EIR National

Money-washing scandal slams Gore and cronies

by Edward Spannaus

Feature

"Who Robbed Russia: Did Al Gore Know About the Massive Lootings?" was the headline of a prominent op-ed in the Aug. 25 *Washington Post,* which opened:

"You can see the question rumbling toward Al Gore like a freight train in the night: What did the Vice President know about the looting of Russia by organized crime, and why didn't he do more to stop it?"

No reader of *EIR* would have been taken by surprise that this freight train is rumbling toward Al Gore. We told you it was coming, and why.

The Gore-Chernomyrdin collusion

At the beginning of 1999, *EIR* asked the question, "Will Al Gore be impeached?" and, in a series of articles during January ("Will Al Gore Be Impeached?" *EIR,* Jan. 22; "Al Gore Caught in Corruption with Wall Street Cronies," *EIR,* Jan. 29), detailed how Vice President Al Gore had sealed a corrupt alliance with then-Russian Prime Minister Viktor Chernomyrdin, to reinforce each other's mutual drive for power, and to ensure that Russia would pay its foreign debts at all costs. This was complemented by Gore's secret arrangements with his Wall Street cronies—including hedge fund operators George Soros and D.E. Shaw—who stood to take big losses on a Russian default. We described how Gore had raised over $1 million from his Wall Street cronies between January and August 1998, and how, when the Russia crisis hit in July-August, Gore invited his Wall Street cronies to a White House meeting to discuss how Gore could use his Russian connection to protect their speculative investments.

We also reported how Gore had gone behind President Clinton's back in August 1998, making a series of calls to Moscow to get Chernomyrdin back in as Prime Minister.

EIR's coverage continued through our March 19 publication of the blockbuster "Gore, Chernomyrdin Caught Up in Russian Gem Scandal," which reported on the "Golden ADA" diamond-smuggling scandal in which Gore's friends Chernomyrdin, former Finance Minister Boris Fyodorov, privatization tsar Anatoli Chubais, and others, were implicated.

A common theme throughout *EIR*'s coverage was the suppression of evidence of Chernomydin et al.'s corruption by Gore and Gore's National Security Adviser Leon Fuerth. We reported how, last November, the *New York Times* disclosed that, during 1995, CIA analysts had uncovered conclusive evidence of the personal corruption of then-Prime Minister Chernomyrdin. The report was sent to Gore's office, where it was rejected and sent back "with a barnyard epithet scrawled across its cover." Intelligence officials told the *New York Times* that "the Vice President did not want to hear allegations that Mr. Chernomyrdin was corrupt, and was not interested in further intelligence on the matter." The *New York Times* story also said that CIA officials had submitted reports to the White House containing classified information pertaining to corruption among other Russian leaders such as Chubais.

We also reported that, a few days after the publication of the *New York Times* story about Gore's rejection of the CIA report on Chernomyrdin, *New York Post* financial columnist John Dizard had written that Fuerth "has his fingerprints all over this week's scandal about the cover-up of Chernomyrdin's and Chubais's organized crime connections. . . . Fuerth's role in this might become an issue when people look at Gore's record."

The Bank of New York story

The renewed attention to Gore's role in aiding, abetting, and then covering up Russian corruption, was triggered by a

EIR *readers knew months ago, what the rest of the world is finding out now: that Al Gore had forged a corrupt alliance with Russia's Viktor Chernomyrdin and a host of Russian organized crime figures.*

story in the Aug. 15 *New York Times,* reporting that U.S. Federal officials are investigating one of the biggest money-laundering operations ever uncovered in the United States, involving as much as $10 billion funnelled through accounts at the Bank of New York—a figure which later was put at $15 billion. The initial coverage emphasized that the suspect accounts are linked to Semyon Yukovich Migolevich, a major figure in Russian organized crime, who is said to be involved in arms trafficking, extortion, prostitution, etc.

As the story was breaking, the Bank of New York suspended two senior officers. One of these is Natasha Gurfinkel Kagalovsky, who headed the bank's eastern European division. Since 1995, she has been the wife of Konstantin Kagalovsky—a key figure in the inner circle of British-trained "reformers" who carried out the "shock therapy" and privatization program which decimated the Russian economy after 1991. As the scandal has developed, Kagalovsky has emerged as far more central to the scheme, than the mobster Mogilevich.

As you will see in Rachel Douglas's article in this package, Konstantin Kagalovsky was already the head of the Thatcherite, British-created International Center for Research and Economic Transformation in Moscow before the collapse of the Soviet Union: In August 1991, he met with British Prime Minister John Major at 10 Downing Street. In 1992, he became Russia's chief negotiator with the International Monetary Fund (IMF). In 1994, he joined Menatep Bank, and today is vice-president of Yukos Oil company. He lives in an expensively renovated 19th-century Moscow mansion, with photographs of his meetings with George Bush and Margaret Thatcher adorning the walls.

Kagalovsky is also part of Al Gore's "inner circle" in Moscow. Kagalovsky is a close friend of former Prime Minister Viktor Chernomyrdin, and press reports say that Kagalovsky was expected to head Chernomyrdin's Presidential campaign. But, *EIR*'s files show that back in April 1998, reports were already circulating in Moscow that Kagalovsky had been appointed head of the financial apparatus for Chernomyrdin's year 2000 election campaign. In response to a question during an interview with *Kommersant Daily* on April 21, 1998, Chernomyrdin acknowledged that he was meeting with Kagalovsky, and that he hoped Kagalovsky would participate in his election campaign.

EIR has been told that, a month earlier, at the March 1998 meeting of the Gore-Chernomyrdin Commission, Gore and Chernomyrdin had reached an agreement to "cover each others' backs," and to attempt to promote each other from the number-two position to the number-one position in their respective governments. Boris Yeltsin apparently got wind of the scheming, and in less than two weeks, he fired Chernomyrdin and replaced him with Sergei Kiriyenko. Chubais, Kagalovsky's mentor and the architect of the Russian privatization schemes which created today's Russian "oligarchs," was also dumped at the same time.

It was at that point that Gore began plotting as to how he could get Chernomyrdin back into the government—which he succeeded in doing, at least temporarily, with the Aug. 24, 1998 firing of Kiriyenko and the appointment of Chernomyrdin as acting Prime Minister.

More friends of Gore

Since the original leaks to the *New York Times* which resulted in the Aug. 19 story—and much finger-pointing between U.S. and British law enforcement officials as to who was responsible for the premature disclosure of the Bank of New York investigation—the story has expanded almost daily.

Bank of New York was quick to point out that no allegations of wrong-doing had been lodged against it. But, it quickly emerged that the bank had charged the Russian Inkombank an extraordinary $56 per money wire transfer—about six times the normal rates—and that when Inkombank transferred its accounts from Republic Bank in 1992, the Bank of New York had promised Inkombank that it would be much less vigilant about handling its accounts. (U.S. banks are required to submit "suspicious activity reports" to the U.S. Treasury reporting unusual or suspect activity. Bank of New York had filed only one such report—and that was after authorities began their investigation, according to the *New York Times*.) Bank of New York also went to bat with Federal Reserve Chairman Alan Greenspan, asking for approval for Inkombank to set up an office in New York City.

The Aug. 24 *Wall Street Journal* reported that a number of major European banks have come under investigation for their role in helping to move billions of dollars from Russia and eastern Europe through the Bank of New York. Units of Crédit Suisse, UBS, Dresdner Bank, Westdeutsche Landesbank, and Banque Internationale à Luxembourg, were all involved in the movement of some $4 billion from the former Soviet bloc, to Bank of New York's London offices during the past year, the *Journal* reported. But, of that $4 billion, only about $200 million is linked to Russian organized crime figure Semyon Mogilevich—raising interesting questions about the rest of it. One official, noting that 90% of the business seemed to be legitimate and straightforward, asked whether the 90% was providing a "wonderful camouflage" for the criminal 10%.

The *Wall Street Journal* also reported that, besides the Bank of New York, Bank of America also went to bat for Russia's Inkombank, urging state and Federal regulators to grant Inkombank's application to open a branch in New York. According to the *Journal* account, Bank of America's May 1995 letter called Inkombank's directors "highly responsible, prudent, and professional businessmen." (By the way, Inkombank collapsed last October.)

What is particularly interesting about this, is that Bank of America is the parent company of the D.E. Shaw hedge fund, which poured $40,000 into Al Gore's political action committee last fall, at the height of the Russia crisis. D.E. Shaw was in fact the largest contributor to "Friends of Albert Gore, Jr."

Scandals here, there, everywhere

Numerous investigators have characterized the Bank of New York scandal as only "the tip of the iceberg"—and that is obviously the case.

• For two years, Swiss investigators have been investigating a group of 300 companies linked to the Yeltsin inner circle known as "the Family." Russian Prosecutor General Yuri Skuratov was working closely with the Swiss prosecutors, and Skuratov himself came under vicious attack from the Kremlin at the beginning of the year. Skuratov was suspended by Yeltsin at the beginning of April, but the Federal Council (the upper house of the Russian parliament) rejected Yeltsin's effort to remove him.

In mid-July, Swiss prosecutors announced that they had opened a money-laundering investigation into Kremlin property-manager Pavel Borodin, Borodin's wife, and 22 others, and had asked banks to freeze all of their accounts. Much of this centers around the Swiss-based Mabetex construction firm.

• The *Journal of Commerce*'s John Helmer reported on Aug. 24 on a two-year investigation of fraud into cut-rate sales of Russian titanium and magnesium. There is currently a lawsuit in New Jersey, brought by the Russian firm Avisma (Aviation Special Materials) under U.S. RICO law. The lawsuit says that Menatep Bank, among others, defrauded Avisma and skimmed millions from the company. The *Wall Street Journal* reported two days later that law-enforcement investigators are looking into the Valmet firm, based on the Isle of Man, in this connection.

• In December 1998, Skuratov's office was stepping up its investigation into the Golden ADA gem-smuggling operation, and Skuratov announced that there would be "significant exposures" in the near future. In February, while Skuratov was under intense attack from the Kremlin, he announced that the Golden ADA investigation was essentially completed, but little has been heard of it since. At that time, the Russian *Obshchaya Gazeta* reported that "the most sensitive issue is Viktor Chernomyrdin's involvement in the case," and it said that Golden ADA operation had been discussed at meetings of the Gore-Chernomyrdin Commission in the mid-1990s.

• The diversion of IMF funds is also under intense investigation. This was something that Skuratov had also been investigating, particularly the channelling of funds through the offshore Financial Management Company (FIMACO), and a report on FIMACO had been issued by the Federal Council in the summer of 1998. This is a particularly hot issue in the U.S. Congress—and because of Gore's having taken such a prominent role on Russia policy, he is coming under direct attack in this respect also.

From the beginning

The role of Skuratov and the Federation Council, plus the short-lived efforts to stabilize the Russian economy under

Yevgeni Primakov's prime ministership, demonstrate that this is not a "Russian" problem in general, no matter what some U.S. "conservatives" might want to draw from it. The corruption is localized in a very specific group, which served as the instrument for British- and U.S.-sponsored "free-market" reforms starting in 1991-92—under the Bush administration—and whose looting schemes ("privatization," etc.) created the clique of wealthy "oligarchs" now centering around the Kremlin.

Rachel Douglas's accompanying article shows that this criminality and corruption is not an aberration or a distortion of the "reform" process, but that this was the intention from the beginning! The Mont Pelerin Society band of "free marketeers," which recruited the likes of Kagalovsky, Chubais, and Gaidar already in the 1980s, promoted the "institutionalization" of the underground, criminal economy—putting into practice Bernard Mandeville's creed that every vice has its economic benefit, and the creed of every monetarist and free-marketeer since: that notions of morality have no place in economics.

In U.S. government circles, the spokeman for this gang of thieves has been Vice President Albert Gore, Jr. Since the breaking of the Bank of New York story and the burgeoning scandals associated with it, Gore's spokesmen have explained that Gore was "out of the loop;" Fuerth went so far as to say that Gore "would not have been aware" of the Bank of New York situation, and that "he learned of it from reading the newspapers."

Perhaps Fuerth and Gore should attempt to retrieve that 1995 CIA report on Chernomyrdin's corruption which they called "b---s---" and sent back to the Agency. As one official recently told the *Washington Post:* "It was all laid out for Gore . . . and he didn't want to hear it."

Criminality was the *policy* in Russian 'reform'!

by Rachel Douglas

The spokesman for Yukos Oil sounded like Bahgjet ("I'm just a businessman") Pacolli of Mabetex, when he answered questions about the company's vice-president, Konstantin Kagalovsky, whose wife is one of two Bank of New York officers, suspended in the money-laundering probe. "Yukos has nothing to do with this scandal," Maxim Buchkov was quoted in the *Moscow Times*. "The only reason [Kagalovsky's] name is coming up is because of his wife."

Not quite! In *EIR*'s articles on the 1990s looting of Russia, Konstantin Kagalovsky figures as a kingpin of the scheme to package the criminal takeover of the former Soviet Union's economy, as "reform." With Yegor Gaidar and Anatoli Chubais, Kagalovsky was one of the small group of young economists, cultivated by the Mont Pelerin Society's London Institute for Economic Affairs, to grab the reins of state power in post-Soviet Russia. On Aug. 21, 1991, the day the standoff between the (Soviet) State Emergency Committee, leaders of a coup attempt, and President of Russia Boris Yeltsin ended in favor of the latter, marking the beginning of the end of the Soviet Union, Kagalovsky was at 10 Downing Street to confer with Margaret Thatcher's successor and protégé, British Prime Minister John Major. As a member of the Gaidar team in power, Kagalovsky became Russia's first "director" at the International Monetary Fund (IMF), when the country's membership was finalized in 1992.

Crime pays

"What is the causal relationship between the shock therapy, so-called, and such phenomena as organized crime, corruption, and the narcotics trade, based on examples of countries where it has been applied?" Russian political activist Viktor Kuzin asked *EIR* founder and contributing editor Lyndon LaRouche in an interview in November 1993.

LaRouche replied, "Well, you see, 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*. The murderers, thugs, and gangsters of today, become the capitalist entrepreneurs of tomorrow—after they get through killing each other off, the survivors become the capitalists. . . . When you hear the word 'informal economy,' you're talking about organized crime. Their intent is to destroy Russia, by turning it over to a mafia, knowing that if there's nothing but a mafia looting the country, you're going to have nothing but gangsterism and prostitution. And they say, out of this will come—after they get through killing each other off by Social Darwinism—you'll get the great genius capitalists of the future, they will come out of the survivors of this *nomenklatura* shooting each other. . . .

"There was a joke I told many times, beginning in 1990. For many years, for decades, the Communist Party of the Soviet Union told the people that capitalism is thuggery and theft. One day, Gorbachov said, 'Comrades, we're all going to become capitalists.' And they understood. And we see the usual thing. And then they sent, from the United States, Robert Strauss, the Prince of Thieves, as ambassador."

'Institutionalized' criminality

The ideological center for the promotion of criminality as the motor of economic progress, is the Mont Pelerin Society, founded in the late 1940s by the Austrian economist and ar-