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U.S. Sues Harvard For Work In Russia.

Sarah Karush

"The U.S. government filed a \$ 120 million lawsuit Tuesday against Harvard University and two former Harvard employees who advised Russia on economic reform. The suit marks the second chapter in a scandal that erupted in 1997 when the U.S. Agency for International Development suspended a contract with Harvard's Institute for International Development, accusing officials at the institute of using their positions for personal gain.

In the suit, the U.S. Justice Department claims that the former institute employees, economics Professor Andrei Shleifer and legal expert Jonathan Hay, and their wives, Nancy Zimmerman and Elizabeth Hebert, used the U.S. aid program to promote their own investments in Russia.

HIID received \$ 43 million from USAID between 1992 and 1997 to help Russia develop capital markets and re-write civil laws.

The suit alleges that Harvard failed to provide oversight.

"We're disappointed that the government has taken this course of action and we do not believe there was a failure of oversight," Harvard vice president and general counsel Anne Taylor was quoted as saying by The Associated Press.

She said Harvard didn't know anything about the personal dealings of the individuals involved.

"The government got everything it contracted for under this contract," she said.

Hay and Shleifer have denied allegations of misconduct all along. Their lawyers reiterated that position Tuesday.

"Jonathan Hay's actions were lawful and proper," AP quoted Hay's lawyer, David Zornow, as saying. "We are confident that, as the civil case unfolds, the court will confirm that the Harvard program significantly fostered Russian reform and that the government received its money's worth." When AID terminated the Harvard project, it claimed that Hay had "used resources financed by USAID to support the private investment activities" of Shleifer's wife, Zimmerman.

AID officials claimed that Hay instructed staff at the Institute for a Law -Based Economy, which was set up by HIID to advise the Russian government on legal reform, to assist Zimmerman in her private investments.

AID also said that Hay bought GKO treasury bills despite regulations that forbid AID employees from investing in project countries. The agency also questioned whether Hebert used AID resources to set up a mutual fund.

Lloyd Macdonald of Boston, who is representing Hebert, told AP his client had "no relationship to the Harvard program or to the U.S. government." Harvard announced in January that it was closing the Institute for International Development, but said the closure had nothing to do with the Justice Department investigation.

While they were advising Russia, Shleifer and Hay had close ties to then-First Deputy Prime Minister Anatoly Chubais, who rushed to their defense when HIID dismissed them in the wake of the scandal.

Critics of the Harvard team have said that it relied too heavily on Chubais, now the chief of national power grid UES, and the so-called St. Petersburg clan that he led.

Janine Wedel, author of a book on Western aid to post-communist Eastern Europe, which devotes almost an entire chapter to the Harvard project, said by telephone from Pittsburgh on Tuesday that both the U.S. and Russian sides needed to further examine alleged corruption during the attempts at economic reform in the 1990s.

On the U.S. side, Treasury officials were responsible for the allocation of resources and were connected to the defendants, she said.

"Russians need to ask how did they allow policy to be dictated by a small clan, notably the Chubais clan, with huge input from U.S. Treasury officials and those connected with them?" Wedel said.

Chubais and other members of the St. Petersburg group - such as Finance Minister Alexei Kudrin and Economic Development and Trade Minister German Gref - hold influential posts in today's White House and Kremlin.

But, like his allies from Harvard, Chubais may be facing political trouble, analysts say.

A UES statement Monday that Chubais will travel to Switzerland in late October to take a monthlong course in management has fueled speculation that he may be in political trouble.

"The head of the national power company right at the start of the winter season heading to Switzerland to go to business school - it's improbable. Obviously, he's in some sort of trouble," said Jonas Bernstein, an analyst at the Jamestown Foundation.

The revival of the Harvard case came just six days after U.S. Republicans blasted U.S. President Bill Clinton's policy on Russia in a 209-page report.

One of the key points of the report, written by 12 Republicans on the House of Representatives Speaker's Advisory Group on Russia, is that the U.S. officials "ignore(ed) and suppress(ed) evidence of wrongdoing and failure by officials including Viktor Chernomyrdin and Anatoly Chubais, who had come to personify the (Clinton) administration's Russia policy."