

# What lies behind the corruption scandals in the Kremlin?

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For over a week, accusations of corruption against President Boris Yeltsin and his "family" have been mounting. They were unleashed by the almost simultaneous publication of three articles, which for the first time linked Yeltsin personally to a series of scandals in Russia.

First, the Italian newspaper *Corriere della Sera* reported that investigations had been launched into the granting of credit cards to Yeltsin's family. During a probe of the Swiss company Mabetex, records were found relating to credit cards issued to Boris Yeltsin and his daughters, Tatyana Dyachenko and Yelena Okulova.

Mabetex, which received \$335 million worth of contracts for the restoration of the Kremlin and other government buildings, had transferred millions of dollars to the private account of Pavel Borodin at a Budapest bank. Borodin is the director of the department for real estate and services in the Kremlin, and is considered to be number two after Yeltsin, who is believed to have received a million dollars in compensation. On the Mabetex balance sheet, the amounts appeared as "local special expenditures". Under Swiss law, commissions paid to a foreign official are not subject to taxation, but the name and account number of the recipient must be shown.

Second, Yeltsin's name surfaced in a series of articles in Switzerland about the seizure of Boris Berezovski's bank accounts. Berezovski, operating in league with one of Yeltsin's sons-in-law, is accused of having defrauded the Russian airline Aeroflot of \$250 million.

Third, the *New York Times* has published reports on nine bank accounts with the Bank of New York, through which up to \$10 billion was laundered for the Russian Mafia, with Yeltsin's knowledge. Other reports put the total amount of laundered money at \$15 billion. Even IMF funds were alleged to have flowed into the pockets of the Russian Mafia. According to *USA Today*, in addition to 12 former or current Russian cabinet members, Yeltsin and his daughter Dyachenko were involved.

On September 3, *Corriere della Sera* published a report listing 24 names and addresses of Russians at the heart of the Mabetex scandal. Among them were Pavel Borodin and family, Anatoli Kruglov, the government official responsible for the lucrative area of customs, and Oleg Soskovez, vice-premier responsible for building, energy and health until his dismissal in 1996.

Newspapers and press agencies are falling over themselves with new and detailed articles regarding the close links between Russian politics, business and the Mafia. Reports are being published describing in detail the obscene wealth of the new "jet-set Russians", whose Byzantine profligacy is on display at every exclusive international health resort.

An article by Rudolph Chimelli, headlined "The Last Superpower", appeared in the *Süddeutsche Zeitung* August 28. Chimelli describes

how the "new Russians"—as Russia's *nouveaux riches* are called—indulge themselves on the French Riviera. One of them, Gennadi, orders the most expensive champagne and Beluga caviar at the beach. But he lacks the "famous little ball of 24-carat gold, which, because of its high specific gravity, sinks when placed in fresh caviar, but stays on the resinous surface if the product is old."

Chimelli writes that by the end of May, holiday mansions with monthly rents between 400,000 and 1.5 million francs (US\$64,600-\$242,350) are already completely booked. A hotel employee is quoted as saying, "Russians and Americans fought for the most expensive mansions on the Côte d'Azur. In the end the Russians won, because they are not frightened to overpay, and they rent for four months."

The waiter at one of the haute cuisine restaurants "recalls a meal at which the diners ordered 23 bottles of Château Margaux 1971, at that time costing 8,000 francs (US\$1,300) each". In the "Hôtel de Paris in Monte Carlo and in the Hôtel du Cap in Antibes, the reserves of rare Château Petrus 1985 and precious Romanée Conti 1983 have dwindled—even at a price of almost \$3,250 a bottle".

Although these descriptions throw light on Russian politics since the collapse of the Soviet Union in 1991, they contain nothing surprising. In the recent past, especially since the financial crisis of August 1998, detailed reports have appeared on the extent of corruption and money laundering in Russia. Anyone who has followed the developments in Russia even marginally, or, like the Russian population, has experienced events firsthand, knows that this is only the tip of the iceberg.

After the collapse of the Soviet Union, the IMF, the World Bank and the majority of Western governments pursued a policy in Russia which, with the aid of billions in foreign currency, flushed a whole layer of the most corrupt and criminal elements to the surface.

The influential German weekly *Die Zeit* rightly asks in its recent edition: "Why is it that no one now wants to suspect what everyone already knew?"

A typical proponent of the "economic science" supporting "liberal" policies is Harvard professor Andrei Schleifer, who is known for his close co-operation with the American advisor to Moscow and fellow Harvard professor Jeffrey Sachs. The latter was in Moscow at the beginning of the 1990s and directed the "reform" policies.

In an OECD study Schleifer explains their strategy as follows: "Encourage and give legal blessing to some stakeholders to appropriate others, thus reducing the number of stakeholders with overlapping stakes" ( *The Economics and Politics of Transition to an Open Market Economy: Russia*, Andrei Schleifer and Daniel Treisman, OECD, 1998, p. 18). In plain English: put more power in

the hands of one section of crooks so they can knock off the others and make it an easy game for us!

In connection with the coming US presidential elections, extreme right-wing sections of the American ruling class, who see no sense in continuing the Russian policy of President Bill Clinton and Vice President Al Gore, are intensifying their attacks. As is widely known, US business interests aided the corrupt practices of the Yeltsin family and secured Yeltsin's victory in the 1996 Russian presidential elections with substantial financial and personnel support. Al Gore maintained the closest connections to the Russian prime minister through the so-called Gore-Chernomyrdin commission, in order to promote American interests.

Against the backdrop of the corruption revelations, a leader of the Republicans in the American Congress, Dick Armev, demanded an immediate halt to payments and an examination of all cash transfers to and from Russia. The representatives of the IMF and US government protested, claiming there was no proof that IMF funds were involved in the money laundering scandal and insisting that payments to Russia continue with September's tranche of \$640 million.

The right-wing attacks are directed not only against the American government, but also against international institutions. Signs of this political orientation had already emerged in the Kosovo War, in which NATO, under the guidance of the US, operated without a UN mandate and demonstratively snubbed Russia. The Russian government succeeded in saving face at home and abroad only with European assistance. While the US carried out one affront after another, German Minister of Foreign Affairs Joschka Fischer remained in close contact with the Russian leadership via Moscow's envoy to Yugoslavia, Viktor Chernomyrdin.

Along with the growing pressure against Clinton and Vice President Gore, who is the leading Democratic Party candidate in the upcoming presidential elections, the danger increases that Russia will receive no more foreign money, and thus be deprived of one of its most important pillars.

Most European think tanks agree that under no conditions can there be a destabilisation of Eastern Europe, as this could endanger the expansion of Western Europe's sphere of interest in this region. In its last edition, *Der Spiegel* magazine quoted an advisor to the German chancellor, who said, "The worst thing that could happen for us is chaos in Russia."

For this reason, hope is increasingly coming to rest on the nationalist Luzhkov -Primakov alliance in the coming Duma elections. The above mentioned *Zeit* article summed up this widespread mood as follows: "The Americans are said to reproach him [Primakov] for 'stubbornly holding on to great power politics'. Better a conservative great power than a lawless cartel."

An end to IMF credits would dramatically exacerbate Russia's agony, and the lucrative posts of the Russian Camarilla would be directly threatened. This explains the outer unity of the Russian establishment: Chernomyrdin, Chubais, Luzhkov and even the "liberal" Yabloko leader Grigory Yavlinsky, regarded as an "intellectual" opponent, all condemn the criticisms from abroad. In a remarkable assertion, Yavlinsky remarked that the "hysterical imputations that Russia is a kleptocracy are just as far from reality as the euphoric praise for Russia's restorationist course a few years ago" (*Süddeutsche Zeitung*, September 4).

From the outset, Moscow Mayor Yuri Luzhkov guaranteed Yeltsin's "personal security for the period after his presidency". The reason for this is simple: if Yeltsin goes under, the others involved in the

network of "business, politics and the Mafia" could be pulled into the abyss along with him.

Thus, as Luzhkov explained to the press on September 2, the investigation of ex-general public prosecutor Yuri Skuratov has purely domestic significance, because "I doubt that ... amounts in the billions were defrauded from international accounts by the Russian Mafia".

In the spring, Skuratov was twice dismissed by Yeltsin because he wanted to let the president swing for the Mabetex affair. Now this two-faced man has risen to become one of the main leaders of the campaign against Yeltsin. He has not denied "proofs", which are certainly not lacking in the present conflict, indicating he obtained funds from Felipe Turover. Turover is a former associate of the Swiss Gotthard Bank, and it was his "revelations" that got the Mabetex affair rolling again.

Meanwhile, in this game of power politics, nobody talks about the real interests of the Russian population. In the midst of the flood of media articles about the corruption scandals, information regarding social conditions in the country is difficult to come by. What is available, however, speaks volumes. In the eastern region of Sakhalin a cholera epidemic has broken out. By the year 2016, the Russian population will decrease by a further 8 million. This is based upon a current projection of the Russian Office of Statistics, according to which each 100 Russian women would have to bring 215 children into the world for the population level to remain stable. At present, however, this ratio has dropped to 124 children per 100 woman. Over the past seven years Russia's population has declined by 2 million.

Another recent article comes from the Socio-Economic Research Institute of the Academy of Sciences, which has revised upwards the figures on poverty in Russia published by the National Statistical Committee in November of last year. According to the Socio-Economic Research Institute, some 60 million Russians live below the poverty line, instead of the previous estimate of 42 million. This is 40 percent of the population. The average wage has dropped to US\$33 per month.

Against this background, it would hardly have been surprising had the August 31 bomb attack on Moscow's finest shopping arcade, which injured 41 people, turned out to have been the act of desperate young people. This temple of consumption was completed in 1997 on the occasion of Moscow's 850th anniversary, at a cost of \$300 million.

Even if the "uncovering" of corruption scandals does not offer a solution to the Russian population in their struggle for existence, it does at least expose to a world-wide public the methods employed in Russia by Western policy makers and financial interests in Russia, upon which the upper layers of post-Soviet society are based.



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