Summers Hated in Russia For His 1990s Record

by Rachel Berthoff Douglas

April 3—Academician Sergei Glazyev's book *Genocide: Russia and the New World Order* (English edition, *EIR*: 1999) documented the devastation of living standards and industrial capacity in Russia during the 1990s, under the liberal reforms implemented during the Presidency of Boris Yeltsin. While nailing the role of the International Monetary Fund in that process, Glazyev mentioned few names of individuals. After all, the book was written only five years after Yeltsin deployed the Russian Army to crush the elected Russian Parliament, which had resisted the IMF-mandated privatization policy.

A notable exception was Larry Summers, who today heads President Obama's National Economic Council. Glazyev wrote about the August 1998 collapse of the Russian short-term government bond (GKO) pyramid: "Evidence indicates that the decisions on declaring the Russian financial and banking system bankrupt on August 17 were coordinated beforehand with U.S. Deputy Treasury Secretary Lawrence Summers and IMF Deputy Managing Director Stanley Fischer.... The coordination was carried out on behalf of the Russian leadership by Mr. Anatoli Chubais, who is known not only for his destructive activity in the realm of privatization, but also as a successful player on the government securities market."

Harvard professor Andrei Shleifer, an intimate of Larry Summers, ran a hedge fund out of the Moscow office of the Harvard Institute for International Development, which was funded by USAID.

The Harvard Project

The association of Summers with corruption is well known in Russia because of the USAID/Harvard project, under which Harvard's Prof. Andrei Shleifer, a Summers intimate, was advising the Russian government on privatization, while his wife and the girlfriend of an associate were running a hedge fund out of the back room of the Harvard Institute for International Development (HIID) office in Moscow. Harvard settled a U.S. Department of Justice suit against the university for the scam, paying penalties of $26 million, while Shleifer personally paid $2 million in damages.

Larry Summers defended his friend Shleifer throughout the HIID case. Shleifer kept his tenured position at Harvard, where Summers was president in 2001-06. What's more, Summers did not think Shleifer should have been removed even from the HIID project itself. In a court deposition, highlighted by the *Boston Globe* of June 29, 2002, Summers stated that the removal of Shleifer and his assistant, Jonathan Hay, from the Russia project in 1997 had compromised the U.S. government's strategic aims in Russia. He added that Russian officials had bitterly complained to him, as a U.S. Treasury official, that the DOJ investigation of the Harvard program "had hampered their efforts to build a free-market economy in Russia."

Indeed, the HIID caper was far from being a good program gone bad. As *EIR* reported in our issue of Oct. 13, 2000 ("DOJ Sues Harvard Over Russia-USAID Scam"), HIID was an outgrowth of a series of 1991 meetings held by Harvard's Prof. Jeffrey Sachs and other Western economists, such as Anders Aslund, with a group of Russian "reformers," including Anatoli Chubais and Yegor Gaidar. The latter were part of a group of young Russian economists, recruited in the 1980s by the London-based Institute for Economic Affairs (IEA), a center for radical Mont Pelerin Society free-market ideology. With funding from George Soros's Open Society Institute, among others, members of this group of radical neo-liberals were groomed for leadership positions in the Soviet Union, which was then undergoing Mikhail Gorbachov's *perestroika* reforms.

When the U.S.S.R. broke up in 1991, IEA Director Ralph Harris (the late Lord Harris of High Cross) gloated, "We criticized Gorbachov in the past for not reforming fast enough. Now the pace will be accelerated and our think-tanks can play a key role." The *Times* of London, reporting on the Harris group's plans, wrote in August 1991 that "the Thatcherites believe that the

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A group of Russian free-market economists, trained by a London think-tank, helped destroy Russia's industry after 1991. Their actions in the late 1990s were coordinated with Larry Summers. Shown here are (clockwise from above) Deputy Prime Minister Anatoli Chubais (in 1994) and First Deputy Foreign Minister Yegor Gaidar (in 1992). Current Deputy Prime Minister and Minister of Finance Alexei Kudrin (shown here in 2004), known as the "subprime minister," is also from this clique.

World Economic Forum/swiss-image.ch/E.T. Studhalter

events of the last few days [in Russia] have created the perfect new laboratory to test their ideas." (See "Russian 'Reform' Cadre Trained by London," *EIR*, Aug. 14, 1998.)

Under Mont Pelerin Society doctrine, the criminal sector is viewed as one of the most generative parts of an economy. As Lyndon LaRouche told a Russian interviewer *in 1993*, "The way it's recommended in, say, Bolivia, Peru, and so forth, the Harvard Group in particular who have recommended this, [Jeffrey] Sachs's teachers, openly admit that *organized crime is an integral part of their chaos process, which they say leads to the kind of capitalist economy they want to create*." ("Criminality Was the *Policy* in Russian Reform," *EIR*, Sept. 3, 1999.)

Gaidar became prime minister at the end of 1991. Chubais, in charge of privatization, oversaw the "loans-for-shares" maneuvers of the 1990s, through which major industries came into the hands of upstart financial artists, soon to be known as "the oligarchs." The crash deregulation they implemented was known as "shock therapy." The HIID, the International Monetary Fund, and Larry Summers' U.S. Treasury Department were with them every step of the way.

The legacy of the 1990s is still with Russia today, not only in the bitter taste left by the bond collapse, default, and devaluation of 1998, in which the Harvard-Mont Pelerin policies culminated, but in the persistent influence of the personnel involved. The fact that Vladimir Mau, liaison between Lord Harris's IEA and the Gaidar government through Harris's International Center for Research into Economic Transformation (ICRET) and his own Institute for the Economy in Transition, today heads the expert council of First Vice-Premier Igor Shuvalov's government crisis-management commission, sheds light on Moscow's inability to break with the flawed axioms underlying the global systemic crisis.

Summers and the Young Reformers

Thus, the HIID scandal was but one lurid episode in the track record, racked up by Summers and Stanley Fischer in Russia throughout most of the 1990s. The appointment of Summers to his current position has contributed to a high level of skepticism about the Obama Administration in that country—except, of course, on the part of such officials as Finance Minister Alexei

Kudrin, who comes from the same international clique as Mau, Gaidar, Chubais, and Summers.

Summers cut his teeth in the Soviet Union and post-Soviet region as a young Harvard hot-shot in 1990. He became the leading economic reform advisor to the government of Lithuania, which declared its independence from the U.S.S.R. that year. Typical of Summers' advice, the *International Herald Tribune* reported in March 1990, was that Lithuania should promote cheap labor, as a competitive advantage under globalization. "Lithuania's educated work force can produce to high standards and work for wages lower than those now paid by South Korea," he said.

According to the *IHT*, Summers was pushing Lithuania to accept a decade of austerity. "Over a decade, he foresaw a transition period in which Lithuanians tightened their belts and accepted lower living standards." As recalled by Mark Ames in a Nov. 10, 2008 article in *The Nation*, pleading against an appointment of Summers to the Obama Administration, the suicide rate doubled in Lithuania while Summers was its economic advisor, and the population voted the Communist Party back into power after two years.

In 1993-94, the degree of Summers' dictatorial behavior toward Russia itself began to leak out. A March 1993 Evans & Novak column pointed out that World Bank-IMF demands for Russia to bring internal prices to world market levels had been a factor in the previous year's inflation rate of more than 2,000%. Lawrence Summers, then Treasury Undersecretary-designate, was supporting this demand for oil prices, in particular.

Most remarkable were Summers' Russian interventions in January 1994. That was only three months after Yeltsin's military crushing of the elected Parliament, which had resisted the latest round of privatization and other economic liberalization measures. It was one month after the December 1993 State Duma election, in which the large vote for Vladimir Zhirinovsky's nationalist party expressed the population's rage about those events and their own plunging standard of living.

President Bill Clinton's top Russia advisor, then Deputy Secretary of State-designate Strobe Talbott, had stated that Russia needed "less shock, more therapy"—an implicit rejection of the horrific Mont Pelerin and IMF liberalization-privatization model.

But on Jan. 3, 1994, Treasury Undersecretary Summers addressed the American Economics Association in Boston. He said, according to press reports at the time, that it would be "a grave mistake, and not one that anyone in the U.S. government intends to make," to think that there might be some sort of "third way for dealing with Russian aid—a way that would make for painless reforms." Summers lied, "There is no viable alternative to the hard work of economic stabilization"—code language for IMF structural reform conditionalities. And aid, he said, should be used to mitigate the consequences, "the dislocations that are inevitably associated with reforms."

That same month, a "highly unusual joint staff note" was written by the IMF and World Bank, having been discussed and cleared, as the *Wall Street Journal-Europe* reported at the time, with Summers. Here some of the "reform and stabilization dislocations" were spelled out. According to the note, the Russian government had continued too many subsidies and credits to existing industry ("producer vested interests," the memo called it). The memo denounced Russia for failure to reduce inflation according to the standard monetarist formula. The Summers-IMF-World Bank memo further demanded that Russia "speed up the transition to the market economy." In a defense of the document after it was leaked, the IMF claimed that the hardships experienced in Russia were not caused by Yeltsin's shock therapy reforms, but by the collapse of the Soviet Union per se.

Commenting on a (not necessarily accurate) *New York Times* account of disputes within the Clinton Administration, a spokesman in Summers' office at Treasury told *EIR* on Jan. 11, 1994, "Everyone here, including Larry, is very happy that the *New York Times* suggested President Clinton sided with him, rather than Strobe Talbott's 'less shock, more therapy.'"

On the same wavelength as Summers at that time was Chubais, then head of the State Committee on Privatization. Three years later, when Chubais had been brought in as first deputy prime minister, came the next Summers scandal in Russia, namely, the leak of a "Dear Anatoli" letter he wrote to Chubais, which revealed the degree of their intimacy, as well as Summers' high-handed attitude toward Russia. As published in *Nezavisimaya Gazeta* in September 1997, the Summers letter ordered Chubais to focus on certain tax reforms ("in such a way that the competitiveness of Western products would be enhanced," according to the report), on pushing through Production Sharing Agreements (PSA) to give foreign investors more ownership rights over Russian raw materials, and on Russia's joining the World Trade Organization.

In mid-1996, with the friends of Summers and the IMF in positions of influence under the just-reelected President Yeltsin and the Victor Chernomyrdin government, the Russian short-term government bond (GKO) market was opened up to foreign investors. The rapid inflation of the GKO bubble, which would blow out in August 1998, was under way. When that happened, Larry Summers was on the case.

About the events of Summer 1998, there are numerous accounts of Summers' hands-on role, in addition to Glazyev's. In a December 1999 article in the *Moscow Tribune*, Prof. Stanislav Menshikov recounted a confrontation he had had with Summers at a World Bank seminar in 1998. Referring to certain factional developments within the IMF and World Bank, Menshikov observed, "Summers' victory led to the further tightening of the screws on IMF policies towards Russia." There had even been a personal pledge by President Clinton for the release of a certain tranche of an IMF loan to Russia. "But," recalled Menshikov, "the President of the United States was overruled by the powerful group in Washington that is behind Summers and other architects of hard-line policies vis-à-vis Russia."