a billion dollars. For FAS, that represents future debt service amounting to annual payments of $50 million or more by some estimates (not to mention added operating expenses), for which funding—and fundraising—must be secured.

Factors like these, duplicated to varying degrees in other Harvard faculties, underlie the probability that spending will accelerate—*before* counting Allston planning, debt, and construction costs. In light of Berman's announced intention to step down next spring (see page 63), the responsibility for sustaining the University's financial strength will fall to new hands.

$tellar Swan Song

ENDING HIS 15-YEAR RUN as president of Harvard Management Company, Jack R. Meyer, M.B.A. '69, and his investment colleagues turned in a rousing finale. For the fiscal year ended June 30, total investment return of 19.2 percent brought the value of Harvard's endowment to $25.9 billion, after taking into account capital gifts received ($286 million), funds used (principally, $855 million distributed for University operations), and lesser accounting items. The comparable figure on June 30, 2004, was $22.6 billion (with a 21.1 percent return). The results appeared in a letter from James F. Rothenberg, chair of HMC's board of directors and Treasurer of Harvard College, that was released on September 30, Meyer's final day in Harvard's employ. He and several colleagues—including top-performing domestic and foreign bond managers David R. Mittelman and Maurice Samuels—are setting up shop as Convexity Capital Management LP (see "Money-Manager Transition," March-April, page 59).

In absolute terms (see chart), HMC equity performance was topped by emerging-markets and private assets; during fiscal year 2004, the mainstream domestic and foreign equity holdings were particularly strong (see "Endowment Gains: Last Hurrah?" November-December 2004, page 56). Commodities (HMC has been a significant investor in timber and natural gas) and real estate (a laggard in recent years) also produced outsized gains, and all the bond portfolios did even better than in the prior year. On a relative basis, private equities sharply outperformed the market benchmark for such assets, as did high-yield investments (an under-performer in 2004), commodities, and the big domestic and foreign bond portfolios.

Fiscal Year 2005 Performance

	HMC	Benchmark
Domestic equities	**8.4 %**	**6.9 %**
Foreign equities	**16.4**	**14.3**
Emerging markets	**34.5**	**35.0**
Private equities	**34.7**	**23.8**
Absolute return	**11.1**	**8.6**
High-yield	**17.0**	**6.3**
Commodities	**25.2**	**15.2**
Real estate	**26.1**	**20.3**
Domestic bonds	**19.9**	**12.9**
Foreign bonds	**20.3**	**7.9**
Inflation-indexed bonds	**11.6**	**11.2**
Total	**19.2%**	**14.2%**

(Absent Meyer, a detailed review of results by class was not available.)

For the year, according to Rothenberg's letter, the 19.2 percent endowment return outpaced the market benchmark—returns expected for funds passively invested in HMC's asset classes—by 5 percentage points, worth $1.2 billion. According to preliminary data, Rothenberg wrote, median return for the 25 largest university endowments was 15.8 percent; at press time, only Yale (22.3 percent) and Stanford (19.5 percent) were known to have edged Harvard. The 2005 performance brought HMC's five- and 10-year results to annualized rates of return of 9.5 percent and 16.1 percent, Rothenberg noted: 5.1 and 4.5 percentage points, respectively, in excess of market benchmarks for those periods.

Duplicating such results seems unlikely. Looking ahead, Rothenberg wrote, "a more realistic aspiration" would be "an increment of about 1 percent per year" better than market returns.

More immediate questions face HMC, too. Meyer's successor has not yet been named, despite a long search. (HMC board and search-committee member Peter A. Nadosy '68, former president of Morgan Stanley Asset Management, is serving as interim chief investment officer.) HMC's annual disclosure of its president's and top-performing professionals' compensation, a lightning rod for criticism, may be a deterrent among elite money managers (see "'Extraordinary Bonuses,'" March-April 2004, page 69).

And the loss of personnel to Convexity deprives HMC of proven expertise. During the past fiscal year, the University disclosed, it downsized—to the tune of billions of dollars—much of what it called a "complex bond arbitrage portfolio," assets at the heart of the departing fixed-income managers' strategy. That step, apparently driven by market conditions and the need to shift to new personnel, preceded Rothenberg's disclosure that "Harvard does plan to commit endowment assets for Convexity to manage," as it has when other HMC staff have set up shop on their own. In the interim, Meyer and associates may play an advisory role, maintaining ties to an organization that helped increase the value of the endowment more than fivefold during his tenure.

President's Priorities

AS THIS ISSUE went to press, President Lawrence H. Summers was planning to distribute a letter to the Harvard community setting forth key issues and priorities for the academic year. A link will be posted at www.harvardmagazine.com when the text becomes available.

Russia Case (and Dust) Settle

Though the two official news releases announced the same agreement, their content diverged sharply regarding the settlement of a long-running lawsuit by the U.S. Department of Justice against Harvard University. In early August, both parties announced a settlement regarding alleged conflicts of interest in a Harvard-supervised project in Russia. The agreement resolved a process of investigation and litigation dating from 1997.

The Justice Department's press release claimed that "Harvard defendants" would pay more than $31 million to resolve civil claims arising from false billings from Harvard to the U.S. Agency for International Development (USAID). It asserted that two codefendants (one of whom, Jones professor of economics Andrei Shleifer '82, remains a tenured Harvard professor) "have agreed to be disbarred by USAID." The University's version, issued through its official organ, the *Harvard University Gazette*, announced simply that Harvard would pay $26.5 million to settle the $120-million civil suit. It added, in the words of Robert W. Iuliano, vice president and general counsel, that "...the Court affirmed our position that the University engaged in no institutional wrongdoing" and that "...we look forward to continuing our long-standing collaboration with USAID and other government agencies...."

The settlement also resolved the status of codefendants Shleifer, a key participant in the Russia project, and Jonathan Hay, J.D. '92, the project's director, who is now a lawyer in London. Shleifer agreed to pay $2 million to the government; Hay's portion of the settlement will fall between $500,000 and $2 million, depending on his income in the next 10 years. The firm FFIA, formerly known as Farallon Fixed Income Associates and owned by Shleifer's wife, Nancy Zimmerman, has already paid the government $1.5 million. The total recouped will thus fall between $31 million and $32 million, or nearly 80 percent of USAID's original $40-million outlay.

That sum, however, is far less than the potential liabilities the defendants faced. U.S district judge Douglas P. Woodlock,

HARVARD PORTRAIT

Ronald Kessler

In on-line biomedical databases, Ronald Kessler ranks as the most widely cited author in psychiatry and psychology. Yet Kessler, professor of health care policy at Harvard Medical School, is neither a psychiatrist nor a psychologist; he's a sociologist who directed the first (1990-92) and second (2001-03) National Comorbidity Surveys. The more recent study made headlines this year with its finding that fully 50 percent of American adults have had some form of mental disorder. (For those who find that a surprisingly high figure, Kessler explains, "Nobody would be shocked if we found that 99.9 percent of the U.S. population had had a physical illness.") Another of Kessler's studies determined that only 14 percent of those who seek help get adequate treatment. "We can treat mental disorders as successfully as diabetes or asthma," he says. "We *can* do a good job, but we *don't* do a good job." A specialist in survey methods and statistical analysis, Kessler also heads the $100-million WHO World Mental Health Surveys that are interviewing 250,000 respondents in 30 countries. A Philadelphia native, he graduated from Temple in 1969, earned his Ph.D. at New York University, and taught at Michigan from 1979 to 1996 before coming to Harvard. He lives in Newton with his wife, Vicki, a clinical psychologist, and four teenaged children, and tends to his own mental health by playing squash five days a week and collecting eighteenth-century Pennsylvania furniture. "The typical person with a mental illness takes a decade before getting treatment," he says. "Everyone is so concerned about the costs of treating mental disorders. But how about the costs of *not* treating them?"

Photograph by Stu Rosner

ASSOCIATED PRESS

Moscow stock-exchange traders on the floor in May 1998. In the early 1990s, the controversial USAID-Harvard project sought to bring market reforms to the Russian economy.

who adjudicated the case, last year cleared Harvard of the charge of knowingly defrauding the government, which would have triggered treble damages of as much as $120 million (see "Russia Case Progresses," September-October 2004, page 74). Instead, the University was found liable only for breach of contract. Furthermore, as part of the settlement, none of the defendants admitted liability for wrongdoing. The motive to settle, according to all defendants' accounts, was that the legal costs of continuing the protracted case surpassed the costs of settlement. "We welcome having this matter behind us," said Iuliano, in the official statement. "Over the course of the litigation, the court has affirmed our position that the university engaged in no institutional wrongdoing."

In his own statement, Shleifer, who had faced possible damages of up to $102 million, asserted that "an individual can fight the unlimited resources of the government for only so long." He added that "after eight long years, I have decided to end this now—without any admission of liability on my part. I strongly believe I would have prevailed in the end, but my lawyers told me my legal fees would exceed the amount that I will be paying the government."

That is no small sum. To pay his first installment of $600,000, Shleifer reportedly mortgaged his suburban Newton home. (He must pay the remainder in the next three years.) The settlement bars Harvard from underwriting either Shleifer's or Hay's part of the costs. Shleifer has also been disbarred from USAID work for two years, and Hay for five.

USAID originally awarded a $40-million grant for the Russia project. The project, run by the now-defunct Harvard Institute for International Development (HIID), aimed to advise the Russian government on making the transition from a socialist to a capitalist economy. The court found that, while being paid by USAID, Shleifer and Hay engaged in prohibited investments and businesses in Russia. These actions (which are disputed by the defendants) included: Shleifer and Zimmerman's investment of $200,000 through Renova-Invest, a U.S./Russian investment entity, in various Russian companies and Russian government debt; Shleifer, Zimmerman, and Hay's purchase of several hundred thousand dollars worth of shares in Russian oil companies (ownership of the shares was placed in the name of Shleifer's father-in-law); and Hay and Shleifer's help in launching and/or financing Russia's first licensed mutual fund, started by Elizabeth Hebert, Hay's then-girlfriend and current wife. They did the same for Russia's first mutual-fund depository, started by Hebert's business partner.

An interesting sidelight to the settlement is Shleifer's close friendship with Harvard president Lawrence H. Summers. As *Boston Globe* financial writer David Warsh '66 noted on his website, www.economic-principals.com, Summers is "...Shleifer's mentor and old friend, who taught him as an undergraduate; sent him to the Massachusetts Institute of Technology to train; took him to Lithuania to practice country-doctoring; brought him back from the University of Chicago to teach at Harvard; helped put him in the Russia job; oversaw,

Gender Initiatives Gain

The campus discussion about faculty diversity—particularly the academic development and careers of women—that was launched last spring took programmatic shape and gathered intellectual steam early in the fall term.

Senior vice provost for faculty development and diversity Evelynn M. Hammonds told the Faculty of Arts and Sciences on September 27 that she had hired an assistant provost, several project staff members, and a statistician (surveys on faculty members' experiences and work conditions and other data collection will be high priorities), and had assembled an advisory and coordinating committee comprising representatives appointed by each school's dean. She also reported progress on budgeting for enhanced child care and spousal job placement, among other measures.

Two new courses reflected scholarly interest in the subject. Physics research associate Gerhard Sonnert offered Sociology 163, "Women and Science." Lecturer Paula J. Caplan offered Psychology 1705, "Psychology of Sex and Gender," including units on mathematical, spatial, and verbal abilities. This year's junior symposium for concentrators pursuing mind/brain/behavior studies focused on "Sex, Gender, Mind, and Brain." Elsewhere, Graduate School of Education researcher Cathy A. Trower reported on a study highlighting conflicts between tenure demands and women's family lives.

as an increasingly senior Treasury Department official, Shleifer's efforts in Moscow; and, once he returned to Harvard as president, defended his protégé." (During the litigation, the Harvard Corporation asked former president Derek Bok to serve as consultant on the case.)

Shleifer remains a star of the economics department. In 1999 he received the John Bates Clark Medal as the best American economist under 40 years of age, and in 2002 was appointed to his endowed chair. Shleifer's recent book, *A Normal Country: Russia after Communism* (Harvard University Press), defends his work in Russia, his native land, and asserts that the institutions he helped put in place there will prevent that nation from ever reverting to a centralized, planned economy. Hay's attorney, Lawrence Spiegel, released a statement asserting that the project's innovations in Russia "...included mass privatization, the establishment of the first capital market institutions, establishment of the legal basis for land privatization and real estate registration, modern corporate, securities and other commercial laws adapted to Russian reality and legal traditions, tax reform..." that "contributed to Russia's dynamic economic development and integration into the world economy. Nothing the U.S. Government has argued has thrown into question the value of the work accomplished by Mr. Hay and others." Whether Shleifer and Hay taught the Russians capitalism by example as well as intervention is a question that will probably be debated for years to come.

Google Pauses

An undertaking greeted by Harvard librarians as potentially "a revolutionary new information-location tool" and "an important public good" is on hold, in part, until November 1 at least and has also become the subject of litigation.

Google announced last December that it had reached agreement with Harvard, Stanford, the University of Michigan, Oxford, and the New York Public Library to create an on-line reading room—to add to its database, at its expense, digital, searchable copies of millions of books in those libraries (see "Harvard's Googled Library," March-April, page 71).

Although some of Google's library partners were prepared to go full speed ahead, Harvard entered only into a pilot project in which Google would digitize 40,000 books at the Harvard Depository in Southborough, Massachusetts. If the pilot went well, Google would go on to digitize all of the University's 15 million books. Google staff began work in Southborough in January.

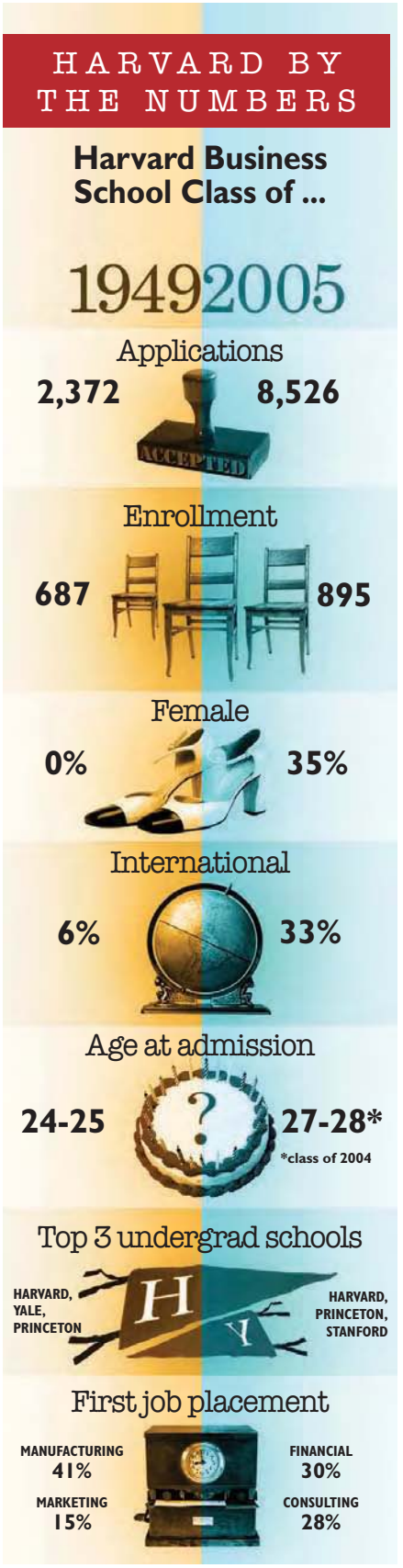
Harvard chose to proceed cautiously for several reasons, as reported here earlier; librarians wanted to be sure Google wouldn't damage books, for instance. Another reason given by director of the University Library Sidney Verba was that "the laws that apply to digitized books still under copyright are uncertain and changing, and even though many publishers have already entered into agreements with Google about how their books may be used, it is not certain that the grand plan won't be challenged."

It was. The plan for the Google Print Library envisioned that Internet users would be able to browse or print out the *entirety* of books in the public domain, but books still under copyright could be accessed only in *snippets*. Should a copyrighted book still be in print, Google would tell users where they could buy it.

But publishing groups challenged Google's position that the fair-use doctrine of copyright law allows for digitization of entire works. "The Association of Learned and Professional Society Publishers calls on Google to cease unlicensed digitization of copyright materials with immediate effect, and to enter into urgent discussions with representatives of the publishing industry in order to arrive at an appropriate licensing solution...," Sally Morris, chief executive of that association, said in a July statement.

Google held its ground until August 12, when it announced that it would halt the scanning of copyrighted works until November 1 to give publishers and other copyright holders the chance to tell Google which of their works they do not want included in its database.

"Google's announcement does nothing to relieve the publishing industry's con-



Graphic by Stephen Anderson

Data from an annually updated Harvard Business School case comparing 1949 and current-year graduates, by professors of business administration Richard S. Tedlow and Nancy F. Koehn.