174, 178.

<sup>171</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 13.

<sup>172</sup> Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 278.

<sup>173</sup> Ewa Dabrowska and Joachim Zweynert, 'Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund', *New political economy* 20 (2015) 524.

<sup>174</sup> Yegor Gaidar, 'The IMF and Russia', *The American economic review* 87 (1997) 16.

<sup>175</sup> Juliet Johnson, *A Fistful of Rubles* (2000) 173-174, 178.

<sup>176</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 9.

<sup>177</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 341.

<sup>178</sup> Yegor Gaidar, 'The IMF and Russia', *The American economic review* 87 (1997) 15.

<sup>179</sup> Fritz Bartell, 'An Authoritative Accessory. The IMF's Role in the 1993 Russian Constitutional Crisis', *Russian History* 50 (Brill, Feb 2024) 33.

<sup>180</sup> Peter Rutland, 'Neoliberalism and the Russian transition', *Review of international political economy* 20 (2013) 348.

for the IMF Yeltsin was really the only ally that agreed with their neoliberal approach. As such it felt it could not speak out against him since their ability to continue reform was only possible through the political survival of Yeltsin. As a result the IMF publicly supported him even when the army shelled protesters in the Russian White House.<sup>181</sup>

Fortunately the IMF managed, after the initial difficulties, to achieve some success with stabilizing the economy in 1995.<sup>182</sup> Gould-Davies discusses how the continuing inability of the Russian government to solve its budget caused it to become increasingly reliant on IMF support to maintain the state operations. The IMF meanwhile was getting impatient, and became increasingly strict with its demands for Russia.<sup>183</sup> 1995 was therefore a year in which the IMF managed to succeed in stabilizing the Russian economy, but this was in part achieved by forcing even more austerity measures that now could no longer be opposed by parliament.<sup>184</sup> For the IMF the success of the 1995 program was reason to be optimistic,<sup>185</sup> but caused increased hardships among a Russian people that felt their influence diminishing on policy that defined their lives.<sup>186</sup>

This would be a problem, as 1995 was immediately followed by the elections of 1996. After the unpopular reforms and authoritarian decisions, polls showed Yeltsin could count on just a small percentage of voters.<sup>187</sup> Having lost public support, Yeltsin was forced to turn to the new class of oligarchs that had by now managed to gain considerable power over the political processes of Russia. Yeltsin needed these oligarchs to provide funding for his campaign, and use their control over media companies to promote his candidacy.<sup>188</sup> The Russian reformers therefore started a ‘loans-for-shares’ program with these bankers, in which anyone lending to the state would get their loans backed in shares. Since the state had no way to repay these loans, it essentially meant cheaply selling shares of major state companies to Russia’s biggest bankers. The clue here is that these deals would only go through if Yeltsin won the election, meaning the oligarchs had a vested interest in helping his re-election.<sup>189</sup>

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<sup>181</sup> Fritz Bartell, ‘The Illusions of the United States’ Great Power Politics’ In: *The Cambridge History of America and the World* (2021) 541-542.

<sup>182</sup> Ewa Dabrowska and Joachim Zweynert, ‘Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund’, *New political economy* 20 (2015) 524.

<sup>183</sup> Nigel Gould-Davies and Ngaire Woods, ‘Russia and the IMF’, *International affairs* 75 (London, 1999) 12-13.

<sup>184</sup> *Ibidem*, 11-13.

<sup>185</sup> Ewa Dabrowska and Joachim Zweynert, ‘Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund’, *New political economy* 20 (2015) 524.

<sup>186</sup> Nigel Gould-Davies and Ngaire Woods, ‘Russia and the IMF’, *International affairs* 75 (London, 1999) 11-13.

<sup>187</sup> Fritz Bartell, ‘The Illusions of the United States’ Great Power Politics’ In: *The Cambridge History of America and the World* (2021) 542.

<sup>188</sup> *Ibidem*, 541-542.

<sup>189</sup> Peter Rutland, ‘Neoliberalism and the Russian transition’, *Review of international political economy* 20 (2013) 343.

It had however caused yet another reason for anger among the Russian population. As author Desai states, the loans-for-shares program would go into Russian memory as a symbol of the reformer's corruption, embezzling the shared soviet heritage for the benefit of a small number of oligarchs.<sup>190</sup> This sentiment among the Russian people will become relevant in the discussion of chapter three, where the role of the IMF will be further discussed.

The IMF once again ignored these forms of corruption, providing a new loan just months before the election. This has sparked much debate on whether the IMF did this to support Yeltsin, or if it was simply a natural next step after the 1995 program. Most authors seem to treat the IMF's loan as an extension of earlier wilful ignorance concerning Yeltsin's corruption,<sup>191</sup> but some like Bartell do point out the IMF seemed to particularly push on the stabilization programs that gave Yeltsin credibility.<sup>192</sup> Gould-Davies also adds how the IMF ignored how Yeltsin was making election promises that broke with the agreed requirements for the loans set by the IMF.<sup>193</sup>

The historiography often uses this moment to explain how the economic transition failed.<sup>194</sup> With the oligarchs even richer, they became more powerful and could prevent being taxed on their wealth. Result was an even worse budget that the government had to close with austerity measures in order to adhere to IMF rules.<sup>195</sup> The IMF however seems to have had no eye for this, and was even optimistic about the reforms. It had managed in 1995 and 1996 to stabilize the inflation that had made the reforms so unpopular, and 1997 actually seemed to be a good year.<sup>196</sup> Annex 1 shows how going from 1997 to 1998 for the first time the economy seemed to be growing slightly, and the IMF seemed to have been hopeful that economic growth was right around the corner.<sup>197</sup>

Annex 1 also shows how this economic upturn would not become reality. By the end of 1997 a crisis began in Southeast-Asia that caused global energy prices to drop.<sup>198</sup> The Russian government, already struggling to manage its budget, had grown dependent on revenue from

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<sup>190</sup> Padma Desai, 'Russian Retrospectives on Reforms from Yeltsin to Putin', *The Journal of economic perspectives* 19 (2005) 97.

<sup>191</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 14.

<sup>192</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 541-542.

<sup>193</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 14.

<sup>194</sup> For examples, See: Juliet Johnson, *A Fistful of Rubles* (2000) 228, 231-232; Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 13. Michael McFaul, *From Cold War to hot peace* (2018) 44, 54-55.

<sup>195</sup> Nigel Gould-Davies and Ngaire Woods, 'Russia and the IMF', *International affairs* 75 (London, 1999) 13.

<sup>196</sup> Ibidem.

<sup>197</sup> Ibidem.

<sup>198</sup> Yegor Gaidar, *Collapse of an Empire. Lessons for Modern Russia* (Washington DC, Brookings Institution Press 2010) 61, 115.

oil and gas. The pressure from its debt suddenly became unaffordable, and maintaining the strategy of fighting inflation proved unaffordable.<sup>199</sup> By 1998 the Russian government was heading to a default.<sup>200</sup>

The IMF tried to salvage the situation by gathering all the funds it could to create an enormous \$23 Billion bailout package, but it was lost to corruption almost immediately. The Russian government still defaulted, and Russia fell into a deep recession as unemployment rose and salaries dropped.<sup>201</sup>

The IMF had tried to add conditions meant to ensure the money would be spent properly, but this only resulted in anger among the Russian population.<sup>202</sup> These did little to prevent the Russian government from having to default, but were yet another demand of the Russians to cut public spending. As Pleines states: “Two-thirds of the population shared a negative view of the IMF, while only 18 percent believed the claim by the Russian government that IMF loans were important to avoid economic collapse.”<sup>203</sup> Rutland adds that 1998 was marked by an anger at IMF personnel, who the Russians had come to see as cold and calculating technocrats that had destroyed their lives by pursuing a failing Washington Consensus and refused to listen to the cries of the Russians.<sup>204</sup>

It is these sentiments that are often cited as reason for the later rise of Russian illiberalism. Author McFaul discusses the anger the Russian people felt with the West and neoliberalism, which left them open to accept a counter ideology of illiberalism in response. He describes how Putin redefined Russia’s position in the world as opponent of the US and the West.<sup>205</sup>

Putin had originally been chosen by Yeltsin as his successor, but quickly distanced himself from Yeltsin. Criticising the harsh economic reform,<sup>206</sup> he would use his control over the media to spread the idea of himself as saviour that had risen up in response to a cry for help

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<sup>199</sup> Ewa Dabrowska and Joachim Zweynert, ‘Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund’, *New political economy* 20 (2015) 523.

<sup>200</sup> Ibidem.

<sup>201</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 277.

<sup>202</sup> Ibidem.

<sup>203</sup> Ibidem, 278.

<sup>204</sup> Peter Rutland, ‘Mission Impossible?’, *Review of international studies* 25 (1999) 184.

<sup>205</sup> Michael McFaul, *From Cold War to hot peace* (2018) 70.

<sup>206</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282.

from the Russians.<sup>207</sup> He cut ties with the IMF,<sup>208</sup> and made number of social welfare policies meant to gain public support.<sup>209</sup>

Where Yeltsin had at least somewhat sought to counter the rise of Oligarchs, Putin's strategy consisted of working through them. He realized that power had shifted to this small class of elites, and was able to gain control over the political process by choosing a number of them as his allies. He used the corruption of the state to increase the power and wealth of friendly Oligarchs, while using his resources within the Secret Service to suppress all that opposed him.<sup>210</sup> Think of how Mikhail Khodorkovsky, one of Russia's largest bankers and once richest man in the world, was imprisoned in 2005.<sup>211</sup> These oligarchs had until then been a cause of economic failure, and Putin's control over them seems to have brought some stability back into the Russian economy.<sup>212</sup>

It was this ability to re-establish stability that is generally considered by the historiography as the reason for the acceptance of illiberalism by the Russian population.<sup>213</sup> After a decade of chaos and hardship, the 2000s would be the turning point in which the Russian economy would finally start to grow.<sup>214</sup> Putin would later use these successes to frame his ascension as the rise of a strong leader, who stepped up to protect his people from the enemies of Russia like the US and IMF that had sought to ruin it.<sup>215</sup> Using his allies' media corporations to spread this like propaganda, it is perhaps not surprising that Putin and his illiberal politics would quickly gain popularity in Russia.<sup>216</sup>

The current historiographic narrative discusses in depth the way in which the failure of neoliberal economics caused illiberalism. Using narratives of an elite blinded by confidence in the Washington Consensus, they provide an overview of how economic hardship arose and led to an angry counterreaction from the population.<sup>217</sup> An element that seems to be missing

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<sup>207</sup> Michael McFaul, *From Cold War to hot peace* (2018) 71.

<sup>208</sup> Haluk Dogan, "Power, Culture, and Elite Interactions" (2022) 163-164.

<sup>209</sup> Heiko Pleines, 'Opposition to the Washington Consensus' In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282.

<sup>210</sup> Michael McFaul, *From Cold War to hot peace* (2018) 70.

<sup>211</sup> Claire Bigg, "European Court Rules That Khodorkovsky's Rights Were Violated" RFERL.org May 31, 2011. Last visited May 26 2025.

<https://www.rferl.org/a/european-court-rules-khodorkovskys-rights-violated/24210627.html>

<sup>212</sup> Sergey Vakulenko, "The Putin Era: Seven Factors Driving Russia's Economy Over the Last 25 Years" August 12, 2024. Last visited May 26, 2025. [https://russiapost.info/economy/putin\\_era](https://russiapost.info/economy/putin_era)

<sup>213</sup> Michael McFaul, *From Cold War to hot peace* (2018) 58-59.

<sup>214</sup> "Russia GDP 1988-2025" Macrotrends.net. Last visited May 26, 2025. <https://www.macrotrends.net/global-metrics/countries/rus/russia/gdp-gross-domestic-product>

<sup>215</sup> Michael McFaul, *From Cold War to hot peace* (2018) 58-59.

<sup>216</sup> Ibidem.

<sup>217</sup> Kathryn Stoner and Michael McFaul, 'Who Lost Russia (This Time)? Vladimir Putin', *The Washington Quarterly* 38:2 (2015) 167-168.

however is the reason why the IMF insisted on this strategy. Most historiographic sources tend to blame a blindness to reality, but fail to explain why the IMF did not adapt in its strategy despite criticism and increasing problems. The next chapter will seek to provide more depth to this element, looking at the IMF's motivations going into Russia and how this affected their policy throughout the years.

## Chapter 3: Case Study: Proving Neoliberalism in Russia

This chapter will dive into the motivations of the IMF to insist on its neoliberal policies, and how this defined its actions within Russia. Within the historiographic debate the IMF's insistence on the Washington Consensus strategy is largely considered as short-sighted behaviour of an elite that didn't realize weaknesses of neoliberalism. This chapter however will argue that a major reason for this insistence came from the fact the IMF's saw the Russian economic transition as the defining test that would determine its credibility.

The first paragraph will establish how the IMF, being criticised for earlier failures in Latin-America and Africa, came to see Russia as a last chance to show it had the capacity to aid nations in a successful economic transition. The second paragraph will discuss how this pushed the IMF to keep investing despite failures on the Russian side to implement policy as promised. Paragraph three will explain how the IMF's insistence to work through the Russian government caused it to be seen as complicit in a key number of illegitimate actions. The fourth paragraph will show how the continued insistence of the IMF to push through despite problems caused it to double down on failing strategies even as the 1998 crisis hit Russia.

Finally, the fifth paragraph will conclude by making the connection to the rise of Putin discussed in chapter two, explaining how the IMF's continuously deepened involvement in the Russian political system caused a counterreaction of anti-Western and illiberal sentiments that would define Russian politics in the modern time.

### Russia: the IMF's test

A major point of discussion in chapter 1 was the question why US elites had sought to take the Washington Consensus strategy despite harsh experiences in Latin-America and Africa. Most of the literature seemed convinced of the idea that neoliberalism had spread to be the only ideology within global governance. While this explains why the IMF took this as the basis for its policy strategy, it does not fully explain why it wasn't more open to adapt to the local situation. This paragraph will argue that the IMF was pushed into a position where it felt it had to prove its validity, causing it to double down on the Washington Consensus strategies to the world it could succeed.

It can be easy to take this desperation for recklessness, even when standing right next to it. One of the most famous criticisms of the IMF throughout the 1980s and 1990s is the work

of head economist of the World Bank Joseph Stiglitz<sup>218</sup>, in which he gives a detailed description of his experiences with the way the IMF conducted itself to foreign nations.<sup>219</sup>

He argues that “The Western advisers, especially from the United States and the IMF, who marched in so quickly to preach the gospel of the market economy, must also take some blame.”<sup>220</sup> He believes that in the case of Russia the IMF should have drawn inspiration from other nations transitioning from a communist economy to a market economy, but that IMF personnel refused to listen to any advice in a rather arrogant manner.<sup>221</sup>

Arguments for this idea of an arrogant attitude from the IMF at the start of its cooperation with Russia are easy to make. In a news article from 1992, the IMF refers to Russia in a condescending manner, stating the Russian reformers ‘have been doing better than expected’, but that they still have a long way to go. The IMF is however supportive of the process.<sup>222</sup> This while at the same time the Russian economy was facing backlash from the initial round of reforms introduced during the absence of IMF support.<sup>223</sup>

While it is easy to fault the IMF for such behaviour, this thesis will argue that it came as a consequence of the situation the IMF found itself in. In truth, the public debate on the IMF in 1992 was by no means positive. Newspapers reporting on the negotiations between the IMF and Russia show that the IMF was unhappy about the criticism it faced on earlier projects, being frequently asked if it couldn’t be softer in its policies to nations it worked with.<sup>224</sup> The New York Times openly asked why the IMF should even be trusted with handling Russia, considering its ‘dismal record’.<sup>225</sup> Head of the IMF Michael Camdessus was depicted as a man

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<sup>218</sup> While originally published in 2002, Stiglitz later added chapters about the modern era in a new 2018 version of his book. The original chapters have remained the same. This thesis will refer to the 2018 version. See: Joseph E. Stiglitz, *Globalization and its discontents* (2018).

<sup>219</sup> Stiglitz is careful to use the term neoliberalism, and it is markedly absent in the 2002 version of his book. This is likely due to its meaning back then being different from the historiographic meaning discussed in chapter 1. He does use it once in the 2018 version of his book. See: Joseph E. Stiglitz, *Globalization and its discontents* (2018) 8.

<sup>220</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 263.

<sup>221</sup> Ibidem, 267.

<sup>222</sup> Steven Mufson, “IMF Backs Reforms In Russia: Country a Step Closer To Fund Membership” *The Washington Post* (31 Mar 1992).

<https://www.proquest.com/history/docview/140755849/723C71FBA30D4919PQ/14?accountid=12045&sourcecety=Newspapers#>

<sup>223</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar’s revolution* (2015) 129.

<sup>224</sup> Steven Mufson, “Riding Herd On Russia’s Reform Effort: IMF Girds to See That Moscow, Other Republics Keep Aid Terms” *The Washington Post* (26 April 1992).

<https://www.proquest.com/history/docview/140777787/300CE6AD94224A0FPQ/7?accountid=12045&sourcecety=Newspapers>

<sup>225</sup> Bandow, Doug, “Why Waste Aid on Russia?: Consider the I.M.F.’s dismal record.” *New York Times*, 26 March 1992.

<https://www.proquest.com/history/docview/108985643/300CE6AD94224A0FPQ/12?accountid=12045&sourcecety=Newspapers>

with a history of failures,<sup>226</sup> who now had one last chance to prove the validity of his IMF in Russia.<sup>227</sup>

In his later accounts, the head of the IMF's mission to Russia Martin Gilman described how "Its managing director (since 1987), Camdessus, wanted to demonstrate that the IMF could rise to such a historical challenge."<sup>228</sup> He explains that in this desire he even bypassed concerns of the IMF's executive Directors. "Many of the IMF's twenty-four executive directors, in theory acting as individuals but in practice representing their governments, had always expressed concern that Russia was receiving favourable treatment relative to other countries that were members of the fund."<sup>229</sup> Internal IMF files seem to confirm this, with one document seemingly written with the specific purpose of convincing the executive board of his plans for Russia.<sup>230</sup> It is full of arguments meant to take away concerns, and concludes: "The Board meeting on March 30 will provide the opportunity for Directors to express their views about the program. Directors will no doubt be ready then to indicate how much they are able to support the program."<sup>231</sup>

Considering the IMF wished to use Russia to save its reputation, it is perhaps not surprising that Camdessus stressed the role the IMF was going to play in interviews. Likely seeking to show confidence, he insists that he hopes the project will be concluded successfully soon.<sup>232</sup> This confidence can also be seen in the grand announcement of the introduction of Russia into the IMF, although observers point out the political cost of the planned austerity measures cast a shadow over the occasion.<sup>233</sup>

The vested interest the IMF had in Russia can also be seen in how it extensively and publicly lobbied to gather sufficient funds for the project. Newspapers show how the IMF

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<sup>226</sup> Steven Greenhouse, "Point Man for the Rescue of the Century: Michel Camdessus and the I.M.F must now snatch Russia from the jaws of chaos", *New York Times* (26th April 1992).

<https://www.proquest.com/history/docview/108930860/300CE6AD94224A0FPQ/13?accountid=12045&source=Newspapers>

<sup>227</sup> "The IMF Test", *The Washington Post* (10 February 1992).

<https://www.proquest.com/history/docview/140613844/300CE6AD94224A0FPQ/32?accountid=12045&source=Newspapers>

<sup>228</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16.

<sup>229</sup> Ibidem.

<sup>230</sup> "Statement by the Managing Director on Russia during an informal meeting with Executive Directors February 27 1992" Ref ID 400323. International Monetary Fund Archives.

<sup>231</sup> Ibidem.

<sup>232</sup> "G7 announces \$43.4bn for Russia: IMF role in programme to help Russia is stressed", *The Irish Times* (16 April 1992).

<https://www.proquest.com/history/docview/524714875/F84510C476594341PQ/2?accountid=12045&source=Historical%20Newspapers>

<sup>233</sup> Martin Walker, "Russia accepted by IMF", *The Guardian* (1 April 1992).

<https://www.proquest.com/history/docview/187297179/300CE6AD94224A0FPQ/14?accountid=12045&source=Newspapers>

repeatedly asked the G-7 to promise additional financial support.<sup>234</sup> It also ensured the first \$1 Billion to be given in advance while negotiations were still underway,<sup>235</sup> implying the IMF felt pressure to get things moving quickly.

The insistence of the IMF to prove it could succeed despite opposition implies a conviction in its neoliberal strategy in line with what was discussed in chapter 1. However, the importance the IMF felt to prove itself acts as an additional element in the IMF's consideration for policy that will define how it deals with problems when they arise during its negotiations in Russia. The next paragraph will show how the application of the Washington Consensus strategy in Russia ran into unforeseen problems, and how the IMF's vested interest would cause it to keep pushing on Russia even when the Russians proved unwilling to implement the neoliberal policies.

## Negotiations: policy evasion

The problem with the early IMF-Russia relationship appears to have been that many within the Russian government only pretended to be on the side of the IMF, while secretly disagreeing with its course. This second paragraph will discuss how this pushed the IMF to keep investing in Russia despite failures on the Russian side to implement policy as promised.

The reason for this opposition among Russians to follow the IMF's course seems to have been that it was difficult for Russians to openly accept IMF interference. One of the main negotiators of the IMF in Russia was economist John Odling-Smee. Looking back, Smee argues that "Many Russians ... felt that it was humiliating to have to negotiate with the IMF for loans and to adjust economic policies to IMF requirements."<sup>236</sup> He is joined in this by US diplomat E. Wayne Merry, who states that "We forgot that it is basic human nature to resent dependency... A great nation like Russia could not experience this foreign tutelage ... without building up a reservoir of resentment."<sup>237</sup>

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<sup>234</sup> Steven Greenhouse, "Official of I.M.F. Urges More Loans for Russia", *New York Times* (14 September 1992). <https://www.proquest.com/history/docview/108884108/300CE6AD94224A0FPQ/25?accountid=12045&source=Newspapers>

<sup>235</sup> Stuart Auerbach, "IMF Supports Aid Advance for Russia: \$1 Billion Now; More After Economic Accord" *The Washington Post* (25 June 1992).

<https://www.proquest.com/history/docview/140595108/300CE6AD94224A0FPQ/8?accountid=12045&source=Newspapers>

<sup>236</sup> John Odling-Smee, 'The IMF and Russia in the 1990s' *IMF Staff Papers* 53:1 (2006) 151-194.

<sup>237</sup> "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 221.

The question arises why the Russian government would even work with the IMF in that case, as many sources on this topic will point out that the IMF didn't have the power to make Russian policy itself.<sup>238</sup> Stiglitz blames a necessity of IMF approval. "Not only countries seeking their help but also those seeking their 'seal of approval' so that they can better access international capital markets must follow their economic prescriptions".<sup>239</sup> While Stiglitz uses such arguments to paint a negative image of the IMF which he describes as arrogant and dominating, his statement has interesting implications when applied to this case. Due to the reliance on imports and falling economic productivity, the Russian government fell in a state of constant budgetary crisis. This gave the Russians an enormous necessity to at least pretend to agree with IMF advice, which explains what happened next.<sup>240</sup>

From Gilman, who was himself part of these negotiations, we can learn how the Russian government simply pretended to agree while secretly unwilling to implement the agreed policy.<sup>241</sup> "There is usually a fairly clear policy line handed down by the country's leadership. Thus the discussions with the IMF are substantive, with disagreements prevailing at the outset, and each side learning from the other until an agreed economic program is produced."<sup>242</sup> "In Russia, oddly enough, these elements were missing. In retrospect, it is remarkable how few disagreements there were over issues of program design — that is, what was needed to address a specific problem or achieve an objective. Perhaps experienced IMF staff members should have been more sceptical about the surprising lack of disagreement with their proposals."<sup>243</sup>

The lack of disagreement seems rooted in the necessity to pretend to adhere to IMF policy discussed by Stiglitz. Because the IMF genuinely believed the Russians were willing to work with them, they would continuously allow themselves to be misled. As Gilman wonders: "How could we miss even obvious signals? Not being an investigative agency and taking IMF member governments at their word, we had little choice but to accept their relatively rosy interpretation of events, unless it was directly contradicted by the facts. The problem was that such facts did not readily appear in the data ... and even if the data were accurate, we would not have known what to look for."<sup>244</sup>

One early example that caused problems between the IMF and Russia was the price of oil. In a collection of interviews with Russian reformers, they explain how Russian politics

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<sup>238</sup> John Odling-Smee, 'The IMF and Russia in the 1990s' *IMF Staff Papers* 53:1 (2006) 8-11.

<sup>239</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 156.

<sup>240</sup> *Ibidem*.

<sup>241</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16-17.

<sup>242</sup> *Ibidem*, 16-17, 25.

<sup>243</sup> *Ibidem*, 24.

<sup>244</sup> *Ibidem*, 81-82.

subverted the process of price liberalized that was part of the transition strategy. “He [Yeltsin] tried, but it seemed he had neither the power nor the strength to resist the lobbying.”<sup>245</sup> “Remember the first months ... when Rakhimov was persuading Yeltsin (and then us) to exempt him from paying the crude oil export duty?”<sup>246</sup>

The IMF did not seem to realize this. An analyst from The New York Times explained how the IMF wanted the Russian government to maintain a tight budget, and that oil revenues were an important factor in a nation with increasingly falling production output. In fact, subsidising an artificially low price outright cost the state money, and the neoliberal IMF felt that such market inefficiency had to be resolved as soon as possible.<sup>247</sup> Because the negotiations between the IMF and Russia were so ineffective, it would take months before oil prices were finally set free.<sup>248</sup>

Stiglitz blames these poor negotiations of the IMF on its failure to understand the countries it was dealing with.<sup>249</sup> He argues that while the World Bank has large teams active in the countries they are dealing with, IMF policy is made in Washington based on information gathered by missions.<sup>250</sup> This results in IMF personnel having no understanding of the country they are dealing with, and their advice either unrealistic or politically unviable.

It should be noted Stiglitz may be comparing the IMF negatively to the World Bank he was himself a part of. We can however see hints of a naivete within the IMF in the documents sent back after IMF missions. In the 1993 and 1995 missions led by Odling-Smee hundreds of reports and documents are sent back to the IMF headquarters for policy creation. Within these documents, information is generally sent back to the IMF headquarters without any reflection on the validity of the information.<sup>251</sup> Gilman’s earlier quote on how the IMF was misled by the Russians had already discussed how such information was inherently flawed.<sup>252</sup>

Not understanding why policies were not properly implemented, the IMF doubled down on the demands it made of the Russian government. Newspapers from this period report on the conflict of interests between the IMF’s insistence on tight budgetary policy and the

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<sup>245</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar’s revolution* (2015) 123.

<sup>246</sup> Ibidem.

<sup>247</sup> Louis Uchitelle, “In Spite of Hardship, I.M.F. Urges Russia To Raise Price of Oil: I.M.F. Is Urging Russia to Increase the Price of Oil”, *New York Times*, (11 January 1992).

<https://www.proquest.com/history/docview/108848640/FE3236A213544926PQ/1?accountid=12045&sourcetype=Newspapers>

<sup>248</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar’s revolution* (2015) 147.

<sup>249</sup> Stiglitz, Joseph, and Lindsey Schoenfelder, ‘Challenging the Washington Consensus’, *The Brown journal of world affairs* 9 (2003) 33-40.

<sup>250</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 161.

<sup>251</sup> “Back to the office reports- Russia” 1993-1996 Ref ID 138424. International Monetary Fund Archives.

<sup>252</sup> Martin G. Gilman, *No precedent, no plan* (2010) 81-82.

unwillingness of the Russian government to adhere. They show how the Russian government continuously asked the IMF to take a softer stance on budgetary policy, citing economic hardship as a result of austerity measures on social welfare. The IMF meanwhile kept insisting on a strict budget, arguing that it was a necessary step in the policy strategy.<sup>253</sup>

The Russian government, unable to adhere to the IMF's conditions but also requiring IMF aid, appears to have started prematurely implementing policies without informing the IMF so it would not have the ability to prevent such evasive behaviour. This came to a confrontation when in 1994 the Central Bank of Russia suddenly decided to take measures against inflation by buying up Rubles. Halfway through the CBR realized it did not have the financial reserves to maintain its project, forcing it to abandon the project causing a collapse in confidence in the CBR and more inflation. Within IMF archives, an angry letter from Camdessus can be found written to all IMF personnel involved in the matter. "I want to make it clear that the Fund management and staff were not consulted about the measures announced by the Central Bank of Russia. ... Moreover, the apparent lack of full consultation and coordination ... is of concern. It has led to the announcement of less than thoroughly considered measures and an unnecessary degree of uncertainty."<sup>254</sup>

Interestingly, the failure of the deflation program would be the start of a change in IMF influence and involvement. Due to the failure of reforms, the Russian government and CBR became increasingly forced to start relying on IMF support. This is likely due to the reliance Stiglitz mentions governments have in IMF approval. Minutes of the IMF board meeting of 1994 show that the IMF can talk in great detail about its plans for a stabilization plan for Russia.<sup>255</sup> An IMF report by managing director Camdessus further shows how reliant the Russian government became, with Russian prime minister Chernomyrdin ensuring Camdessus that he would do everything in his power to support IMF proposals.<sup>256</sup> It would not be until 1996 that the Russians once again asked the IMF to be more lenient with its budgetary policy.<sup>257</sup> Miraculously the plan worked, as inflation finally fell to manageable levels. The IMF, seeing

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<sup>253</sup> Peter Behr, "The IMF's Hard Line On Russia: Agency Refuses to Back Off On Economic Reform Demands", *The Washington Post* (2 February 1994).

<https://www.proquest.com/history/docview/751082374/723C71FBA30D4919PQ/10?accountid=12045&source=Newspapers>

<sup>254</sup> "Report by managing director September 1993" Ref ID 404609. International Monetary Fund Archives; "Statement on Currency Conversion" Ref ID 405473. International Monetary Fund Archives.

<sup>255</sup> "Minutes of executive board meeting September 1994" Ref ID 413465 International Monetary Fund Archives.

<sup>256</sup> "Report by managing director June 1994" Ref ID 416211. International Monetary Fund Archives.

<sup>257</sup> Martin G. Gilman, *No precedent, no plan* (2010) 71-73.

opportunity, increased its financial involvement with a \$10.1 billion loan in 1996 and pushing the World Bank to provide capital as well.<sup>258</sup>

The problem was that none of the underlying issues with the Russian government had actually been solved. Gilman's accounts show that the Russian government was simply too fractured and weak to be able to adhere to the needs of the IMF. "As the IMF sought to normalize its involvement in Russia, it had to confront the realities of a largely dysfunctional state in which internal rivalries, divergent institutional interests, and bureaucratic infighting made a consensus on policies such as tax collection hard to achieve and sustain".<sup>259</sup> The IMF however believed in 1995 it finally had the opening needed to succeed in its reform strategy and prove it could turn things around in Russia. As Gilman put it: "Despite the earlier poor program performance and weak leadership, the Russian authorities were able to meet their targets month after month during 1995. Overall, the performance under the standby was exemplary — even by IMF standards. There seemed to be light at the end of the tunnel."<sup>260</sup>

As will be discussed in the next paragraph, this false belief that the IMF had a good opportunity to succeed would be used as justification to increase its involvement into Russia, leading to the IMF getting dragged into Russian politics.

## IMF, Authoritative Accessory?

In the first paragraph, it was discussed how the criticism on earlier projects had made a successful transition in Russia of great importance to the IMF's credibility. The second paragraph added how this caused the IMF to try and force progress in Russia even when the IMF could not find a proper way to work with the Russian government. This paragraph will argue that this desperation to succeed would cause the IMF to allow a number of undemocratic processes thereby becoming complicit to the degradation of Russian democracy in the eyes of many.<sup>261</sup>

The point here is not to argue whether the IMF itself was responsible, but that its behaviour caused the Russian people to see it as such.<sup>262</sup> While this happened over a gradual process of democratic degradation, it can be studied by looking at 3 main arguments: The IMF's

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<sup>258</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16-17.

<sup>259</sup> *Ibidem*, 39.

<sup>260</sup> *Ibidem*, 27-28.

<sup>261</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 299.

<sup>262</sup> "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 261.

condoning of a flawed privatisation scheme, the IMF's acceptance of the 1993 white house crackdown and the manipulation of the 1996 election.

As discussed in the two previous chapters, the 1990s in Russia were marked by the rise of a powerful class of oligarchs. The work of author Juliet Johnson discussed in chapter 1 had shown how a number of Russia's bankers had gained control over the states privatisation process and used it to enrich themselves and their political allies.<sup>263</sup> The interviews with Russian reformers show how this had caused anger among the Russians: "The people's idea of justice was crushed already by voucher privatisation."<sup>264</sup>

The IMF however seems to have been too focused on making quick progress with the reform to care. The accounts of IMF negotiator Odling-Smee show how the IMF believed "the disintegration of the old central planning system had reached such an advanced stage by the end of 1991 that there was little scope for pursuing a gradual strategy in which the new system would be phased in as the old one was dismantled."<sup>265</sup>

This sense of haste can also be seen in the way Stiglitz describes the IMF strategy for encouraging privatisation. From his position of the World Bank he had a good understanding of how the IMF encouraged nations to pursue privatisation.<sup>266</sup> "The IMF and the World Bank have approached the issues from a narrow ideological perspective—privatization was to be pursued rapidly. Scorecards were kept for the countries making the transition from communism to the market: those who privatized faster were given the high marks. As a result, privatization often did not bring the benefits that were promised."<sup>267</sup>

Combining the sources discussed gives a sense of an almost reckless haste within the IMF's strategy. Earlier, this thesis discussed how IMF's managing director Camdessus had emphasised the role the IMF would play in the reform process, and how he had promised to provide quick results.<sup>268</sup> This same sense of urgency to create swift results is also a likely cause for the IMF's insistence on the advance loan discussed at the end of paragraph one.<sup>269</sup> There the IMF had seemed to already be in a hurry even while negotiations had still been in process.

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<sup>263</sup> Juliet Johnson, *A Fistful of Rubles* (2000) 173-174, 178.

<sup>264</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar's revolution* (2015) 82.

<sup>265</sup> John Odling-Smee, 'The IMF and Russia in the 1990s', *IMF Staff Papers* 53:1 (2006) 157.

<sup>266</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 190.

<sup>267</sup> *Ibidem*.

<sup>268</sup> "G7 announces \$43.4bn for Russia: IMF role in programme to help Russia is stressed", *The Irish Times* (16 April 1992).

<https://www.proquest.com/history/docview/524714875/F84510C476594341PQ/2?accountid=12045&sourcetype=Historical%20Newspapers>

<sup>269</sup> Stuart Auerbach, "IMF Supports Aid Advance for Russia: \$1 Billion Now; More After Economic Accord", *The Washington Post* (25 June 1992).

While it should be noted that many sources agree the IMF would have had no actual way to force the Russians to cut out such corruption,<sup>270</sup> it did affect the perception of the IMF which is what stands central within this thesis. Stiglitz explains how “By siding so firmly for so long with those at the helm when the huge inequality was created ... [the IMF] have indelibly associated themselves with policies that, at best, promoted the interests of the wealthy at the expense of the average Russian.”<sup>271</sup> This would set the stage for the later anti-Western backlash among the Russian people.<sup>272</sup>

The role of oligarchs would become particularly meaningful when the Yeltsin government became increasingly isolated. An important aspect discussed in chapter one was the narrow-mindedness of the IMF’s approach on who to support, and whether or not it should have tried to create a broader base of support among Russian democratic movements.<sup>273</sup> This thesis will argue that the IMF’s insistence on working with the neoliberal thinkers it had invested so much effort in was the second way in which it became complicit to the illegitimate actions of the Russian government.

One of the best descriptions of this process comes from an interview with US diplomat E. Wayne Merry.<sup>274</sup> Merry was placed at the US embassy in Moscow, and gives in his interview a clear explanation of how the West lost the trust of the Russian population. He gives particular importance to the violent confrontation between the Yeltsin government and protesters at the White house.

Merry argues how the US<sup>275</sup> failed to recognize that Yeltsin and his reformers were not the only pro-democracy group active in Russia.<sup>276</sup> Instead they falsely believed that the

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<sup>270</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 264.

<sup>271</sup> *Ibidem*, 298.

<sup>272</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 221, 257-258.

<sup>273</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283.

<sup>274</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection.

<sup>275</sup> As US diplomat, Merry does not typically refer to just the IMF. Instead, he uses ‘the West’ to refer to both the western economic advisors of the IMF and the US government that remain largely in the background. See: “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection.

<sup>276</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 231.

confrontation at the Russian White House was between their neoliberal allies and a communist opposition that sought to undo the progress of the reforms.<sup>277</sup>

Such belief within the IMF can be confirmed in the accounts of Gilman and Odling-Smee. While they do not address this criticism directly, their description of the reform process constantly confirms their belief that the Russian reformers stood alone against a powerful opposition. Gilman addresses it often but vaguely, using this opposition to defend why the IMF and its Russian allies were so inefficient in pushing through reform.<sup>278</sup> Odling-Smee is more direct: “The opposition to the reformers not only had different ideas about economic reforms; in many cases, they also had more operational experience and knew how to make the bureaucracy work in pursuit of their interests or to impede the reformers’ policy initiatives.”<sup>279</sup> He further describes that “Their views reflected the Soviet system rather than a market economy”<sup>280</sup>

Merry describes the situation differently: “These people had been Yeltsin’s political allies in the late Soviet period, and certainly had joined enthusiastically with the effort to build a new, independent, non-communist Russia, but they were increasingly concerned about the basis of legitimacy of the government and its policies.”<sup>281</sup> To Merry, this would be a major reason for the later anger of the Russian people: “Washington supported Yeltsin, but without much sense of nuance or what our support would mean in Russia. They tended to view things in black and white, that the people on the other side of the barricades must be the bad guys of Russia.”<sup>282</sup>

When Yeltsin called in the army, Merry could see from the embassy’s window how sharpshooters opened fire on the crowd. When parliament sought to impeach Yeltsin, Yeltsin told the army to shut parliament down. Merry blames the West for not speaking out against this violence, which he claims enormously hurt the West’s reputation among these formerly pro-Western democratic groups.<sup>283</sup>

Merry’s idea that Yeltsin lost his position as defender of Russian democracy can be supported by looking at accounts on the Russian side.<sup>284</sup> The earlier mentioned interviews with

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<sup>277</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 230.

<sup>278</sup> Martin G. Gilman, *No precedent, no plan* (2010) 10.

<sup>279</sup> John Odling-Smee, ‘The IMF and Russia in the 1990s’, *IMF Staff Papers* 53:1 (2006) 154.

<sup>280</sup> *Ibidem*.

<sup>281</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 230-231.

<sup>282</sup> *Ibidem*, 239.

<sup>283</sup> *Ibidem*, 257-258.

<sup>284</sup> *Ibidem*, 236-237.

Russian reformers mainly involve the accounts of economic reformers rather than politicians, but these stood close enough to Yeltsin to have a good understanding of how his position changed over time. “I think the White House events made him more isolated and angry, but his power strengthened. He used force, and he became stronger... He became more isolated, angry and vindictive.”<sup>285</sup> The political situation he had to navigate, complicated by the aforementioned rise of powerful oligarchs in Russia’s political system, seems to have indeed pushed him into decisions that degraded Russian democracy.<sup>286</sup>

The central idea in Merry’s interview is how the refusal of the West to listen to the sentiments of the Russian people caused the later anti-Western sentiments. He blames the West for having an arrogant and misguided view of Russia, doubling down on a course without even trying to understand the Russian people.<sup>287</sup> In fact, he describes how US organizations refused to work with those knowledgeable about Russia. “The new USAID mission actually discouraged the hiring of people with on-the-ground Russian experience as somehow tainted – with realism, in my view.”<sup>288</sup>

At first it seems difficult to fit Merry’s description into the wider framework. It has been argued earlier in this chapter that the IMF kept doubling down on supporting Yeltsin and the neoliberal reformers because it believed this is where it had an opening to create the swift reform success it needed. The argument can therefore be made that the IMF chose the side of Yeltsin because that is where it saw the most opportunity to succeed. It does not however explain why the IMF would refuse to even listen to the Russian sentiments, instead taking the narrow-minded approach on who to work with discussed by Merry and historiographic sources.<sup>289</sup>

The IMF’s refusal to respond to these sentiments seems strange considering the fact that the IMF did understand the value of maintaining broad public support. As Odling-Smee recalls: “The IMF’s view from the beginning of the transition was that a strong social safety net was critically important and Camdessus frequently referred to that in his speeches... In practice, however, little effort was made to reform the social sector or to protect social expenditures from general fiscal tightness.”<sup>290</sup>

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<sup>285</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar’s revolution* (2015) 256-257.

<sup>286</sup> *Ibidem*, 257.

<sup>287</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 260.

<sup>288</sup> *Ibidem*, 258-259.

<sup>289</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283.

<sup>290</sup> John Odling-Smee, ‘The IMF and Russia in the 1990s’, *IMF Staff Papers* 53:1 (2006) 182.

A clue can be found in the words of Merry, who argues that it was not democratic thinking but the harsh nature of the Washington Consensus that was the breaking point between the protesters and reformers. In his words: “My own feeling, a strong feeling, was that the real villain of this story was the so-called “Washington consensus... The Russian people were not rejecting democracy. Not at all. They were not rejecting a Western-oriented Russia or engagement with the outside world. What they were rejecting was a policy of economic stringency.”<sup>291</sup>

What this means is that there was in fact a direct conflict of interests between these protesters and the IMF. The IMF went into Russia to prove the validity of its Washington Consensus strategy to prove earlier mistakes were simply flaws in execution by the nations they worked with.<sup>292</sup> The IMF might have agreed with these groups on democratic ideals, but the fundamental disagreement on economic policy likely made them think any sort of cooperation was impossible. The events at the Russian White House coincide roughly with the increasing dependence of the Russian government on the IMF at end of paragraph two. There Gilman had described that the IMF after initial difficulties was chasing the opportunity to finally get moving with the reforms.<sup>293</sup>

As such the IMF probably did not interfere in the conflict, hoping that it could use the power that it would leave Yeltsin with as opportunity to push new reform. Consider the fact that the IMF had at this point been working with Russia for years with little meaningful progress to show for it. Camdessus had promised the IMF could provide a quick turnaround of the economic difficulties,<sup>294</sup> yet from the start of the program in 1992 the economy had only declined more.<sup>295</sup> It is therefore likely that the IMF simply ignored the problematic behaviour of the Russian state on the justification it needed the state to get things moving quickly.

Having already ignored all problems in the name of moving forward, the IMF almost immediately stumbled into yet a third time where it was seen as complicit in the Russian government’s activities. After years of difficulties with evasive behaviour from the Russians, the 1995 stabilization program mentioned in paragraph two allowed the IMF to finally get some

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<sup>291</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 257-258.

<sup>292</sup> “The IMF Test”, *The Washington Post* (10 February 1992).  
<https://www.proquest.com/history/docview/140613844/300CE6AD94224A0FPQ/32?accountid=12045&source=Newspapers>

<sup>293</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16-17.

<sup>294</sup> “G7 announces \$43.4bn for Russia: IMF role in programme to help Russia is stressed”, *The Irish Times* (16 April 1992).  
<https://www.proquest.com/history/docview/524714875/F84510C476594341PQ/2?accountid=12045&source=Historical%20Newspapers>

<sup>295</sup> See Annex 1: Russian GDP 31<sup>st</sup> December 1998 – 31<sup>st</sup> December 1999.

control over the Russian economy.<sup>296</sup> The IMF was eager to continue from this success, but the following year would see the 1996 elections.<sup>297</sup>

Earlier, chapter two provided an overview of how this led the Russian government to turn to oligarchs for support, who then used their wealth and control over media companies to support Yeltsin in return for the rather illegitimate loans-for-shares privatisation program. The interviews with Russian reformers showed earlier that this had done irreparable damage to the reform's reputation.<sup>298</sup> The Russian reformers had still done this because they felt losing the elections would destroy the reform process they believed in. "The loans-for-shares program laid down a political foundation for the irreversible defeat of the communists in the election of 1996... That alone was enough to call the auctions a positive phenomenon."<sup>299</sup>

The IMF might have been an outsider in this process, but its urgency to continue reform as quickly as possible would see it accused of helping subvert Russian elections.<sup>300</sup> When the IMF announced its plans for a loan in 1996, newspapers report on how these funds could be "a massive fiscal shot in the arm for the president at a crucial political moment."<sup>301</sup> Camdessus kept insisting in interviews that it was not meant to help support Yeltsin's re-election, but it probably did not help he kept insisting "If they (new government) don't comply with the commitments of Russia established in the documents, our support would be interrupted."<sup>302</sup> As one writer from the New York Times points out: "The West has few means at its disposal to influence the Russian electorate... But the West does have the money to encourage market reforms here and is willing to use it".<sup>303</sup>

Whether or not the loan was actually meant to help the re-election is difficult to answer. Gilman defends it as natural follow-up to earlier programs. "In light of the success in achieving

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<sup>296</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16-17.

<sup>297</sup> Fritz Bartell, 'The Illusions of the United States' Great Power Politics' In: *The Cambridge History of America and the World* (2021) 542.

<sup>298</sup> Petr Olegovich Aven and Alfred Kokh, *Gaidar's revolution* (2015) 82-83.

<sup>299</sup> Ibidem, 82.

<sup>300</sup> Michael R. Gordon, "RUSSIA AND I.M.F. AGREE ON A LOAN FOR \$10.2 BILLION: A BIG BOOST FOR YELTSIN; Agency Warns It Will Cut Off Funds if New Government Halts Economic Change", *New York Times* (23 February 1996).

<https://www.proquest.com/history/docview/109553113/4CF9D156D5CE4F27PQ/2?accountid=12045&source=Newspapers>.

<sup>301</sup> Lee Hockstader, "IMF, Russia Set Loan for \$10 Billion: Credits Could Boost Yeltsin's Campaign For a Second Term", *The Washington Post* (23 February 1996).

<https://www.proquest.com/history/docview/1030535241/723C71FBA30D4919PQ/9?accountid=12045&parentSessionId=jrhE9KkWJPNybptr3JVuJ2Eso%2FyKBl7X0XqDI6kqW1Y%3D&source=Newspapers>

<sup>302</sup> Michael R. Gordon, "RUSSIA AND I.M.F. AGREE ON A LOAN FOR \$10.2 BILLION: A BIG BOOST FOR YELTSIN; Agency Warns It Will Cut Off Funds if New Government Halts Economic Change", *New York Times* (23 February 1996).

<https://www.proquest.com/history/docview/109553113/4CF9D156D5CE4F27PQ/2?accountid=12045&source=Newspapers>

<sup>303</sup> Ibidem.

progress toward macroeconomic stabilization under their 1995 economic program... started working on a much more ambitious successor program".<sup>304</sup> "The timing was in fact largely coincidental even if interpreted by critics as opportunistic on the part of the G-7."<sup>305</sup>

Gilman's arguments might be somewhat influenced by his desire to defend the IMF's reputation against the 'conspiratorial' idea that the IMF would interfere with the election. It is however believable that the IMF would decide on this loan based on its urgency to create swift results. The idea that the IMF was simply in a hurry can be further substantiated by looking at minutes from the 1996 IMF board meeting.<sup>306</sup> These show that the election was the biggest concern when approving the loan, but only as possible reason to delay. "A question that often comes up in this regard is whether the Fund should not have waited until after the Russian presidential elections with this EFF. The staff itself acknowledge that 'its endorsement by a possible new incoming administration is by no means assured.' Nevertheless, I believe that political uncertainty is not a valid reason for the Fund to delay programs."<sup>307</sup>

That being said, even if they didn't wish to get involved in the election, the IMF seemed careful not to take steps that would hurt Yeltsin's position. One of the most important Russian reformers Yegor Gaidar explains how in the months leading up to the election the IMF spend large amounts of its financial reserves to help fight inflation. This had already been part of the 1995 program, but Gaidar explains it was considered a top priority in the 1996 program.<sup>308</sup>

Similarly, the IMF appears to have kept quiet about problems until just after the election. Normally the IMF can delay payments when nations are not meeting requirements, but an article from the New York Times shows how the IMF waited until just after the elections before taking such measures when it was unhappy about too low tax revenues.<sup>309</sup> This shows that even though the IMF was not directly involved in the election, it seemed mindful not to interfere with the chances of Yeltsin. It had at this point thrown its support behind Yeltsin, and seemed worried what would happen if he lost the election.<sup>310</sup>

Through its support for the privatisation scheme, its lack to condemn the White House crackdown and a poorly timed 1996 loan the IMF became increasingly seen as complicit in the

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<sup>304</sup> Martin G. Gilman, *No precedent, no plan* (2010) 39.

<sup>305</sup> *Ibidem*.

<sup>306</sup> "Minutes of Executive Board Meeting September 96" Ref ID 439045. International Monetary Fund Archives.

<sup>307</sup> *Ibidem*.

<sup>308</sup> Yegor Gaidar, 'The IMF and Russia', *The American economic review* 87 (1997) 16.

<sup>309</sup> Richard W. Stevenson, "I.M.F. WILL DELAY MONEY TO RUSSIA OVER TAX PROBLEM: REVENUE SEEN AS TOO LOW Some Companies Did Not Pay Until They Were Convinced of Communists' Defeat", *New York Times* (23 July 1996).

<https://www.proquest.com/history/pagepdf/109649836/Record/723C71FBA30D4919PQ/17?accountid=12045&source=Newspapers>

<sup>310</sup> "Minutes of Executive Board Meeting September 96" Ref ID 439045. International Monetary Fund Archives.

Russian governments illegitimate behaviour.<sup>311</sup> The IMF doesn't seem to have wanted involvement in Russian politics, but needed to be able to show positive results as quickly as possible. Its assumption that the way to achieve this was to work through the Russian government despite the wrongdoings of the Yeltsin administration caused it to let slide a number of problems it maybe shouldn't have. This was taken as an endorsement of these wrongdoings causing anger among the Russian population.<sup>312</sup>

As mentioned at the beginning of this paragraph, the point here is not to determine whether or not the IMF was itself responsible for these actions -which is often the focus of sources within the Washington Consensus debate- but to determine why it was seen as such. The fundamental issue with all these three problems is that the IMF didn't speak out about them. While it likely didn't have the capacity to force the Russians to act in a different manner,<sup>313</sup> the way in which it started being blamed for these failures would be the foundation for the later anti-Western feelings among the Russian population.<sup>314</sup>

## The Bubble Burst

The previous paragraph discussed how the IMF became seen as involved in the wrongdoings of the Russian government as a result of its insistence to ignore these problems in the name of making progress. It had invested too much importance into succeeding in Russia, and this paragraph will address how this led the IMF to keep trying to turn the situation in Russia around even when all signs pointed to an inevitable crash. The IMF simply wanted to believe they could somehow turn things around, and kept pouring money into Russia to the very end.<sup>315</sup>

It is important to establish that the IMF did not stumble into the crash without warning. There is evidence to support it was well aware of the problems. Even before the 1998 crash some newspapers already ran stories speaking about the corruption in Russia, with the article itself already addresses how Russian reformers that are being lauded in the West are accused of corruption in Russia.<sup>316</sup> The situation is perhaps best captured in a story from Stiglitz: "When

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<sup>311</sup> Martin G. Gilman, *No precedent, no plan* (2010) 39; "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 260.

<sup>312</sup> "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 221, 261.

<sup>313</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 264.

<sup>314</sup> "Interview with E. Wayne Merry February 19 2010", ADST Oral History Project, ADST's Oral History Collection 221, 261.

<sup>315</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 277-278.

<sup>316</sup> Peter Reddaway, "Beware the Russian Reformer: While the U.S. Depends On Chubais, Accusations Fly in Moscow", *The Washington Post* (24 August 1997).

U.S. and European newspapers finally exposed the corruption publicly,<sup>317</sup> Treasury's condemnation had a hollow and disingenuous ring. The reality is that the Duma's<sup>318</sup> inspector general brought these charges to Washington long before the news stories broke. Within the World Bank, I was urged not to meet with him, lest we give credence to his charges. If the extent of corruption was not known, it was because ears and eyes were covered."<sup>319</sup>

That is not to say that there were no concerns within IMF leadership. Gilman explains that the IMF board was critical of a new 1997 plan, pointing out the problems with the Russian government that the IMF had steadfastly ignored.<sup>320</sup> "The prevailing view in the IMF at the time was that the poor track record thus far under the EFF was related primarily to a lack of political will".<sup>321</sup> This can also be referenced in the minutes from of the 1997 Board Meeting.<sup>322</sup>

The minutes show how the board was weary due to missed targets and constant difficulties with the program, but let themselves be convinced by the staff members working on Russia that a successful continuation of the program is still possible. The board members state that they do not fully agree with the optimistic outlook of the staff, they are "quite willing to again extent the benefits of the doubt to Russian reformers"<sup>323</sup> These actions seem to somewhat mirror the events from 1992 discussed in paragraph one, where Camdessus had to convince the board of the importance of IMF activities in Russia when board members had shown concerns about preferential treatment being given to Russia.<sup>324</sup> Here too, the board ultimately allowed the IMF team to go through with a 1997 loan.<sup>325</sup>

The way in which the IMF the 1997 loan came to be shows how the IMF staff invested in Russia kept doubling down insisting on the validity of their strategy. Stiglitz too confirms that "The IMF kept promising that recovery was around the corner. By 1997, it had reason for this optimism. With output having already fallen 40 percent since 1990, how much further down could it go?"<sup>326</sup>

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<sup>317</sup> For an example see: Jonthan Steel, "Russia: the biggest money launderette in the world", *The Guardian* (31 Aug 1999).

<https://www.proquest.com/history/docview/188355953/D7BF424F320C4D9DPQ/9?accountid=12045&source=Newspapers>.

<sup>318</sup> The 'Duma' is the name of the Russian parliament.

<sup>319</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 298.

<sup>320</sup> Martin G. Gilman, *No precedent, no plan* (2010) 78.

<sup>321</sup> *Ibidem*, 78.

<sup>322</sup> "Russian Federation - The Acting Chairman's Summing Up at the Conclusion of the 1997 Article IV Consultation - EBM/97/50 (5/16/97)" Ref ID 447402. International Monetary Fund Archives.

<sup>323</sup> *Ibidem*.

<sup>324</sup> "Statement by the Managing Director on Russia during an informal meeting with Executive Directors February 27 1992" Ref ID 400323. International Monetary Fund Archives.

<sup>325</sup> "Russian Federation Review under Extended Arrangement September 97" Ref ID 444470. International Monetary Fund Archives.

<sup>326</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 273.

It was this insistence that it could save the situation in Russia that caused the IMF to engage in a series of policies that were extremely risky. It had already been investing large quantities of money to keep the Russian Ruble at an artificially high value, and now it started encouraging the Russian government to take out enormous dollar loans. These could be taken at a much lower interest rate than normal loans, but Russia would not be able to repay them if the Ruble were to fail.<sup>327</sup> Stiglitz explains however that the IMF was so confident it could keep the Ruble stable, that it refused to listen to anyone that tried to warn them. “In the case of Russia, the IMF bureaucrats believed that they were smarter than the market—they were willing to bet Russia’s money that the market was wrong.”<sup>328</sup>

While to Stiglitz this is sign of an arrogant IMF that refused to acknowledge reality,<sup>329</sup> the arguments in this thesis show that a certain level of desperation was involved. The IMF had in 1992 put its credibility on the line with grand promises to help Russia, and now found itself in 1997 with little to show for it. The IMF had already worked through multiple problems in this period, and must have felt the need to get things moving once and for all. It is likely for this reason that it kept insisting change was right around the corner. IMF reserves were used to keep the Russian state alive through an artificially deflated Ruble, now made worse with a number of reckless dollar loans.<sup>330</sup> Odling-Smee explains how the IMF felt it could not safely detach without the Russian economy collapsing,<sup>331</sup> which means the IMF really had no other choice but to hope it could somehow save the situation.

Even when the crisis hit, Russia was still too big to fail. The 1999 IMF Board Meeting shows how the IMF and CBR stubbornly spend billions trying to save the Ruble. “Even when, in late October 1997, the first attack on the exchange rate hit Russia, it was seen as a temporary irritation, and, in six weeks, the Central Bank had spent about a third of its reserves in a futile attempt to support both the exchange rate and low yields in the GKO market.”<sup>332</sup>

With the difficult balance crashing, The IMF needed to decide whether to make one last desperate attempt to salvage the situation by bailing the Russian government out.<sup>333</sup> As has been argued throughout this chapter, the IMF had at this point invested too much into Russia. It had really no choice but to prepare for a bailout package.

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<sup>327</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 274-276.

<sup>328</sup> *Ibidem*, 276.

<sup>329</sup> *Ibidem*, 274-276.

<sup>330</sup> *Ibidem*, 274-276.

<sup>331</sup> John Odling-Smee, ‘The IMF and Russia in the 1990s’, *IMF Staff Papers* 53:1 (2006) 187.

<sup>332</sup> “Minutes of Executive Board Meeting July 99” Ref ID 473184. International Monetary Fund Archives.

<sup>333</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 277.

Sources show that the decision to bail Russia out was opposed by virtually anyone other than the IMF team in Russia at this point. A 1998 Washington Post article shows how the failures of the IMF made US House Representatives increasingly hesitant of US contributions to the IMF.<sup>334</sup> The guardian on its turn reported similar hesitation among G-7 countries when the IMF asked it to contribute to the bailout loan.<sup>335</sup> The IMF had originally hoped that they could use Russia to prove the world of the importance of the IMF,<sup>336</sup> yet the news articles discuss how at this point the IMF officials were very much aware that if the plan did not succeed criticism of the IMF's activities would increase greatly.<sup>337</sup>

The history of failures was not the only thing that made the loan problematic. Earlier it was discussed how the IMF's handling of Russia had become increasingly desperate and risk taking, and sources show that this 1998 bailout would drain IMF reserves to levels even IMF experts considered dangerous.<sup>338</sup> The IMF however insisted on the necessity of the loan, and seemed angry at the hesitance shown by the G-7 to support.<sup>339</sup> The IMF works with many countries, yet its insistence to prove the Washington Consensus strategy could succeed in Russia seemed so important it was willing to drain all its reserves into this one country.

At this point even the IMF's Board of Executive Directors seems to have genuinely considered blocking the loan.<sup>340</sup> The board consists of representatives of the nations that contribute to IMF finances,<sup>341</sup> and as discussed earlier many of those were now considering to pull their support.<sup>342</sup> "A renewed disappointment would risk to again erode the confidence in

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<sup>334</sup> David E. Sanger, "I.M.F. Supports Russia Aid but Will Delay Funds: I.M.F. Backs \$17 Billion for Russia, but Delays First Payment", *New York Times* (21 July 1998).

<https://www.proquest.com/history/docview/109860566/723C71FBA30D4919PQ/5?accountid=12045&sourceype=Newspapers>

<sup>335</sup> Alex Brummer, "G7 falters as IMF pushes for new loans to Russia: Good money after bad or a spur to reform?", *The Observer* (25 April 1999).

<https://www.proquest.com/history/docview/1620352847/CAAED5D986E4CFFPQ/11?accountid=12045&sourceype=Newspapers>

<sup>336</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16.

<sup>337</sup> David E. Sanger, "I.M.F. Supports Russia Aid but Will Delay Funds: I.M.F. Backs \$17 Billion for Russia, but Delays First Payment", *New York Times* (21 July 1998).

<https://www.proquest.com/history/docview/478056532/66CAA079424A4B89PQ/1?accountid=12045&sourceype=Newspapers>

<sup>338</sup> Clay Chandler, "Russia Rescue Saps IMF's Ready Cash: Aid Renews U.S. Debate on Contributions", *The Washington Post* (15 July 1998).

<https://www.proquest.com/history/docview/1620842490/723C71FBA30D4919PQ/19?accountid=12045&sourceype=Newspapers>

<sup>339</sup> Daniel Williams, "Russia, IMF Reach Bailout Agreement: Deal Worth \$22 Billion in Foreign Credits" *The Washington Post* (14 July 1998).

<https://www.proquest.com/history/docview/1620772363/723C71FBA30D4919PQ/7?accountid=12045&sourceype=Newspapers>

<sup>340</sup> "Minutes of Executive Board Meeting July 98" Ref ID 455578. International Monetary Fund Archives.

<sup>341</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16.

<sup>342</sup> Alex Brummer, "G7 falters as IMF pushes for new loans to Russia: Good money after bad or a spur to reform?", *The Observer* (25 April 1999).

the capability of the authorities to overcome the problems. We are very close to the end of the road.”<sup>343</sup>

In response to this scepticism, the document is full letters and reports from IMF staff and economists, which appears to have succeeded at convincing the board to allow the bailout package. “The staff report and the authorities’ letter of intent outline a strong program, with the appropriate emphasis on improving fiscal performance. The program ... justifies an increased support from the Fund.”<sup>344</sup>

In the end the board still decided to provide Russia with a \$11.2 billion loan. It does add however that “the decision taken by the Board on Russia was perhaps one of the most risky decisions in the history of the institution”<sup>345</sup> The World Bank was ‘asked’ to contribute an additional \$6 billion.<sup>346</sup>

Stiglitz tells how people working at the World Bank flatly refused to participate, and only relented when the IMF got President Clinton to urge the World Bank to provide the loan.<sup>347</sup> “There were many of us who had been questioning lending to Russia all along... The West knew that much of those billions would be diverted from their intended purposes to the families and associates of corrupt officials and their oligarch friends.”<sup>348</sup> They proved correct. “Three weeks after the loan was made, Russia announced a unilateral suspension of payments and a devaluation of the Ruble.. ...we felt that it would take days or even weeks for the oligarchs to bleed the money out of the country; it took merely hours and days.”<sup>349</sup>

At this point, the relationship between the IMF and Russia was mostly over. The board did still grant an earlier promised \$3 billion loan in 1999<sup>350</sup>, but Odling-Smee explains that supporting Russia like before had simply become untenable: “After 1998, and especially after the newspaper stories suggesting money laundering scandals and the renewed fighting in Chechnya in 1999, the G-7 took a much harder line on IMF lending.”<sup>351</sup> It was clear that the Russia’s economic transition had failed, and soon the new president Putin would cut ties with the IMF completely.<sup>352</sup>

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<https://www.proquest.com/history/docview/1620352847/CAAED5D986E4CFFPQ/11?accountid=12045&source-type=Newspapers>

<sup>343</sup> “Minutes of Executive Board Meeting July 98” Ref ID 455578. International Monetary Fund Archives.

<sup>344</sup> Ibidem.

<sup>345</sup> Ibidem.

<sup>346</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 276-277.

<sup>347</sup> Ibidem, 278.

<sup>348</sup> Ibidem, 277.

<sup>349</sup> Ibidem, 278-279.

<sup>350</sup> “Minutes of Executive Board Meeting July 99” Ref ID 473184. International Monetary Fund Archives.

<sup>351</sup> John Odling-Smee, ‘The IMF and Russia in the 1990s’, *IMF Staff Papers* 53:1 (2006) 164.

<sup>352</sup> Haluk Dogan, “Power, Culture, and Elite Interactions” (2022) 163-164.

The IMF leadership had sought to use Russia as proof its ideas could work, but it would become yet another proof of the failures of its approach. As economist Jeffrey Sachs stated in an interview: “The orthodox approach insisted on by the IMF in country after country has proved a disaster. If it were a private firm, the board would have been sacked long ago.”<sup>353</sup> The news article itself shows how the IMF does intend to continue its policy in Mexico and Argentina, but the writer states that the failure in Russia acts as a crushing blow for the credibility of the IMF’s approach.<sup>354</sup> Camdessus’ IMF had yet again failed to provide a successful transition, and he would spend much of his time defending the IMF’s role in the Russian transition.<sup>355</sup>

To Stiglitz, the loan had been the symbol of an IMF that had no clue what it was dealing with. “The surprise about the collapse was not the collapse itself, but the fact that it really did take some of the IMF officials—including some of the most senior ones—by surprise. They had genuinely believed that their program would work.”<sup>356</sup> He brings this back to the central idea of his views on the IMF, that would have lied itself into believing in its own Washinton Consensus strategy and refused to see any signs of its weaknesses.<sup>357</sup>

This idea also connects back to the historiography, that described the neoliberal Washington Consensus as a flawed ideology of elites<sup>358</sup> that was applied overconfidently to all layers of international government<sup>359</sup> only to prove unrealistic and cause hardship.<sup>360</sup> This is where authors such as Pleines suggest the anti-Western sentiments in Russia arose, as reaction to the one it held responsible for the hardships the economic transition created.<sup>361</sup>

While this view is not incorrect, this thesis had sought to recontextualize it by showing how the IMF’s insistence on the Washington Consensus strategy was fuelled by its necessity to prove it could succeed in Russia. Earlier failures in Latin-America and Africa had caused the IMF to face serious criticism, and it had gone into Russia with grand promises in an attempt to

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<sup>353</sup> Larry Elliot, “Feed the world instead”, *The Guardian* (18 January 1999).  
<https://www.proquest.com/history/docview/188371546/D7BF424F320C4D9DPQ/29?accountid=12045&source=Newspapers>

<sup>354</sup> Ibidem.

<sup>355</sup> “Michel Camdessus interview August 1999 Russia has dealt blow to relations with IMF” Ref ID 472646. International Monetary Fund Archives.

<sup>356</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 278.

<sup>357</sup> Ibidem, 280.

<sup>358</sup> David Harvey, ‘neoliberalism on trial’ in: *A Brief History of Neoliberalism* (2007) 152–182.

<sup>359</sup> Andrew Gamble, ‘Ideologies of governance’, in: *Handbook of the International Political Economy of Governance* (2014) 23.

<sup>360</sup> Fritz Bartell, ‘The Illusions of the United States’ Great Power Politics’ In: *The Cambridge History of America and the World* (2021) 537-538.

<sup>361</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 282-283.

show the IMF could succeed. When this proved unviable the IMF was pushed into a difficult position, being seen as an accessory to the illegitimate actions of the Russian Government while being forced to rely on increasingly reckless policies hoping to turn Russia into a success.

The last paragraph of this chapter will tie this together with the rise of illiberalism, formulating a final answer to the question how the IMF's desire to use Russia as proof it could succeed caused an anti-Western counterreaction among the Russian people leading to illiberalism.

## The Illiberal Consequence:

Within chapter two it was discussed how the IMF had become known by most Russians as heartless technocrats, that had pushed policies that caused hardship while ignoring the cry for help from the population.<sup>362</sup> Its condonement of the questionable Loans-for-shares program had further degraded its reputation,<sup>363</sup> and by 1998 most Russians just wanted the IMF to leave Russia completely.<sup>364</sup>

Stiglitz would visit Russia on numerous occasions after the crash, and states that many Russians even believed the IMF had failed on purpose.<sup>365</sup> He explains that many Russians believed the US wanted to remove its former Cold War enemy Russia as a credible threat to US interests in the region.<sup>366</sup> Stiglitz does however defend the IMF saying such thinking “credits those at the IMF and the U.S. Treasury with both greater malevolence and greater wisdom than I think they had.”<sup>367</sup>

The problem is that the intentions of the IMF mattered less than its image. Paragraph one of this chapter already discussed the condescending tone of the IMF in news interviews,<sup>368</sup> to which Merry's words can be added. “Americans also approached post-Soviet Russia with far too heavy a hand, with arrogance and often a missionary mentality. The consequences of that

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<sup>362</sup> Rutland, Peter, ‘Mission Impossible?’, *Review of international studies* 25 (1999) 184.

<sup>363</sup> Padma Desai, ‘Russian Retrospectives on Reforms from Yeltsin to Putin’, *The Journal of economic perspectives* 19 (2005) 97.

<sup>364</sup> Heiko Pleines, ‘Opposition to the Washington Consensus’ In: Frank Nullmeier, e.a., *International Impacts on Social Policy* (Palgrave Macmillan 2022) 277-278.

<sup>365</sup> Joseph E. Stiglitz, *Globalization and its discontents* (2018) 299.

<sup>366</sup> Ibidem.

<sup>367</sup> Ibidem.

<sup>368</sup> Steven Mufson, “IMF Backs Reforms In Russia: Country a Step Closer To Fund Membership”, *The Washington Post* (31 Mar 1992).

<https://www.proquest.com/history/docview/140755849/723C71FBA30D4919PQ/14?accountid=12045&sourcecitype=Newspapers#>

period live on today, as many Russians blame us for the failures of reform in the '90's and believe we deliberately set out to ruin their economy... Russians are perhaps more likely than many other peoples to blame their troubles and shortcomings on someone else, and the United States almost went out of its way to assume that role.”<sup>369</sup> The newspapers had also described the first loan agreements of 1992 as having been overshadowed by the consequences the austerity measures would bring.<sup>370</sup> Merry too had felt worried about these agreements. “In a staff meeting of Political/Internal, I commented, ‘They will never forgive us for this.’”<sup>371</sup>

To Merry, the rise of illiberalism was simply the natural consequence of the US and IMF’s refusal to realize how their actions appeared to the Russians. He describes how already in 1994 he wrote a protest letter to Washington, predicting Russia would fall back into being an enemy if the US did not change its treatment of Russia.<sup>372</sup> “That provoked very strong opposition from the economics counselor and from the Treasury attaché, who said that if the message went in it would give Larry Summers a heart attack.” He adds however that “Beyond that, the exercise didn’t accomplish very much.”<sup>373</sup>

The story of the IMF in Russia is ultimately a tragic one, with the IMF’s intentions to help Russia only making the situation worse for both. The IMF genuinely wanted to quickly turn the situation in Russia around, even if partly for personal reasons. It was precisely this desire however that would push it into an increasingly difficult position, causing it to lose its reputation in a bet it had started to regain it. The IMF had become increasingly desperate to save Russia, but after years of trying it only became the target of anti-Western ideas by a Russian people that had just years before been moving towards the West.

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<sup>369</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 221.

<sup>370</sup> Martin Walker, “Russia accepted by IMF” *The Guardian* (1 April 1992).

<https://www.proquest.com/history/docview/187297179/300CE6AD94224A0FPQ/14?accountid=12045&source=Newspapers>

<sup>371</sup> “Interview with E. Wayne Merry February 19 2010”, ADST Oral History Project, ADST’s Oral History Collection 234.

<sup>372</sup> *Ibidem*, 260-261.

<sup>373</sup> *Ibidem*, 260-262.

## Conclusion

The Russia that came out of the 1990s was have been very different from the neoliberal Russia the IMF had promised to create in 1992.<sup>374</sup> Gilman had described how Camdessus, heavily criticised in newspapers,<sup>375</sup> had seen in Russia the opportunity to show the world the IMF could take on the historic task.<sup>376</sup> Six years later that bet had failed,<sup>377</sup> and newspapers ran stories asking: “Who Lost Russia?”<sup>378</sup>

In the introduction, the following question was asked: *What was the significance of the IMF’s insistence on proving the Washington Consensus strategy in its economic reform of Russia in Russia’s move towards illiberalism in the period 1992-1999?*

This thesis has reinterpreted the traditional narrative on the IMF’s failure in Russia by focusing on the way the IMF had bet its credibility on success in Russia. Traditional narratives describe an IMF that held blind devotion to the neoliberal Washington Consensus, refusing to question its methods despite criticism. This thesis however considered the IMF’s approach to Russia within the historical context of this criticism, which provides an image of a more desperate IMF holding onto a failing strategy in an attempt to prove its relevance after a series of failures. This in contrast to the historiography, that simply assumed a blindness to accept neoliberalism’s weaknesses as root cause of the insistence on the Washington Consensus strategy.

Similarly, the historiographic idea that the anti-Western feelings in Russia were the consequence of the neoliberal refusal to acknowledge the cost of their ideology can also be

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<sup>374</sup> “G7 announces \$43.4bn for Russia: IMF role in programme to help Russia is stressed” *The Irish Times* (16 April 1992).

<https://www.proquest.com/history/docview/524714875/F84510C476594341PQ/2?accountid=12045&sourcetype=Historical%20Newspapers>

<sup>375</sup> Steven Greenhouse, “Point Man for the Rescue of the Century: Michel Camdessus and the I.M.F must now snatch Russia from the jaws of chaos”, *New York Times* (26th April 1992).

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<sup>376</sup> Martin G. Gilman, *No precedent, no plan* (2010) 16.

<sup>377</sup> David E Sanger and Richard W. Stevenson, “Second-Guessing The Economic Doctor: I.M.F.’s Bitter Medicine Under Siege on Many Fronts Second Guesses For the I.M.F.”, *New York Times* (1 February 1999).

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<sup>378</sup> Fred Hiatt, “Who Lost Russia?”, *The Washington Post* (20 September 1998).

<https://www.proquest.com/history/docview/1640126230/2F5E68B204C64379PQ/7?accountid=12045&sourcetype=Newspapers>; Fed Hiatt, “Stumbling in Russia”, *The Washington Post* (29 August 1999).

<https://www.proquest.com/history/docview/1733672984/5EC0C611F04E4EA1PQ/19?accountid=12045&sourcetype=Newspapers>; Michael Dobbs and Paul Blustein, “Lost Illusions About Russia: U.S. Backers of Ill-Fated Reforms Now Portrayed as Naive”, *The Washinton Post* (12 September 1999).

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altered slightly. The historiography focused heavily on the economic hardship and apparent indifference of the IMF. This thesis however argued how the IMF believed that neoliberal reform was only possible through the Yeltsin government caused it to desperately double down despite numerous misbehaviours. This caused it to be seen as complicit by the Russian people. The anger from these moments would be the setup for the later anti-Western sentiments the historiography uses to explain the illiberalism that followed under Putin.

The IMF meanwhile grew increasingly desperate to save the situation, advising a series of increasingly reckless policies that only set up an unworkable situation for the 1998 crisis. Even there the IMF kept pushing, draining its resources to levels the IMF itself recognized as dangerous just to create a bailout package that had little to no effect.<sup>379</sup> This only made the situation worse, and after the 1998 crisis Russia turned to illiberalism while the IMF's reputation collapsed.<sup>380</sup>

Considering the IMF's application of the Washington Consensus as a result of criticism rather than despite it has given interesting opportunities to reimagine traditional narratives of misguided elites too blind to see reality. It raises the possibility of further research into the reasoning for the neoliberal insistence in other nations the IMF was active in. Instead of blaming a blindness to reality, the 'short-sighted' insistence on the neoliberal approach may have been more complex than is so easily assumed.

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<sup>379</sup> Daniel Williams, "Russia, IMF Reach Bailout Agreement: Deal Worth \$22 Billion in Foreign Credits", *The Washington Post* (14 July 1998).  
<https://www.proquest.com/history/docview/1620772363/723C71FBA30D4919PQ/7?accountid=12045&source=Newspapers>

<sup>380</sup> Larry Elliot, "Feed the world instead", *The Guardian* (18 January 1999).  
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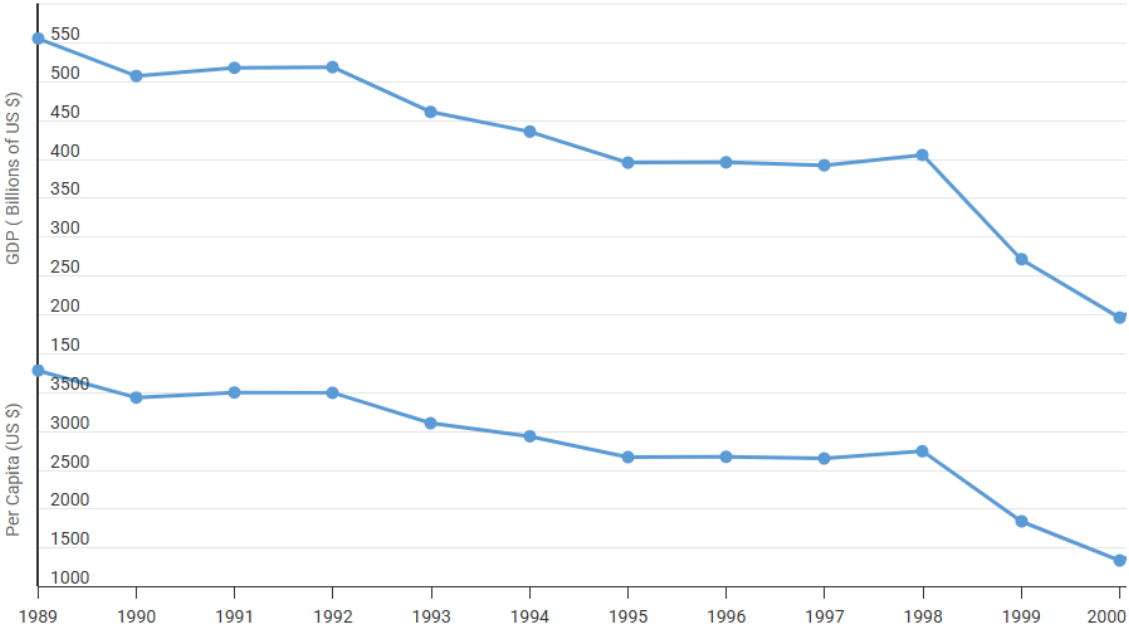
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# Annex 1

Russian GDP 31<sup>st</sup> December 1998 – 31<sup>st</sup> December 1999



Source: [www.macrotrends.net](http://www.macrotrends.net). Russia GDP 1988-2025. Retrieved 2025-03-24.  
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note: Macrotrends used the World Bank as its data source for the creation of this table.