

# The Boston Globe

Op-Ed

## HARVARD'S ROLE IN US AID TO RUSSIA

JANINE R. WEDEL

741 words

25 March 2006

The Boston Globe

BSTNGB

THIRD

A15

English

© 2006 New York Times Company. Provided by ProQuest Information and Learning. All Rights Reserved.

WHEN LAWRENCE Summers resigned the Harvard University presidency last month, his action was attributed in large part to difficulty in human relations. Whatever the true reason, when Summers's legacy is examined, he should be held to account for his role in a scandal with which he was intimately involved, both as a Treasury official and at Harvard. Yet the strange saga of Harvard's involvement in US aid to Russia in the 1990s is more than a scandal about Summers and Harvard. The case illustrates the overall failure of the US accountability system.

Ten years ago my article about the role of the US-funded Harvard advisers in Russia's economic reforms exposed their maze of networks. I analyzed the web of interconnections that enabled Harvard economist Andrei Shleifer, a friend of then Treasury official Lawrence Summers, and a close-knit group of Russians and Americans to largely shape US economic aid policy and Russian economic "reforms" while managing virtually the entire nearly \$400 million US flagship economic aid project. Summers helped Shleifer and Harvard gain noncompetitive government awards through arrangements that were highly unusual in foreign aid contracting at the time, according to US officials.

This maze of networks guaranteed the Harvard players their success in the 1990s. It also enfeebled the multiple investigations of their activities during the same period. Although the US Justice Department filed suit in 2000 (following a three-year investigation), alleging that Shleifer and Harvard had conspired to defraud the US government, the case came to a head only last summer with a negotiated settlement that required the university to pay \$26.5 million in fines and Shleifer to pay \$2 million. And despite being versed in Summers's entanglements, in 2001, the Harvard Corporation, with sole authority to hire and fire the Harvard president, appointed him the university's president.

The Harvard case points to the failure of modern democracy to adapt its monitoring and accountability systems to a new breed of players exemplified by Shleifer. These peripatetic players have gained influence in the reorganizing, networked world in which authority has been diffused by the profusion of government outsourcing contracts and the end of the Cold War.

The result is that accountability has been undercut by relationships between governments and contractors that are too tenuous, flexible, and ambiguous to be genuinely monitored. Shleifer, for example, played sometimes indistinct and overlapping roles as he lobbied in favor of his projects and advised both the United States and Russia while making investments for his own personal gain, all the while presenting himself as independent analyst and author. The endowment funds of both Harvard and Yale gained access to valuable investments through networks inhabited by Shleifer and/or his currency-trading wife. His investments in Russia, which he does not deny, included securities, equities, oil and aluminum companies, real estate, and mutual funds many of the same areas in which he was being paid to provide impartial advice.

Shleifer's defense in the Justice Department's lawsuit is revealing: Although US prosecutors charged that his investments violated federal conflict-of-interest regulations, defense lawyers maintained that he was a "mere consultant," and thus not subject to these rules. Yet as director of the project, the buck stopped with him.

The system is virtually incapable of dealing with such players' infractions and lack of transparency in a timely fashion. It is not for lack of inquiries, including a 1996 Government Accountability Office investigation and a lawsuit brought by a US mutual funds firm working in Russia, which was settled out of court in 2002.

Traditional accountability frameworks are no match for the ways in which today's diffused authority provides new opportunities for players to brandish influence, evade culpability, and gain deniability, while writing the new rules of the game. While Shleifer must pay a settlement and legal fees, it is too late for the Russian

people, who, instead of wise guidance, got corruption and a system wide open to looting. Until the United States devises better ways to track the networks and activities of these new players, it is destined to have an ever more untransparent and unaccountable system, with grave implications for democracy.

JANINE R. WEDEL Janine R. Wedel, professor of public policy at George Mason University, is author of "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe."

Document BSTNGB0020060328e23p0000d