
WORLD: RUSSIAN ECONOMY
Looting Russia's Free Market

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Americans are becoming only too aware of the financial tricks and deceit in which some of the nation's largest and most respected corporations engaged during the Clinton administration to pump up stock prices with fraudulently inflated profits. When the huge bubble no longer could be sustained the men and women at the top would bail out of their stock and pocket millions, leaving pensioners and other investors holding an empty bag. To market insiders these are known as "pump and dumps."

While federal investigators are looking into the corporate malfeasance at Enron, WorldCom, Qwest Communications, AOL Time Warner and Adelphia Communications, to name just a few, little attention has been paid to similar financial shenanigans perpetrated by alleged American and Russian "reformers" in the former Soviet Union during the same period. To those who have studied these "assistance" programs, which were led by Harvard University's best and brightest, what happened was just short of the financial rape of Russia.

Little more than a decade ago Americans sat transfixed in front of their TV sets watching the Evil Empire implode and full of hope that Russians would, like Americans, take up the mantle of freedom. Unfortunately, say authorities on contemporary Russia, what happened more closely resembles the contemporaneous looting of corporate America and has left the Russian people disillusioned and angry at what they presume is the American way.

No sooner had the dust of communism settled than advisers recommended by the U.S. government descended on what remained of the former Soviet Union. The vision was as simple as it was promising: Communism was dead and something had to take its place. Why not American-style capitalism?

From 1992 to 1997 nearly \$60 million was appropriated to the Harvard (University) Institute for International Development (HIID), and was distributed by the U.S. Agency for International Development (USAID), to help "countries of the former Soviet Union carry out political and economic reform in support of open markets, including establishment of transparency in regulatory and other governmental decisionmaking."

This political and economic "reform" was paid for by American taxpayers and placed in the hands of Russian-born emigre and Harvard professor Andrei Shleifer, the project director and principal investigator for the program, and Jonathan Hay, the general director in charge of the Moscow offices. With the support of higher-ups in the Clinton administration, including Harvard men and Treasury secretaries Robert Rubin and Lawrence Summers, Shleifer and Hay and their hand-picked Russian agents - the "dream team" as they were referred to - took free-market capitalism to a new low.

The federal government now is suing Shleifer, Hay and Harvard University for "false claims submitted by Harvard University to the United States Agency for International Development, USAID." The lawsuit alleges that Hay and Shleifer violated the terms of their agreement with the USAID by participating financially in the businesses they were sent to Russia to set up and advise.

Specifically, the government alleges that the defendants "not only violated the express requirements of the Cooperative Agreements with USAID, their conduct sent exactly the wrong message about how open and transparent markets should function, and undermined the objective that they were hired to pursue in furtherance of the United States' strategic interests in Russia."

How did Shleifer and Hay send the wrong message? The Department of Justice action, filed in the U.S. District Court of Massachusetts, provides examples:

c"ln July 1994," the government alleges, "Shleifer agreed to invest \$200,000 in Russian equities through a

company known as Renova Invest. Shleifer arranged the initial details of the investment and was identified in the documentation as the owner. The \$200,000 came from his wife Nancy Zimmerman's account, but the profits from these investments were returned to Zimmerman and Shleifer's joint account."

c"Beginning in the summer of 1994 Shleifer transferred at least \$99,000 in funds from his own account, and \$165,000 in funds from his joint account with his wife, directly or indirectly, to Channel Island accounts for the purchase of Russian oil stocks. The stocks were purchased with those funds but registered in the name of Shleifer's father-in-law, Howard Zimmerman. Shleifer personally solicited Hay's participation in these investments and asked for and received from Hay a check for \$66,000 in 1994 for that purpose."

c"In late 1995 Hay invested \$20,000 in the Flemings Russian Securities fund managed by Elizabeth Hebert (now Hay's wife). That fund focused exclusively on Russian equities, and its stock selections were managed by Hebert."

c"In or about August 1996, Hay's father transferred \$200,000 of Hay's funds to his own account and then used these funds, together with another \$200,000, to provide startup financing for Julia Zagachin to purchase the First Russian Specialized Depository, FRSD, from its then owners, Forum Financial Group."

The 70-page filing concludes that "Harvard, Shleifer and Hay knowingly caused false claims to be submitted to USAID and are therefore liable under the False Claims Act, FCA. This is not a case where Defendants did not know the rules - it is one where they did not care. Harvard and its employees, no matter how brilliant, are still subject to the laws of the United States."

Like Enron and the other corporate failures, the Russian-aid program seems to have been designed deliberately to confuse, say critics. While there is no exact figure as to just how much assistance money was under the influence or control of Shleifer and Hay, those who have studied the failed reform programs think it is in the hundreds of millions - if not billions - of dollars and resembles Wall Street schemes wherein a few on top reaped sums stolen from the many.

Anne Williamson is a Soviet and Russian specialist and author of the forthcoming book, *Contagion: The Betrayal of Liberty, Russia and the United States in the 1990s*. She tells Insight that "it's great that the Justice Department has brought this suit against Hay, Shleifer and Harvard, but the problem is they're not looking at the rape of Russia. All the government is looking at is Hay and Shleifer's personal investments and abuses of the program the government gave them to control. The suit is just addressing a very narrow part of a much bigger problem."

Williamson explains, "The larger issue is the amount of U.S. taxpayer money these men had direct and indirect control over. They could funnel large amounts of money to people who were nothing less than quislings - Russians who were willing to sell out for money. What we did beyond the economic abuse was we built up a very small group of people and labeled them as reformers and great democrats. The perverse result of this was that every other Russian reformer was pushed aside. It was the opposite of open debate and democracy. Our money - taxpayer money - actually smothered other actors who weren't all communists, but rather were decent people who were trying to have input into the process in the creation of a new country, a new government and a new way of life."

"They got pushed aside," continues Williamson, "because they couldn't compete with the hundreds of millions of dollars the United States was pouring into people Harvard had identified as people who would work with them on their reform program, which really was just to loot Russia. Harvard's mission was not to deliver all the legacy of the Russian people into the hands of a dozen people - this is not what was sold to the American taxpayer. I was there in Russia while it occurred. I was an eyewitness to what happened, and every Russian knows what happened, every Russian resents what happened and every Russian resents us for it."

Williamson concludes: "Hay and Shleifer took advantage of the opportunities provided to them. Harvard University privatized our aid program, then they socialized the benefits amongst themselves and their supporters in the private investment world, then socialized the risk by dumping it on the U.S. taxpayer when their policies failed and Russia defaulted on its loans in 1998. We now have to deal with a large territory and significant piece of geography that is controlled by a handful of corrupt people we support. The issue isn't political or cultural, it's an issue of corruption. It addresses the fact that our government, and representatives chosen by the government, are corrupt. There are large groups feeding from the public treasury under the camouflage of foreign aid, humanitarian work, building a better world, exporting democracy - all phrases under which the theft is organized. The answer is to end all foreign aid - absolutely, tomorrow, shut it down."

Janine Wedel, professor of public policy at George Mason University and author of *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*, tells Insight that "the U.S. supported the creation and the thriving of the oligarchs by supporting privatization. The entire policy apparently was to underwrite Anatoly Chubais et al., and the Harvard clique. Much of the economic aid went to them, including USAID money and also hundreds of millions of dollars from the World Bank and IMF [International Monetary Fund]

loans. The Harvard people were intimately involved in the `reforms,' and especially privatization, which were thoroughly corrupt in the way that they were implemented. It was devastating to many Russians."

But, Wedel says, "The damage is done. Privatization in Russia is largely over and those who got the spoils got the spoils. These things had a beginning and an end, but the end continues in a big way. It's very hard to underestimate the effect of privatization on economics, politics and society in Russia. Think of a country in which practically everything is state-owned and all of a sudden there are all of these enterprises and natural resources to divvy up. Just think of the politicized corrupt processes that might go on. It's hard for us to imagine, but essentially in Russia a few at the top got almost all of it. With this privatization the people who got it got it forever, and realistically there's no going back."

Wedel concludes: "What happened in Russia is really egregious, and the answer to the problem is that you can't have a monopoly on policy and information and a clique on both sides dictating policy and information. That's just a program for disaster. The monopoly on Russian reform was almost 100 percent given to the Harvard/Chubais group with little independent information being considered, and it was enabled at the highest levels of the U.S. government. A lot of Russians believe the U.S. deliberately set out to destroy their economy. What happened in Russia certainly goes against the grain of any sort of reform in the traditional sense of the word - meaning progress."

Joe Wrinn, a spokesman for Harvard, denies that the university was guilty of any of the charges, explaining that "no one has ever criticized the actual work that was done in Russia by HIID." Did Harvard profit from investments in Russia? According to Wrinn, "Harvard doesn't talk about any of the trades. We give out something called the "John Harvard Letter" and that goes through different types of investments as opposed to a particular company or particular stock. I don't think the Justice Department has raised issues about Harvard Management, the university's investment arm."

True, the Justice Department hasn't raised this issue, but Harvard was one of only two foreign entities allowed to bid in the "Loan for Shares" program directed by Shleifer and Hay in Russia. What Harvard Management made on those investments is anyone's guess, but Harvard's endowment went from approximately \$4 billion in 1992, the first year of HIID's contract, to \$19 billion in 1998.

Those dates cover a Clinton administration that included Rubin, a former Harvard Management board member; Summers, a former Harvard professor and current president of the university; and Harvard graduate Albert Gore, who personally oversaw Clinton policy toward Russia. Despite Harvard's denials of wrongdoing, the HIID has been renamed and put under the authority of the Kennedy School of Government, where the university's most reliable political clout is heavily concentrated.

While Williamson and Wedel believe Harvard is guilty of the charges against it, both scholars say it is a sideshow to the bigger picture of the financial raping of Russia. "Our privatization," Williamson says, "brought forth an absolutely perverse result in that we transformed the majority of ownership of all Russian enterprise from the Russian people as a whole to the Russian government. Not even Stalin attempted that, but we delivered."

Kelly Patricia O'Meara is an investigative reporter for Insight magazine.

Summary - As communism collapsed in the former Soviet Union; U.S. economic `reformers;' led by a Harvard University clique; took free- market capitalism to a new low.

Photos (color). A) NO CAPTION; B) Getting his hands dirty? Shleifer allegedly participated financially in the businesses he was sent to advise.; C) Left out in the cold: An elderly woman in Moscow sells clothing she made to try to support herself.; D-F) Gumming up the works: Action at the Moscow stock market was slow, top, thanks in part to the so-called economic "reforms" that were given full support by Summers, right, and Rubin, below., A) By Darren McColleston/Newsmakers; B) By Harvard University; C) By Yuri Kochetkov/AFP; D) By Ivan Nikitin/Getty; E) By Joel Rennich/UPI; F) By Ricardo Watson/UPI

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