Bank of New York probe exposes ties between Western financiers and Russian Mafia

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When the history of the first ten years of capitalist restoration in Russia is written, it will have to include two fundamental points. First, that never before was so much money stolen by so few people in so short a span of time. Second, that the thieves included not only elements of the old Stalinist *nomenklatura* and a new generation of Russian gangster-businessmen, but also a good number of Western bankers and government officials.

An important chapter in this history is now unfolding in the United States. Federal officials, working with their counterparts in Britain and Switzerland, are engaged in an investigation of what may be the largest money-laundering scheme in US history. They allege that billions of dollars from Russia, some of it from Mafia elements, were channeled through accounts at the Bank of New York. Two BNY vice-presidents have already been suspended as a result of the probe.

Investigators are also looking into the possibility that Russian Mafia elements took $200 million from IMF loans that were made to the Russian government.

A series of articles by *New York Times* writer Timothy L. O'Brien has brought the salient facts to light. Sometime during the summer of 1998 British officials investigating Russian mob activities alerted US authorities to a link between YBM Magnex, a front company for suspected Russian gangster Semyon Yukovich Mogilevich, and Benex, a firm owned by Peter Berlin, the husband of one of the now-suspended BNY vice-presidents. From October 1998 to March 1999, $4.2 billion in suspect money passed through the BNY accounts of Benex and other firms. Investigators allowed the account to remain open after March as they continued their probe, and the total amount laundered may prove to be as much as $10 billion.

The traces of criminal wrongdoing extend beyond suspected organized crime figures like Mogilevich and point to high-level officials in the US and Russia. Investigators are looking into whether funds from the now insolvent Russian bank, Menatep, were also involved in money laundering at BNY. Menatep is owned by Russian oligarch Mikhail Khodorkovsky and recently employed, as a senior executive, Konstantin Kagalovsky.

Kagalovsky's alleged role in the money-laundering operation highlights the criminal character of the nouveau riche in Russia, for the most part born of the old Stalinist bureaucracy, as well as the complicity of Western financial institutions, governments, and academic advisors. Kagalovsky was involved at the highest level of the Russian government, serving as an advisor and as its representative to the IMF before moving on to Menatep in 1994. Prominently displayed in his office at Menatep were photographs of his meetings with George Bush, John Major and other Western leaders.

He left Menatep to become the vice-chairman of the Lukos oil conglomerate. This company had been acquired by Menatep on the cheap in a “loans-for-shares” scheme in which the bank extended credit to the Russian government in exchange for shares in the company's ownership. When the bank went under, Lukos picked up many of its assets, including its Moscow headquarters and a number of offshore holding companies, according to a report in Thursday's *Wall Street Journal*.

These holding companies are alleged to have been used to plunder a number of other Russian companies, also owned by Menatep. In a procedure known as tolling, the assets or products of manufacturing firms were sold to the holding companies at below-market prices. The offshore holding companies then sold the goods at normal prices, keeping the profits outside Russia. The *Journal* article cited one example of tolling in which $20 million was removed from a Russian titanium plant in just one year.

Such dealings are alleged to have quickly made Mr. Kagalovsky a very rich man. So suggests the following description, provided by John Lloyd, a writer who recently traveled to Moscow and prepared an article for the *New York Times Magazine* (“Who Lost Russia?—the Russian Devolution,” 15 August 1999):

“[Kagalovsky] was the first reformer I had got to know when I went to live in Russia early in 1991. Back then, he lived in a two-room, comfortless flat in one of the massive projects that ring Moscow. Thin and intense, he had sat me down at the kitchen table and, battling with his halting English and my halting Russian, talked of Adam Smith and Milton Friedman and Jeffrey Sachs.... He told me of the futility of Gorbachev's reforms, the need for policies of the strictest monetarist provenance and of the pure evil of Communism.

“The man who [now] came out of his office to meet me—after I had gone through two careful security checks and several softcarpeted corridors in an expensively renovated 19th-century Moscow mansion—had put on some weight and wore a well-cut suit and rich tie....

"‘In 1991 and into 1992,' he said, ‘we were still in our romantic period. Our views and feelings were based on our readings, discussions, ideas—some of them childish, it seems now. After that'—he smiled a little—‘life changed all of us....

"‘We now see such simple truths: that a country that is based on stealing and corruption is much less efficient than a normal society. And that the end doesn't justify the means. After 1996, corruption became a systematic element of the state. It went to the core of the new Russian state ...'"

Of which, he does not add, he came to be an instrumental part.

Kagalovsky is a fitting representative of those who actively worked for and profited from the dismemberment of the USSR. From whatever exposure to Marxism they received in the waning days of the Soviet Union, the “New Russians” like Kagalovsky retained one concept: the venality of capitalist society. This they considered not a socially detrimental aspect of the profit system, however, but a positive basis for personal enrichment.

Kagalovsky is married to Natasha Gurfinkel Kagalovsky, who is the second suspended BNY vice-president. She oversaw the vast majority of the bank's Russian accounts. Like her husband, Natasha Kagalovsky proved to be a rapid social climber. Born in 1954 in the Soviet Union, she emigrated to the US in 1979, got her degree from Princeton, and in 1996 joined Irving Bank, which was bought by BNY two years later. She took over the bank's East European division in 1992 and became very wealthy, reportedly paying cash for a $796,000 Manhattan condominium in 1997.

The plundering exemplified in the BNY case is of an immense magnitude, particularly in its relation to the size of the Russian economy. One analyst estimated that the $10 billion allegedly laundered over the past year constitutes fully 6 percent of the Russian gross domestic product, and 40 percent of the Russian federal government's budget. And this is only the sum that may have passed through one channel over one year. An article in Saturday's *Financial Times* of London cited a report prepared by Fitch IBCA, an international credit rating agency, that estimated a total of $136 billion was taken out of all of Russia between 1993 and 1998. Another estimate, provided in Lloyd's article for the *Times*, puts the total in the neighborhood of $200-500 billion.

Though the exact figure has not been determined, this vast sum not only lined the pockets of the new Russian kleptocracy, but also flowed into the coffers of US and European financial institutions. (The BNY case may well involve a number of major European banks. On Tuesday, the *Wall Street Journal*, citing sources familiar with the investigation, said that Credit Suisse, Union Bank of Switzerland, Dresdner Bank, Westdeutsche Landesbank and Banque Internacionale of Luxembourg are being scrutinized for their role in the matter.)

Claims that US and European banks were merely taken for a ride by Russian corporations and Mafia elements are belied by the vast profits garnered from Russian accounts. As Natasha Kagalovsky pointed out in a 1995 memo to Thomas Renyi, then BNY president and now its CEO, “Inkombank [another bank that, like Menatep, is now insolvent] is *our largest generator of fee income* and they are now the largest clearing bank in Russia for domestic transactions” (emphasis added).

The new Russian oligarchs, who felt their hold on their newfound wealth to be very fragile as long as it remained in the country, needed Western banks to get the money out. They had little difficulty finding major banks willing to overlook evident wrong-doing in order to open up fat and profitable accounts for their Russian clients.

Since the BNY scandal broke last week, articles critical of the Clinton administration, the Yeltsin government and Western banks have appeared in the US press. But not one will so much as broach the possibility that the plundering of Russia is organically linked to the restoration of capitalism in the Soviet Union, or that the West bears any responsibility for the economic, social and moral disaster that has engulfed Russia over the past decade.

Nevertheless, the record speaks for itself. At the end of the last decade, capitalist policy makers in the US and Europe, backed up by the IMF, demanded the rapid privatization of the Russian economy, the liberalization of prices, the elimination of social benefits, and the removal of other barriers to profit-making in the former USSR. These policies, which put in private hands what had been, at least legally, public property, thereby creating a new possessing class, *required* criminality. Who but the most avaricious, ruthless, and reckless would implement such policies? Western officials and banks worked with (and continue to work with) the new Russian oligarchs and their political allies.

Ten years ago, pro-capitalist politicians were able to take advantage of the disaffection of the Soviet masses with the Stalinist regime to reintroduce capitalist market relations. At the time, their promise that freedom and prosperity would follow was taken more or less as good coin. As this decade closes, the human toll of capitalist plunder in Russia—mass unemployment, rapid decline in life expectancy, the reduction of as much as one-fifth of the population to a level of poverty almost unknown outside the Third World—already constitutes a devastating historical indictment of capitalist restoration, and more generally, the prospects which the profit system offers to the vast majority of the world's population.