

A;COMMENTARY;EDITORIALS

What did Harvard teach the Russians?

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William F. Buckley once quipped that he would rather be governed by the first 1,000 people listed in the Boston telephone directory than by the Harvard faculty. Who would have believed that Russians, reeling from the pervasive corruption of market-reform and privatization programs, which were largely overseen by a Moscow-based Harvard think tank, would offer real-life confirmation of Mr. Buckley's theoretical observation? The fact that U.S. taxpayers spent about \$50 million underwriting the think tank's operations merely compounds the problem. And if that weren't bad enough, it now seems that those very operations were laden with conflicts of interest involving the center's two most powerful employees, the wife of one and the girlfriend of the other.

To be sure, the immense task of privatizing the business assets and natural resources of the thoroughly corrupted Soviet Union, particularly in the absence of any rule of law, virtually guaranteed that the process would itself be tainted to some extent by corruption. Even by these standards, however, the level of Russian corruption in its economic-reform policies has soared beyond all conceivable expectations as insider dealings have placed loan sharks and a mobbed-up banking industry at the top of the heap. As a result, wrong-headed opponents of necessary economic and political reforms, whether they be communists or xenophobic nationalists, have been able to point to the pervasive corruption and capitalize on the inevitable pain that has accompanied the reform process, understandably plunging popular support for the Russian government's reform agenda.

The scandals have touched the Harvard Institute for International Development (HIID), the taxpayer-subsidized, Harvard-directed, Moscow-based think tank that advised the Russian government. HIID's project director was Harvard economics professor Andrei Shleifer and its program director was Jonathan Hay, a Harvard-trained lawyer. In late 1992, the U.S. Agency for International Development (AID) awarded HIID a \$2.1 million contract to advise the Russian government in its efforts to privatize thousands of state-owned businesses. By 1997, AID had given HIID contracts worth \$57 million, \$40 million of which was granted without competitive bidding. Meanwhile, HIID was also coordinating nearly \$300 million in contracts granted to others, and it had expanded its domain to include helping Russia to establish capital markets, to re-write the Soviet-era legal code and, ironic in retrospect, to instill throughout Russia's evolving economy Western standards of fair play. Two years ago, Messrs. Shleifer and Hay helped to establish the Institute for a Law-Based Economy (ILBE), which, among other things, assisted the Russians in developing and regulating a mutual-funds industry. They also helped to create a for-profit offshoot called ILBE-Consulting, which would give Russian technocrats real-world experience and underwrite the work of ILBE. AID provided seed money for ILBE-Consulting.

As the Wall Street Journal reported recently, ILBE-Consulting took a 2 percent stake in Pallada Asset Management, the first company approved to market mutual-fund shares to Russians. Pallada later was given a government fund to manage. Oh, yes: Pallada's founder was Elizabeth Hebert, who was Mr. Hay's girlfriend. Nancy Zimmerman, another pioneer of Russian investing, created a Russian firm, New World Capital, to buy and sell Russian debt. New World Capital's general director was Sergei Shishkin, then-deputy director of ILBE. Ms. Zimmerman is Mr. Shleifer's wife.

AID cancelled the HIID project in May, alleging that Mr. Hay and Mr. Shleifer violated its conflict-of-interest rules, which they deny. Harvard removed Messrs. Hay and Shleifer from the project, declaring its "zero tolerance for conflicts of interest, actual or perceived." Not surprisingly, a General Accounting Office report concluded that AID had exercised "minimal oversight." Less charitably, George Washington University research professor **Janine Wedel**, an early critic of the HIID project, told the Journal, "AID gave Harvard a blank check. ... They opened themselves to all sorts of shenanigans."

Noting the potential for far more damaging consequences, Harvard economist and Russia expert Marshall Goldman observed that whether or not the charges were true, "{T}his could feed the worst fantasies of Russians: that the whole {reform} effort was an attempt to rape and pillage Russia."

And to think that some thought Mr. Buckley was merely using hyperbole to make a point..

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