

FRONT

**MAINER SUES HARVARD ECONOMISTS ; The two men inappropriately took control of Russia's first mutual fund, says Forum Financial Group's owner.**

GREGORY KESICH Staff Writer

1,087 words

18 December 2001

Portland Press Herald

Final

1A

English

Copyright 2001 Blethen Maine Newspapers Inc.

A Maine businessman is suing two Harvard economists hired to bring free-market reforms to the former Soviet Union.

John Keffer, owner of Forum Financial Group, a Portland-based investment company, claims the men used an American foreign aid program to become players in Russia's freewheeling post-communist economy.

Keffer specifically charges that Harvard Professor Andrei Shleifer and his former student, Jonathan Hay, used hidden partnerships and their influence with corrupt Russian government officials to take control of Russia's first mutual fund five years ago.

Forum spent time and money setting up the financial infrastructure of the fund, the suit charges, but could not reap the benefits, so the company is suing the two men and the prestigious university for an unspecified amount.

The Harvard Russia Program, funded with a contract from the U.S. Agency for International Development, was supposed to improve the life of ordinary Russians by attracting investments that would move industry out of state control. Instead, it ended in failure amid accusations that the university's American employees hijacked the process for their own benefit.

Shleifer and Hay advised the U.S. and Russian governments on how U.S. aid should be spent. The two men stand accused of steering the money into businesses owned by powerful Russian political figures, and in some cases, members of their own families. In addition to the Forum suit, the U.S. government filed a \$120 million suit last year, trying to recover the money it paid Harvard. The university has admitted no wrongdoing, but has since ended the program.

Forum came to Russia with high hopes of doing good and making profits, but was disappointed on both counts, said Peter DeTroy, Forum's lawyer in the case. "We went in there excited, and left with a pretty bad taste in our mouths," DeTroy said.

Harvard's lawyers say the suit has no merit. In documents filed in U.S. District Court in Portland, Attorney David Apfel argued that Forum's contract was with Russia, not Harvard, and U.S. courts can't second-guess the decisions of foreign governments.

Apfel argued that if the case did go forward it shouldn't be in Maine, because neither of the economists admit to ever setting foot in the state, except for a vacation.

U.S. District Court Judge Gene Carter rejected Apfel's arguments and last week scheduled the case for trial in Portland next September.

Beginning with the fall of the Soviet Union over a decade ago, Harvard economists have been a driving force in U.S. economic policy in the former Cold War superpower. Beginning in 1992, the U.S. government paid more than \$40 million to the Harvard Institute for International Studies to help build a market economy in Russia.

Shleifer and Hay were part of a circle of American economists who worked with Anatoly Chubais, the chief economic architect for former Russian President Boris Yeltsin. Chubais was briefly on Harvard's payroll, before he became head of Russia's electricity monopoly.

From offices in Portland, Forum has set up and operated mutual funds in the United States, Poland, Bermuda and Malta. The company is a recognized expert in setting up overseas mutual funds.

In 1996, Forum received a contract from the Russian Securities Exchange Commission to set up and operate a specialized depository, which holds assets and keeps records of money invested in mutual funds.

Forum invested \$400,000 for 49 percent ownership of the depository, with the understanding that the company would manage it. The rest of the depository would be owned by Russian investors, in accordance with Russian law.

But according to the complaint, Shleifer and Hay pressured Forum to financially back a new mutual fund, which was licensed to Hay's girlfriend, Elizabeth Hebert. Forum's Keffer objected because the depository was not ready for responsible operation.

Keffer said Hay then told him that Forum would not get paid for running the depository unless it transferred majority ownership and management control to Julia Zagachin, an American married to a Russian, who was also employed as a Harvard Russia Program associate.

Hay knew the Harvard economists could block Forum's participation, because they were also advisers to the Russian SEC. Keffer charges that Forum had no choice but to pull out and get its \$400,000 back.

In his motion to dismiss the case, Apfel said the story should end there.

"This is a classic case of overreaching," he wrote. "Over four years ago . . . (they) were paid over \$400,000 for the specialized depository they were unable to operate or manage to the satisfaction of the Russian SEC. Now (they) want to be paid again."

But Forum argues the company lost future profits as well as the money it spent to send some of its top employees to Moscow to work on the depository. The depository still exists and could become profitable if the Russian economy revives.

Some observers believe that Russia's economic collapse was in part a result of the advice the Harvard economists gave, and point to the Forum story as an illustration of why the Russia Program failed.

As a result of Forum's sale of its share, the depository and the mutual fund ended up in the same hands, a violation of the Russian SEC policy that the Harvard economists helped to craft. That was typical of how the Harvard group worked, said Dr. **Janine Wedel**, a professor at the University of Pittsburgh.

In her book "Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989-98," Wedel argues that the Harvard economists did as much to prevent the creation of stable institutions in Russia as they did to foster them.

"Much of these so-called reforms were about privatization, which enabled key political and economic players to carve up the major jewels of Russian industry for themselves," Wedel said.

With the Harvard Russia Program disbanded, Shleifer is back in Massachusetts, teaching at the university as a tenured professor. Hay has since married Hebert and they live in Moscow, where he works as a business consultant.

Both will have to make a trip to Maine to face charges that they defrauded a local businessman from eight time zones away.

Staff Writer Gregory Kesich can be contacted at 791-6336 or at:

[gkesich@pressherald.com](mailto:gkesich@pressherald.com)

Document ptpH000020011218dxcI0005w