

# DOJ sues Harvard over Russia-USAID Scam

by Edward Spannaus

Harvard University is being sued by the U.S. Department of Justice (DOJ) for fraud and conspiracy in its management of the major U.S. aid program for Russia. The lawsuit, filed on Sept. 26, charges that Harvard and its Russia program “defrauded the United States out of at least \$40 million paid to Harvard to provide impartial and unbiased advice in connection with a United States assistance program in Russia.”

Among other things, the lawsuit is further proof of the absolute dishonesty of the recently issued “Cox Report” on the Clinton Administration’s Russia policy — an exclusively Republican-authored document which whitewashes the Bush Administration’s role in setting into motion all of the programs and policies for which it now attacks the Clinton Administration.

## Harvard and the Chubais Clique

The civil suit names as defendants Harvard University, and officials and associates of the Harvard Institute for International Development (HIID), which drew up much of the financial market “reforms” and privatization schemes for Russia, starting in 1992.

HIID was an outgrowth of a series of 1991 meetings held by Harvard Prof. Jeffrey Sachs and other Western economists such as Anders Åslund, with a group of young Russian “reformers,” including Anatoli Chubais and Yegor Gaidar. Chubais and Gaidar were part of a group of young Russian economists recruited already in the 1980s by the London-based Institute for Economic Affairs, a center for radical Mont Pelerin Society free-market ideology.

According to the DOJ complaint, the Harvard HIID program was created to help implement the “Freedom for Russia and the Emerging Eurasian Democracies and Open Market Support Act of 1992.” The Cox Report describes this bill as “the most important Bush Administration initiative of 1992,” and as “path-breaking legislation” which was pushed through a Democrat-controlled Congress by the Bush Administration. Among other things, again according to the Cox Report, the act authorized what is called “technical assistance” (i.e., consulting and advice) to Russia to accomplish the objectives of “the establishment of the rule of law, the adoption of commercial codes, and replacing the Soviet regulatory system with transparent regulations hospitable to domestic and foreign investment.”

These were the “objectives” which the Harvard team set out to accomplish in 1992, when it got its first award for work

in Russia from the U.S. Agency for International Development (USAID). The first program undertaken by HIID, starting in 1992, was to provide advisory teams to assist the privatization of Russian state-owned assets, and then later the scope was expanded to include advice and support for “legal reform and capital market initiatives,” according to the DOJ complaint.

Pursuant to these agreements with USAID, HIID created the Russia Privatization Center — headed by Gaidar, and then by Chubais after Gaidar was sacked at the end of 1992 — and it also later created the Russian Federal Commission on Securities and the Capital Market, and the Institute for a Law-Based Economy (ILBE), all of which became instruments for looting and destroying the Russian economy for the benefit of Western investors, including the principals of the Harvard project.

In 1997, USAID was forced to cancel most of its funding for HIID, after investigations showed that top HIID officials Andre Shleifer and Jonathan Hay had used their positions and insider information to profit from investments in the Russian securities markets. Among other things, the ILBE was used to assist Shleifer’s wife, who operated a hedge fund which speculated in Russian bonds.

The DOJ complaint cites a number of specific instances in which Hay, Shleifer, and their wives, engaged in business deals involving the very Russia state agencies that they had helped create, and regulations they had drafted:

- Shleifer and his wife Nancy Zimmerman invested in Russian companies which they had helped to privatize, and for which they had provided USAID-funded legal services, and then also invested in short-term Russian government securities (“GKOs”).
- Hay, Shleifer, and Shleifer’s wife invested in privatized Russian oil companies, and had the stocks registered in the name of Shleifer’s father-in-law.
- Hay, Shleifer, and their wives participated in the launching of Russia’s first mutual fund, the first such fund to be licensed by the Russian Securities Commission, an agency created and advised by Hay, Shleifer, and HIID.
- Hay and his girlfriend (now wife) Elizabeth Hebert created a private real estate firm to manage properties in Russia; he also assigned World Bank-funded staff to work on creating a real-estate mutual fund.
- Hay and Shleifer’s wife Nancy Zimmerman concocted a scheme by which they traded in short-term government GKOs, and then repatriated the profits to the United States in violation of Russian rules designed to limit capital flight. The general director of the Russian company which was utilized in this scheme, was an employee of Harvard’s Russian affiliate, the ILBE, according to the DOJ complaint. Moreover, as a government adviser, Shleifer was privy to insider information concerning the Russian bond market, which he used for his own profit.

The Department of Justice complaint not only seeks recovery of at least \$40 million paid to Harvard, but also other

relief, including triple damages, and all profits earned by the defendants.

### Summers's Role

The DOJ's investigation of HIID was an outgrowth of a probe begun by the General Accounting Office (GAO), which was asked by Congress in 1997 to look into Shleifer's role in the Gore-Chernomyrdin Commission. That Commission was linked to the HIID scam, particularly through its Capital Markets Forum, since Shleifer was the special coordinator for all four of the Forum's working groups.

And although Treasury Secretary Lawrence Summers is not named in the DOJ complaint, he would undoubtedly qualify as an unindicted co-conspirator. Summers, as the Bush-nominated chief economist at the World Bank in 1991-93, and then as Undersecretary of the Treasury for International Affairs in the Clinton Administration, was a central figure in the Harvard Russian program.

In her 1999 book *Collision and Collusion* (reviewed in

*EIR*, Aug. 6, 1999), author Janine Wedel wrote that Summers "had deep-rooted ties to the principals of Harvard's Russia project." Shleifer credited Summers with having inspired him to study economics, Wedel says, and Summers and Shleifer had at least one joint foundation grant. Summers wrote a publicity blurb for Shleifer's 1995 book *Privatizing Russia*, in which Summers gushed: "The authors did remarkable things in Russia and now they have written a remarkable book."

At Treasury, Summers and David Lipton, who took over Summers's position in 1995, and who had been vice-president of Sachs's consulting firm, oversaw the USAID grants that were administered through HIID.

When the DOJ took over the GAO probe, it originally treated the HIID investigation as a *criminal* case. One can only speculate as to what pressures were put on the DOJ from quarters around Gore and Summers, to attempt to kill the probe altogether, and then, when that could not be done, to ensure that it was handled instead as a civil, and not a criminal, proceeding.

## The Hoax of the Cox Report

On Sept. 20, twelve Republican Congressmen issued a report on the Clinton Administration's conduct of Russia policy, entitled "Russia's Road to Corruption," laying at the footstep of the Clinton Administration, the corruption and devastation which prevades the Russian economy.

But in fact, they are only indicting themselves. As *EIR* has shown on numerous occasions (see, for example, "IRI's Friends in Russia," Sept. 6, 1996, and "Criminality Was the Policy in Russian 'Reform,'" Sept. 3, 1999), institutionalized criminality was the essence of the "reform" policy introduced into Russia already by 1991 or earlier, by the free-market fanatics circled around the International Republican Institute (IRI), the GOP branch of the 1980s-era "secret, parallel government" called "Project Democracy."

The Cox Report, on the other hand, after glossing over the catastrophe of the first year of Russian economic "reforms"—with its introduction of "shock therapy" at the beginning of the 1992, resulting in the collapse of industry, 2,500% hyperinflation, and the wiping out of the savings of Russian citizens—only picks up at the point when the Clinton Administration took office, in 1993.

The Cox panel charges President Clinton with "unwillingness to involve himself in foreign policy generally"—a false accusation, as witnessed, for example, by Clinton's vigorous efforts to form a strategic alliance with Germany, oriented toward the economic development of the former

Soviet bloc, during his first years in office. This policy, combined with his Administration's call for "less shock, more therapy" in December 1993 (issued by Deputy Secretary of State Strobe Talbott), was one of the key factors in the decision of London-sponsored circles in the United States to launch a series of escalating scandals against Clinton at the beginning of 1994.

### The Role of Al Gore

The Cox Report is more accurate, when it zeroes in on the role of Vice President Al Gore, Gore's national security adviser Leon Fuerth, and Treasury Secretary Larry Summers, in taking over the Administration's Russia policy. However, the report asserts that a "troika" of Gore, Summers, and Talbott ran Russia policy for the Administration—ignoring the policy differences between Clinton and Talbott on the one hand, and the Gore-Fuerth-Summers group on the other.

The more truthful version of events, is that as President Clinton became more and more distracted by the scandals being thrown against him (which were stoked by many members of the Cox panel), he permitted Gore and Fuerth to take control of Russia policy. Seen in this way, much of the detail that the Cox Report describes is accurate, but the fallacy is the report's primary thesis: that everything was going fine under Bush, and that the opportunities created by the Bush Administration were squandered by President Clinton. In truth, the Clinton Administration inherited a disaster from George Bush, which President Clinton, under political assault at home, failed to reverse.

—Edward Spannaus