

# Corporate corruption and academia: The Bush-Harvard-Enron connection

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Information that has come to light over the past several weeks underscores the extent to which both the Bush administration and the academic establishment are implicated in the wave of corporate corruption scandals in the United States.

HarvardWatch—a coalition of Harvard students and alumni that monitors governance at the university—has published a series of reports that document the way in which the Ivy League university helped the oil firm Harken fashion Enron-type deals that hid debt and artificially elevated earnings. At the time, George W. Bush was a director of the company. HarvardWatch has also documented the close ties between Harvard, Enron and officials in both the Bush and Clinton administrations.

The connection between Harvard and Harken dates back to 1986, shortly after George W. Bush took up a position on the company's board of directors. Bush came to Harken after Harken purchased Bush's small oil company, Spectrum 7, at an inflated price. Without the Bush connection, there is little likelihood the deal would have been made, since Spectrum was failing as a company. George W. Bush's father was then vice-president, and the younger Bush himself had many political connections.

One of these connections was to Harvard University, where Bush had received his MBA degree. Some months after Harken bought Spectrum 7, Harvard, together with the billionaire financier George Soros, poured money into Harken, which at the time was struggling to pay off loans to its main creditors, Bank of Boston and First City Bankcorp. First City agreed to refinance the loans, and, according to an article published in the *Wall Street Journal* on October 9, a key factor in the decision was the financial support provided by Harvard Management Corporation (HMC). HMC controls the university's assets, valued at \$20 billion.

Harvard quickly acquired a third of Harken's stock. Between 1987 and 2000, representatives of the university held positions on the company's board of directors, with seats on the executive and compensation committees. The university's representatives were both heavily invested in the company personally, owning 10,000 shares of Harken each.

Harvard's heavy investment in Harken is inexplicable except for the presence of Bush, who retained his position at Harken until 1993, when he became governor of Texas. Harken never sustained profitable operations, though it hoped to use Bush's connections to improve its financial state. Over the next five years, HMC had to bail out Harken in order forestall a number of severe crises. HMC was controlled at the time by Robert Stone, an oil man and long-time supporter of the Republican Party and Bush's father.

According to the HarvardWatch report, "Harvard and another major shareholder loaned Harken \$46 million in May, 1990, to help it escape from a severe liquidity crisis." It is not clear how much of this loan came from Harvard.

In December of 1990, Harvard and Harken established a partnership—known as the Harken Anadarko Partnership (HAP)—that helped hide the company's financial strains. The new entity consisted of

\$64.5 million worth of property contributed by Harvard and \$26.1 million worth of drilling operations contributed by Harken. The latter carried with them \$20 million in debt and liabilities, leaving Harken with a net investment in the company of \$6 million. Because this was less than 20 percent of the total value of HAP, Harken was not required to include the partnership in its financial statements.

The upshot was that Harvard assumed a large percentage of Harken's debt. The report cites the minutes of a meeting of Harken's board of directors in which Bush himself motioned to go ahead with the partnership.

The deal has many similarities with the sort of "structured finance" arrangements that were made at Enron. The basic idea is to shift debt off of a company's balance sheet in order to improve reported earnings and elevate share values. Such partnerships were an important component of the accounting gimmicks widely used by American corporations during the stock market boom of the 1990s.

Bush administration officials and Harvard have claimed that, unlike Enron's partnerships, there was nothing illegal in HAP. Enron's partnerships were not really partnerships, since they were run by company insiders, with no external financing. Using them to shift debt from the parent company, therefore, violated accounting regulations.

However, HAP is hardly different. Harvard and its representatives were heavily invested in Harken, and thus stood to gain by deceiving investors as to the true value of the company. This is what HAP accomplished.

While the stock value of Harken had fallen to a low of \$1.25 in late 1990, it began to soar over the two years following the creation of HAP. According to the HarvardWatch report, the improved financial figures "allowed Harken's stock price to temporarily reverse its precipitous decline and reach its historical high in 1991, indicating that the Anadarko partnership misled investors about the future profitability of the company. With its insider access to information about the performance of HAP and Harken's long-term sustainability, Harvard used this bubble as an opportunity to sell 1.6 million of Harken shares."

Bush himself did not benefit directly from the HAP deal, since he had already sold most of his Harken stocks to finance the purchase of an ownership share in the Texas Rangers. From this deal he would eventually make over \$15 million. Bush's Harken stock was sold shortly after Harken carried out another suspicious financial transaction [See On eve of Wall Street speech: Bush's past business dealings come back to haunt him , 9 July, 2002].

One of the mysteries surrounding Bush's sale of Harken stock has been the identity of the purchaser. The amount of stock Bush sold was equivalent to twenty times the company's daily trading volume. If this volume of shares had been dumped onto the market, the price would have dropped sharply. Bush needed a large investor to buy his stock all at once.

Though the identity of the buyer has not been revealed, there is circumstantial evidence that it was none other than Harvard University. In *The Buying of the President 2000*, Charles Lewis of the Center for Public

Integrity reports, “The available evidence suggests that the investor was Harvard. The university increased its holdings in Harken around the time. No new institutional investors appeared on the scene.”

According to Lewis, at the bottom of a spreadsheet used by Bush’s broker to record calls to Bush was the name of Michael Eisenson—one of Harvard’s representatives on the Harken board—along with the telephone number of the Harvard Management Corporation.

The HAP deal appears to be a classic example of corporate insiders—including the current president of the United States and the richest university in the country—cashing in on shady deals and leaving the ordinary investor to pay the tab. A chronicle of the links between Bush and Harvard, however, must also take into account Harvard’s operations with Enron, a company with numerous ties to the Bush administration, whose former chairman and CEO, Kenneth Lay, was Bush’s biggest financial backer.

The ties between Harvard and Enron are quite extensive and are detailed in a report available on the HarvardWatch website ([www.harvardwatch.org](http://www.harvardwatch.org)), entitled “Trading Truth: A Report on Harvard’s Enron Entanglements.” These ties, in turn, connect Harvard to officials in both the Clinton and Bush administrations who have helped create conditions for corporate corruption to flourish.

All of these connections revolve around the drive in the 1990s to deregulate the energy market. This deregulation created the basis for Enron’s operations, which consisted principally of buying and selling energy contracts. The deregulation of the energy markets was one of the principal causes of the California energy crisis of 2000, when energy giants, including Enron, reaped enormous profits by manipulating the energy market and inflating prices.

Harvard University has been the source of much of the economic theory used to defend the process of deregulation. In particular, the Harvard Electricity Policy Group, which counted Enron as a principal financial supporter, has published 1,000 reports advocating deregulation. William Hogan, the research director of HEPG, specifically advised the California Public Utilities Commission (CPUC) to adopt the “Enron model.” Even after the crisis of 2000, HEPG continued to oppose any regulation, such as price caps on astronomically high energy costs.

Throughout the speculative boom of the late 1990s, HEPG and the Harvard Business School (HBS) championed the type of economic activity—financial manipulations and speculation on derivative instruments—in which Enron specialized. Enron was lauded throughout the period as an ideal corporation, and Harvard Business School was at the forefront of the academic establishment in heaping praise on the company. A number of its reports became required reading for business schools throughout the country.

The massive corporate fraud carried out against the American people would not have been possible without the critical aid provided by academia. In the case of Harvard, those championing the fraud had a personal stake in its success. Many of the members of Harvard’s governing board have had intimate ties with Enron.

Herbert “Pug” Winokur is a member of the Harvard Corporation, the university’s seven-member governing body, and has served as the director of the Harvard Management Corporation. He is also a longtime member of Enron’s board of directors. As the chairman of the company’s finance committee, Winokur had to approve all of the fraudulent financial arrangements engineered by Jeffrey Skilling, Enron’s former CEO and a graduate of Harvard Business School.

The largest individual shareholder of Enron stock, at least up to the time of the company’s collapse, is Robert Belfer, who is also a member of Enron’s board. Belfer is a major Harvard donor. He has given so much money to the university that a Harvard building has been named after him—the Belfer Center for International and Strategic Affairs. He has served on Harvard’s Committee on University Resources for nine years.

Jonathon Jacobson, another Harvard graduate, manages Highfields Capital, a private firm that controls about \$2 billion of Harvard’s endowment. Highfields was set up on the basis of \$500 million of Harvard’s money.

In 2001, just before Enron’s troubles became public, Highfields sold short on Enron stock (i.e., bet that the stock price would fall), yielding the firm and Harvard some \$50 million in profit when the stock tanked. This transaction quite naturally arouses suspicions that Jacobson and Harvard may have benefited from inside information provided by Winokur, Belfer or one of Harvard’s other Enron connections.

Two current members of the Bush administration—chief economic adviser Lawrence Lindsey and US trade representative Robert Zoellick—are also involved in the Enron-Harvard nexus. Lindsey received his doctorate at Harvard and is a former professor in the school’s economics department. He once served on Enron’s advisory board and has been a consultant for Citigroup, Enron’s largest creditor. Zoellick also received a degree from Harvard and once served as the director of the university’s Belfer center. He was also a member of Enron’s advisory board.

The connections also stretch back to the Clinton Administration. Clinton’s treasury secretary, Robert Rubin, was once a board member of the Harvard Management Company. While serving in the Clinton administration, he helped oversee the passage of legislation favorable to Enron. When he left government, Rubin joined Citigroup as a high-ranking executive.

John Holdren is the head of Harvard’s Environment and Natural Resources Program (ENRP), which is heavily funded by Belfer. Holdren was chosen by Clinton to oversee the Council of Advisors on Science and Technology, which issued a report in June 2001 that called for the “privatization, deregulation, and restructuring of energy industries [to] help bring private capital into the energy sector.”

Finally, there is Lawrence Summers, who replaced Rubin as treasury secretary in 1999. Kenneth Lay sent a gushing congratulatory note to Summers, who responded with a promise that “I’ll keep my eye on power deregulation and energy-market infrastructure issues.” When Bush came to office, Summers left government to become president of Harvard University.



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