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Harvard's Role in Russian Economic "Reform"[*]

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> The defendants' actions undercut the fundamental purpose of the United States' program in Russia – the creation of trust and confidence in the emerging Russian financial markets and the promotion of openness, transparency, the rule of law, and fair play in the development of the Russian economy and laws.
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> Justice Department initial complaint in US v. Harvard, Shleifer, Hay, et al., September 26, 2000[1]

In January 1998, a US-Russian Investment Symposium was held at Harvard's Kennedy School of Government. At this symposium, Yuri Luzhkov, the Mayor of Moscow, made what might have seemed to its audience an impolite reference to his hosts. After criticizing Russian high officials including Anatoly Chubais and his monetarist policies, Luzhkov singled out Harvard for the harm its affiliated advisers had inflicted on the Russian people by encouraging Chubais's misguided approach to privatization and monetarism.[2]

What had Harvard done to deserve such public condemnation?

In 1997, Russia was in a state of turmoil. Energy was the country's main source of income, but international oil prices had fallen because of the Asian currency crisis. As speculative foreign capital that had been used to solve Russia's chronic deficit problem began to migrate, the Russian *ruble* struggled. On August 17, 1998, the Russian government devalued the *ruble*, defaulted on domestic debts, and declared a moratorium on payment to foreign creditors.

Luzhkov castigated Harvard six months *prior* to this moratorium, suggesting that Harvard was deeply involved in the Russian financial crisis. How deep was Harvard's involvement? Is it really possible for a university, even the most renowned university in the world, to influence a major country's economy?

"Doing Russia"

After the Berlin Wall collapsed in 1989 and the USSR was dismantled in 1991, the Cold War came to an end with the US triumphant. Almost immediately, the White House took advantage of the opening to convert the former Soviet bloc into market economies. Cold warriors who had helped the US government develop arms and intelligence took charge again, and Harvard scholars were at the forefront.

Western aid agencies that had poured billions of dollars into eastern European

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[*] This article is based on a chapter from the author's forthcoming book, *Verita$: Harvard's Hidden History*.. Because of the author's untimely death, revisions have been carried out by members of the *S&D* editorial board.

[1] David McClintick, "How Harvard Lost Russia," *Institutional Investor Magazine*, Jan. 24, 2006, http://janinewedel.info/harvardinvestigative_InstInvestorMag.pdf

[2] Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (New York: Palgrave, 2001), 276 fn. 80. The report is based on a letter by Harvard Professor Graham Allison summarizing the meeting.

countries turned their eyes toward Russia. Professor Janine R. Wedel, University Professor in the School of Public Policy at George Mason University and Senior Research Fellow at the New America Foundation, who had done extensive research on the economic reform process in eastern European countries including Poland and Hungary, visited Russia to observe Russia's economic reform process and noticed something strange. Whichever organization she visited, she found the same small group of people controlling and exerting influence.[3]

This exclusive, enormously influential group was composed of a few Harvard men and several Russian high officials. In the early 1990s, the US Agency for International Development (USAID) had handed over to Harvard the task of converting the Russian economy into a market system. Russian partners of this group included officials surrounding Anatoly Chubais, "father of Russian privatization," and his cohorts—or as they were often called, "The St. Petersburg Gang" or the "Chubais Clan." This Chubais Clan, together with USAID, took charge of the task of converting the Russian economy, using Western funds.

Lawrence Summers, who later served as president of Harvard, stood behind the reform policies carried out by Harvard and the Chubais Clan. In order to understand Harvard's role in the Russian economic reform, let us briefly look at the profiles of the "dream team" of Harvard gurus and Russian high officials.

*Key figures from Harvard***. Lawrence Summers** became a tenured professor at Harvard in 1983 at the age of 28. He served as Chief Economist for the World Bank (1991-93), and then in the US Treasury Department from 1993 to 2001, becoming Secretary of the Treasury in 1999. As an old friend of Harvard Professor Andrei Shleifer, Summers was at the center of the connection between Harvard, the US government, and Russia. He was president of Harvard from 2001 to 2006. **Jeffrey Sachs**, an economics professor at Harvard, was principal author of the "shock therapy" approach, which promoted a market system through the sudden release of price and currency controls. He directed the Harvard Institute for International Development (HIID) from 1995 to 1999. **Andrei Shleifer** is a Russian-born American economist who was the HIID's project director in Russia, in which capacity he drafted the Russian aid project. He was later sued by the US government under the False Claims Act and, together with his wife and hedge-fund manager Nancy Zimmerman, ended up paying $2 million in damages. **Jonathan Hay**, a Harvard Law School graduate, was the HIID's general director in Russia from 1992 to 1997, when he was fired for using his position for personal gain. Together with Shleifer, he founded numerous civilian organizations including the Russian Privatization Center (RPC). Hay helped Chubais draft the blueprint for Russian economic reform. As HIID's project director in Russia, Hay was a key intermediary between the Chubais Clan and foreign aid agencies. Hay was removed from HIID's Russia project in May 1997 for alleged "activities for personal gain by (HIID) personnel placed in a position of trust in Russia."[4]

Key figures from Russia. **Anatoly Chubais** was chairman of the board of the Russian Privatization Center (RPC) and first head of the State Property Committee (GKI), an agency in charge of privatizing state-owned corporations. He also was the campaign manager for President Boris Yeltsin's successful re-election campaign in 1996, after which he became chief of staff and First Deputy Prime Minister. **Maxim Boycko** was a close Chubais associate. He was CEO of the RPC from 1993 to 1997, and later head of the GKI. Yeltsin fired him from this post when it was revealed that he received $90,000 from a corporation that benefited from privatization.[5] **Alfred Kokh** was another close Chubais associate. He

[3] Janine R. Wedel, interview with the author, October 23, 2010.
[4] Wedel, *Collision and Collusion*, 131, 238.
[5] Ibid., 241.

served as deputy chairman of the RPC and was named head of the GKI in 1996 after Boycko was fired. Yeltsin fired him in 1997 when it was revealed that he too had showed favoritism toward a corporation that benefited from privatization.[6]

Shock therapy: All shock, no therapy

Between the late summer and early fall of 1991, only a few months prior to the official dissolution of the USSR, Western economists gathered at a villa on the outskirts of Moscow. Their mission was to set the future course of the Russian economy. With his experience in Poland, Jeffrey Sachs emerged as the key figure to draft the overall plan for Russian economic reform. Among the attendees at this meeting were a number of Western economists, Yegor Gaidar, the first architect of Russian economic reform, and his successor Anatoly Chubais.

As Russian officials met with Western economists, Chubais and Andrei Shleifer became close friends. Born in Russia in 1961, Shleifer immigrated to the US in 1976. A fluent Russian speaker, he was also a close associate of Lawrence Summers. Chubais and Shleifer's partnership soon became a major driving force behind Russia's state property privatization.

In late 1991, Yegor Gaidar became Russia's Secretary of the Treasury. He later served as Deputy Prime Minister, and then prime minister from June to December 1992, introducing Sachs's "shock therapy." The shock therapy consisted of sudden price and currency control releases, state subsidy withdrawals, and immediate trade liberalization. Gaidar sincerely believed that this "therapy" would quickly transform a stagnant Russian economy into a capitalist market system.

But the reforms brought the Russian economy "shock" and little therapy. Seemingly unstoppable hyperinflation drove up the price of commodities by 2,500% within a year. As prices of staples soared, many people lost a majority of their assets overnight. The biggest victims were ordinary people who had to spend most of their income to buy essentials.[7] Ultimately, the Russian people suffered extreme poverty.

In late spring of 1992 Chubais also engineered a massive giveaway that was supposed to give to each citizen a share of formerly publicly owned companies. But inflation rendered the vouchers (set at a value of 10,000 rubles) virtually worthless within a year or two. Most of the 98% of Russians who received the vouchers also had little idea of their value or what to do with them. Many were persuaded to place them in voucher funds that had been hastily created by speculators, which collapsed or turned out to be scams. Marshall I. Goldman comments "For most Russians…the voucher funds were another example of how ordinary Russians can be abused by the state or financial manipulators. This result helps explain why so many Russians (37 million) ignored the voucher funds and sold their vouchers for cash or a bottle of vodka."[8]

In addition, Wesleyan professor Peter Rutland notes that most of Russia's most profitable firms, in the oil, gas and metal sectors, were excluded from the public giveaway. Instead, Chubais offered the shares to Russian banks in exchange for loans to the

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[6] Ibid.

[7] Boris Kagarlitsky, who served on the Moscow City Council from 1992 to1993, noted that on November 24, 1992, after the "liberation of prices" of meat, the cost of a worker's lunch tripled in one day. The factory then attempted to place the workers on a vegetarian diet. See Boris Kagarlitsky, *Square Wheels: How Russian Democracy Got Derailed* (New York: Monthly Review Press, 1994), 179.

[8] Marshall I. Goldmann, *The Piratization of Russia: Russian reform goes awry* (London: Routledge, 2003), 88.

government. When the government defaulted on the loans, the banks ended up with vast holdings in the most profitable sectors of the economy, such as the Norilsk nickel mine and the Yukos and Sibneft (now called Gazprom Neft) oil companies. The new oligarchs then helped Yeltsin get re-elected in 1996.[9]

Harvard's connection to the voucher program comes through Andrei Shleifer, who co-authored an article on voucher privatization with Maxim Boycko in the *Journal of Finacnial Economics*, in which they described the voucher system as "unprecedented in recent history in that it is comprehensive, rapid, and virtually free."[10] The writers praise the free trade in vouchers in that allows both the emergence of financial markets and the consolidation of ownership with large investors.[11] On the basis of this article, it seems that the consequences to individual citizens were anticipated from the beginning.

In some Eastern European countries including Poland, "shock therapy" had achieved a measure of success despite initial turmoil. Why, then, did it fail in Russia? Former Prime Minister Gaidar discusses the fundamental difference between Poland and Russia in his 2003 work, *State and Evolution: Russia's Search for a Free Market*. According to Gaidar, unlike Soviet citizens, Poles had retained the memory of the pre-Communist market economy and therefore "had the flexibility to deal with the conversion to a market economy."[12] By introducing shock therapy without providing any social foundations and institutional changes, the economic reform ended in failure, resulting in citizen resistance, resentment, and opposition.

The Harvard Institute for International Development and its Russian allies

The Harvard Institute for International Development (HIID) originated when Harvard's Center for International Affairs (CFIA) tried to move away from its controversial past as an institution advising US intelligence agencies on matters relating to arms control, foreign aid and foreign development. In 1962, the Development Advisory Service was established for this purpose. Associated with the CFIA but structurally independent, it was renamed the Harvard Institute for International Development in 1974.

From 1974 to 2000, the HIID was Harvard's center for coordinating development assistance, training, and research in Africa, Asia, Central and Eastern Europe, and Latin America. For example, the HIID took charge of tax reform and financial market liberalization in Indonesia, and economic reform involving neoliberal market economy conversion in Kenya, Pakistan, and Zambia. The conversion of the Russian economy to a market economy was the largest project the HIID had undertaken. The HIID received its first $2.1 million grant from the Bush administration in 1992. Over the next five years, the HIID received $40.4 million in grants for its work in Russia. However, in May 1996 USAID canceled funds earmarked for HIID "citing evidence that the two managers were engaged in activities for 'private gain.'[13]

Professor Janine R. Wedel points out that it was extremely exceptional for HIID to receive such huge grants in such a short period of time. Even more surprising, USAID not only granted a large amount of funds to HIID but also entrusted its associates with the task of

[9] Peter Rutland, "Neoliberalism and the Russian Transition," *Review of International Political Economy*," 20 No. 2 (2013): 343.
[10] Maxim Boycko, Andrei Shleifer, and Robert W. Vishny, "Privatization," *Journal of Financial Economics* 35 (1994), 249.
[11] Ibid., 261.
[12] McClintick, "How Harvard Lost Russia."
[13] Janine R. Wedel, "The Harvard Boys Do Russia," *The Nation* (June 1, 1998): 15.

supervising the USAID fund's control and management. In other words, HIID associates were in the unique position where they could supervise and manage their competitors at the same time as they themselves benefited from major USAID funding.[14]

The two central figures in the Russian project were Andrei Shleifer, the project director, and Jonathan Hay, in his thirties and only a few years out of Harvard Law School, wielded an unimaginable level of influence and power in Russia. Professor Wedel said that she witnessed numerous times firsthand that older, more experienced figures paid considerable respect to Hay when Hay's role was only that of a consultant.

As for Chubais, as the privatization policies he implemented frequently came under fire, he often skipped parliamentary sanction hearings and relied on presidential decrees to implement his dictates. The result was that the policies drafted by Hay and his associates were directly adopted without democratic procedures. [15] Important economic reform laws on which the country's future depended were created by a handful of pro-West powerholders and foreigners without even going through the motions of parliamentary discussions. The intimate partnership between Chubais and Harvard not only pillaged the Russian economy, it also ignored Russia's emergent democratic institutions and procedures.

The Chubais Clan raked in huge sums of money in exchange for awarding privileges (or bribes) to their patrons. One example that particularly incensed the public was the Chubais Clan receiving inexplicably large payments for books they were writing or co-authoring. In one case, Chubais and four high officials received $90,000 per person for co-authoring an 18-page pamphlet entitled the *History of Russian Privatization*. The publisher of this pamphlet belonged to the Oneksimbank Group, the winner of several fierce privatization battles who had made off with crucial shareholdings in telecommunications giant Svyazinvest and in Norilsk Nickel, the world's largest nickel producer. Chubais and his close associates were widely vilified by the public and media. Under heavy public pressure, Yeltsin fired three officials—but not Chubais. Eventually, he even fired Chubais from the post of Secretary of the Treasury. Still, Yeltsin kept him as First Deputy Prime Minister, turning down Chubais's offer to resign completely from governmental office. Yeltsin claimed that his resignation could "destabilize the situation."[16]

It was to be expected that Yeltsin protected Chubais, the biggest contributor to his own re-election in 1996. Chubais led Yeltsin's campaign from March 1996, and it is known that his team spent more than $5 billion, several hundred times more than legally allowed (about $3.2 million) in his election campaign. There is no doubt that illegal funds accumulated during privatization were funneled into the campaign. On June 19, 1996, only three days after the first votes were cast, two associates of Chubais were caught slipping out of the Russian presidential palace with a cardboard box full of cash – about $538,000 total.[17]

It is bitterly ironic that Harvard was an enthusiastic supporter and collaborator of Chubais's corruption-riddled privatization project. The US government also fully supported Yeltsin, turning a blind eye to corruption in his government because Yeltsin had adopted pro-West policies. When the corruption scandal erupted, it is reported that the US Secretary of the Treasury said: "We thought it was a good thing. We hoped Yeltsin would get elected. We didn't care at all about the election corruption. We wanted to pour money into his campaign."[18]

We can measure the level of anger and stress that privatization caused the Russian

[14] Wedel, "The Harvard Boys Do Russia," 14.
[15] Rutland, "Neoliberalism and the Russian transition," 343.
[16] Ho Kwang-jun, "Russia Kaehyog-gigwanch'a t'alson," *Sisa-journal*, December 11, 1997.
[17] Richard Sakwa, *Russian Politics and Society* (London: Routledge, 2002), 89.
[18] Song Hongbing, *Currency Wars*, trans. Cha Hye-jong (Seoul: Random House Korea, 2008), 245.

people by the fact that average life-expectancy plummeted. Since the early 1990s, when privatization and economic reform were rapidly under way, life-expectancy had begun to drop rapidly, and it ending up falling by about seven years over a ten-year period.[19]

In her testimony before congress, journalist and Russia specialist Anne Williamson eloquently summed up the cost of the failed Russia policies:

> Clearly, building an empire of finance capitalism is an expensive business. But who pays? U.S. taxpayers, who paid directly through contributions to both multilateral and bilateral assistance efforts, and Russian workers, who paid indirectly by having their wages go unpaid and their national estate continually degraded. Secondly, the Russian people paid by being denied a means of exchange since the banking and trade sectors of the economy were quick to socialize amongst themselves what few rubles the IMF's tight money policies allowed the Russian Central Bank to print.[20]

Missing aid money

While Russia was pursuing the privatization of state-owned corporations, the HIID and the Chubais Clan began to carry out a plan to establish an independent agency that would handle aid from a number of international organizations. International aid agencies preferred civilian agencies in order to bypass the bureaucracy. This is when the RPC, the Russian Privatization Center, was born.

Established by the presidential decree of November 1992, the RPC was a window through which an astronomical amount of Western aid money entered the country. Chubais, already chairman of the GKI, became head of RPC as well. Harvard men were involved in its founding, operation, and projects. Andrei Shleifer exercised considerable influence on it as a board member. With the Harvard Institute's help, the RPC received some $45 million from USAID and millions of dollars more in grants from the EU, Japan, Germany, the British Know How Fund, and many governmental and non-governmental organizations. The RPC also received $59 million from the World Bank and $43 million from the European Bank for Reconstruction and Development, all of which had to be repaid at some point by the Russian people.[21]

The HIID used this aid money to establish many civilian organizations. One of them was the Federal Securities Commission, the equivalent to the US Securities and Exchange Commission (SEC). This agency was established by presidential decree. Dmitry Vassiliev, the former Deputy Chairman of GKI under Chubais, moved to this organization to become its Deputy Chairman under Chubais, its predictable chairman.

Another organization the HIID established, funded by USAID and the World Bank, was the Institute for Law-Based Economy (ILBE). Betraying its original purpose of providing legal guidance for the conversion of Russia's economy to a market economy and establishing a regulatory framework, the ILBE became an example of backdoor dealings and deception. One of its early customers was Nancy Zimmerman, the Boston-based hedge fund manager and Andrei Shleifer's wife. Zimmerman and the ILBE were later accused of collaborating in making illegal investments using insider information.

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[19] On the general decline of living conditions associated with privatization, see Hans Aage, "The Triumph of Capitalism in Russia and Eastern Europe and Its Western Apologetics," *Socialism and Democracy*, 19, no. 2 (July 2005).
[20] Anne Williamson, "Testimony before the Committee on Banking and Financial Services of the House of Representatives, 21 September 1999," 13.
[21] Wedel, *Collision and Collusion*, 147.

As controversies continued erupting, a Russian accounting agency, equivalent to the US Federal Audit Agency, began investigating the manner in which aid had been used at the RPC. In its May 1988 report it concluded, "Money was not spent as designated. Donors paid hundreds of thousands of dollars for nothing…for something you couldn't determine."[22]

It is difficult to find out exactly where all this aid money went. We can get some idea, though, from a September 2, 1999 BBC news report. According to this article, New York investigators suspected that more than $10 billion in funds from Russia were illegally deposited in the Bank of New York. Some of this may even have come from the $20 billion that the IMF paid to Russia in 1992 to assist it with its economic reform. As expected, Russian officials "reacted with fury and incomprehension."[23]

Professor Wedel emphasized that all major international financial donors essentially sent aid to the RPC, which was managed by Harvard and the Chubais Clan. She also pointed out that what was even more surprising was that the RPC was officially an NGO.

> Basically every major donor in the international financial institutions was involved in funding the Russian Privatization Center and the Harvard-Chubais group ran it. And the remarkable thing about it was that it was formally a non-government organization, it was formally an NGO. And yet it functioned like a government agency, but it did not have the accountability of a government agency. It is what I call a flex organization.[24]

Virtually all international agencies treated the RPC as if it were a governmental agency since its staff, including Chubais, were all central government officials. Professor Wedel noted that when she asked an officer of the World Bank if his organization aided an NGO financially, the officer denied it. But the World Bank, in fact, sent enormous sums to the RPC as did USAID. In other words, both organizations considered the RPC a governmental agency.

Ambiguity concerning the exact nature of the RPC was clearly intentional from the outset. Its structure as an NGO was a kind of safety device, a convenient front behind which relevant parties could hide, concealing their specific roles and responsibilities should their secret activities be discovered. As a combination of two groups of people with different nationalities and cultures, the two groups could also use each other as shields. Russians could blame Harvard, while Harvard could blame Russian officials. It was a way of insuring deniability.[25]

The two groups – Harvard men and the Chubais Clan – also thoroughly blocked the involvement of other agencies in the Russia project. However, as the two groups' abuse of power became better known, the US Congress decided in 1996 that the US General Accounting Office (GAO) should investigate USAID's activities in Russia and Ukraine. The GAO investigation concluded that the HIID practically controlled the USAID program, but handled their responsibilities with extreme negligence.[26]

The US sues Harvard

To Shleifer, Hay and their associates, Russia was a financial boondoggle—an attractive new market where billions of dollars could be made. According to the contract

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[22] Ibid.
[23] "Russia says IMF loans were not misused," BBC September 2, 1999.
[24] Wedel, interview with the author.
[25] Wedel, "The Harvard Boys Do Russia," 14.
[26] Wedel, *Collision and Collusion*, 132.

signed by the US government, the HIID, and USAID, however, officers of the HIID and their family members were banned from investing in Russia, a clause intended to mitigate conflicts of interest. In response to this, Shleifer and Hay, the two leaders at the helm of the Russian privatization project, chose to become masters of backdoor deals.

Shleifer and wife Nancy Zimmerman began investing in Russia in July 1994 at the height of Russian privatization. Nancy Zimmerman, a former Goldman Sachs hedge fund manager, owned and managed her own investment firm Farallion.[27] The couple recommended that their friends invest in Russia as well, providing them with insider information and letting them freely use facilities and legal services operated with funds from the HIID.

In August 1994, Shleifer began buying oil company stocks, investing some $4 million until November. About 90% of these funds flowed through Farallion, and the rest was through direct investments. In order to hide their identity, they used the name of Shleifer's father-in-law, a real estate developer in Chicago. In 1996, the couple became increasingly bold in their activities and expanded their investments. Zimmerman established a firm in Russia and began buying short-term Russian government bonds with loans. According to US allegations, they transferred profits from these bonds to American banks as if they were repaying bank loans and then retransferred this money to Farallion. Hay, who offered legal advice to the couple, also bought short-term government bonds with his $50,000 and his father's $150,000. Russian short-term government bonds depended on the IMF at that time, and it was Lawrence Summers who approved this IMF loan to the Russian government. Shleifer, Hay, and the Chubais Clan invested and profited from these short-term Russian bonds, as did George Soros, who made significant financial gains through this most profitable paper transaction.

According to an article in the Korean weekly *Hangyoreh 21* (September 3, 1998), investments in these short-term bonds were the reason why the Russian *ruble* was devalued and the Russian government ended up declaring a moratorium on repayment of debts. As part of its economic reform programs, the IMF and the US recommended that the Russian government issue bonds in order to control inflation and nurture a capitalist market. During the seven years of the Yeltsin presidency, the value of all short-term government bonds issued was some $700 billion, $200 billion of which was owned by foreign investors. When the 1997 Asian Currency Crisis occurred, almost all foreign investors withdrew their funds simultaneously, dropping the value of *ruble* and leaving the Russian government with no choice but to declare a moratorium.[28]

In August 1996, Hay's friend Elizabeth Herbert won approval for her firm, Pallada Asset Management, as the first mutual fund company in Russia. Together with this approval, Pallada acquired an exclusive right to manage several million dollars of government funds set aside to help investors with their losses. Harvard itself was the greatest beneficiary of these clandestine dealings. As mentioned earlier, the Harvard Management Company raked in enormous profits by participating in insider auctions.

Despite the US GAO report that pointed out problems in the Harvard Russia project, USAID did not take any follow-up measures for a considerable length of time. The tide turned only when the favoritism behind the approval of the mutual fund firm run by Hay's romantic partner Elizabeth Herbert was exposed in February 1997. In May 1997, the Harvard Russia project was terminated, and Hay was fired from the HIID. Shleifer also resigned from his position of director of the Russia project. The contract between USAID and the HIID was

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[27] McClintick, "How Harvard lost Russia."

[28] Cho Chun-sang, "IMF-ui ch'ibuga turonanda," *Hangyoreh 21* (September 3, 1998).

terminated. The total of funds transferred from the US government to the HIID came to more than $4 billion, all initially supplied through taxes.

In September 2000, the US government sued Harvard, Andrei Shleifer, Jonathan Hay, Nancy Zimmerman, and Elizabeth Herbert for $1.2 billion. There were eleven charges against them including fraud, contract violation, and making false claims. The main issues were twofold. The first was whether Harvard investors had used resources offered by USAID for their own or their friends' personal business and investment. The second issue was whether they had abused their positions by profiting from insider information. Shleifer argued that the conflict of interest policies did not apply to him as a Russian consultant. Therefore, whether or not Shleifer and Hay violated regulations for government officers became the key issue.

In 2004 US District Judge Douglas Woodlock found Shleifer and Hay liable under the False Claims Act, stating, "I find that the Cooperative Agreements were valid contracts between Harvard and USAID, that they created an obligation to remain free of conflicts of interest."[29] In August 2005, Harvard, Shleifer, and the Justice department reached an agreement under which the university paid $26.5 million to settle the five-year-old lawsuit. Shleifer was also responsible for paying $2 million worth of damages, and Hay $2 to $4 million depending on his future income. Nancy Zimmerman's firm paid $1.5 million in an out-of-court settlement. The total settlement was $31 million, the largest suit in Harvard University's history.

After the proceedings, an unidentified banker who often visited Russia said, "The Harvard crowd hurt themselves, they hurt Harvard, and they hurt the US government."[30] This judgment may only be half true. The greatest victim of this Harvard-instigated debacle was not Shleifer, Hay, Harvard, or even the US government. It was Russian people.

What did the US really want?

In August 1998, while the HIID investigation was in progress, Russia fell into a state of extreme emergency, declaring a debt repayment moratorium after the crash of the Russian *ruble*. Of course, the Russian economic crisis was not entirely due to Harvard participants. However, Harvard's management of Russian economic reform left nightmarish memories and the stench of corruption in the minds of many Russians. Like most inconvenient incidents related to Harvard,[31] American mainstream media provided little coverage of the Russia scandal. As the five-year-long legal process dragged out, this scandal eventually faded in the minds of many. Most Americans these days do not remember or know the relationship between Harvard and the freshly formed Russian oligarchy, or that Harvard had any involvement in Russian economic reform.

President Yeltsin resigned in December 1999, his approval ratings hitting rock bottom due to his administrative incompetence, corruption, and the economic crisis. His successor Vladimir Putin, elected by an overwhelming majority in 2000, purged the oligarchy that had accumulated wealth under Yeltsin's protection and re-nationalized oil companies and a third of the energy companies. He intensified state authoritarianism as well. Embittered after the failed capitalist economic reform, people were receptive to these changes.

A most interesting question is whether or not the US government knew what was going on during Russia's privatization debacle. In November 1998, the *New York Times* ran

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[29] McClintick, "How Harvard Lost Russia."
[30] Ibid.
[31] Many are mentioned in the rest of the book from which this article is drawn.

an article exposing Vice President Al Gore's intentional dismissal of a CIA report on Russian Prime Minister Viktor Chernomyrdin's (1992-98) corruption. The CIA was ordered not to report on the matter afterwards. The article also pointed out that the US government did not pay any attention to numerous corruption scandals then in progress, citing the aforementioned Russian officials' pamphlet deal as one example of such inattention.[32]

The CIA, however, was actually paying close attention to the situation in Russia. The US government was not as oblivious as they claimed. One can deduce that the US government either did not care if the Russian economy was destroyed, or that they may have actually desired it. What the US wanted from Russia after the collapse of its communist system must have been the reorganization of its political and economic system to suit American needs—or at the very least, for Russia to never become powerful enough to confront the US again.

It's interesting to note how the media constructed the narrative of Russia's "progress" to a market economy and privatization. Soviet expert Stephen F. Cohen writes that Russia was designated as the "best-performing emerging market" in the 1990s, even though it was the worst-performing modern economy at the time. Similarly, the impoverishment of some 75 percent of the nation, the transformation of a superpower into a beggar state and Russia's experience of the worst peacetime industrial depression of the 20th century were called "reform, remarkable progress," and a "success story."[33]

Update on the Dream Team

How are the protagonists of the Russian scandal doing these days?[34] According to Professor Wedel, the Chubais Clan still maintains technocratic government posts. Chubais was head of the state-owned electrical power company from 1998 to 2008 and is currently director of the Russian Nanotechnology Corporation. A 2004 survey by Pricewaterhouse Coopers and *The Financial Times* named him the world's 54th most respected business leader. He has also been a member of the Advisory Council for JPMorgan Chase since September 2008. He survived an assassination attempt in 2005.

How about Harvard's financial geniuses?

The New York Times suggested in 2006 that David McLintick's exposé of Harvard's role in the disastrous Russian privatization played a role in the dismissal of Lawrence Summers from the Harvard presidency.[35] Despite this, after a prosperous career as a consultant following his resignation, Summers was tapped by President Obama to be director of the White House National Economic Council. Following his appointment, he played a key role in rescuing Wall Street from the financial recession they had largely created. Since resigning in 2010 when the Obama economic team shifted gears, Summers has been teaching at Harvard's Kennedy School.

Shleifer, who remains on the Harvard faculty was awarded the John Bates Clark Medal in 1999, one of the two most prestigious honors in the field of economics (Milton Friedman, Nobel laureate and neoliberal evangelist, had received that same medal in 1951, with Summers following in 1993).

Jonathan Hay worked as an international lawyer at a New York-based law firm and is currently employed by a real estate development company in the Ukraine. After the

[32] James Risen, "Gore Rejected C.I.A. Evidence of Russian Corruption," *New York Times*, 23 November 1998.
[33] Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia* (New York: Norton, 2000), 28.
[34] (as of mid-2012)
[35] Sara Ivry, "Did an Exposé Help to Sink Harvard's President?" *The New York Times*, 27 Feb. 2006.

termination of the Russia project, he married Elizabeth Hebert; Herbert sold her mutual fund firm in 1998.

Jeffrey Sachs resigned from the directorship of the HIID in 1999, and became director of the Center for International Development (CID) at the Kennedy School. This center focused on research in developing countries rather than foreign consulting. After the dismantlement of the HIID, its $1.3 million fund was transferred to the CID. In 2002, Sachs left Harvard to become director of the Earth Institute at Columbia University.

The protagonists of the Harvard Russian project have thus remained largely unaffected by their scandals and disastrous decisions. The Harvard connection remains so powerful that poor decisions seem to have little influence on one's personal trajectory. Professor Wedel argues that this is partly due to the blame for the Harvard Russian scandal falling upon only a few individuals rather than an entire organization. Investigators missed an opportunity to look deeply into the US government, Harvard individuals, and the Harvard Corporation as a whole. Through observing Harvard and the Chubais Clan, Wedel told me that she came to the realization that a new group had emerged, one that exercised its powers and influence in a completely different way than in the past.

> The profile of today's top powerbrokers is that of someone who performs multiple and overlapping roles as a government consultant, as a business consultant, perhaps affiliated with a think-tank, and working with the media promoting his views. And all the while he's saying that he's working in the public interest but in fact he's serving his own agenda. The new powerbroker is also much less visible than in the past. He's much more peripatetic. I think we are really in a very dangerous era, one in which there is not the same accountability that was tied to the state and to organizations; today's top players are connecting dots that are global in reach.[36]

The Harvard Russia scandal reminds us that we need to maintain a watchful eye on small, elite minorities that exercise vast power but remain completely free of social responsibility. Although a wide range of internal and external forces and events brought down the Soviet system, leading to the subsequent tragic outcome, we would do well to remember the original ideals of the Russian revolution:

> Socialism was not just an organizational outline or technical plan for administering the economy. It was a set of broader, more profound meanings that Soviets took seriously and to heart in the early decades of Soviet history. It provided a set of norms, categories, and even dreams and aspirations guided by the vision of an alternative modernity in which social justice triumphed over acquisition, accumulation, exploitation, and inequality.[37]

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[36] Wedel, interview with the author.

[37] Jeffrey Hass, *Rethinking the Post-Soviet Experience: Markets, Moral Economies, and Cultural Contradictions of Post-Socialist Russia* (London: Palgrave Macmillan, 2012), 227.