

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 marketers," 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 spokesman 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-

dent foe of the nation-state, Friedrich von Hayek. In our Sept. 6, 1996 feature on the criminal takeover of Russia, *EIR* documented Mont Pelerin Society official Count Max von Thurn und Taxis' overt advocacy of "unrecorded transactions," which are tax-free, unregulated, and earn "higher incomes than would otherwise be the case." Crime pays!

The Mont Pelerin doctrine was the key to the Russian "reforms," executed by Kagalovsky and his group. Look back at the first installment of Roman Bessonov's "IRI's Friends in Russia: The Anti-Utopia in Power," in that same 1996 issue of *EIR*:

"[Reform economist Vitali] Naishul's 1991 tract [on the 'institutionalization' of the black market] reads like a Mont Pelerin Society textbook, replete with fawning over von Hayek. It is reminiscent of *The Other Path*, the treatise on the informal economy as the locus of 'real' economic activity and freedom, written by Hernando de Soto, head of the Peru-based Institute for Liberty and Democracy, and the man George Bush once, in a speech at the United Nations, hailed as an exemplar of creative economics for the Third World. It echoes the infamous 1980 accolade to 'The Underground Economy,' by longtime Mont Pelerin Society treasurer Max von Thurn.

"It is no surprise to find the theme of 'institutionalized' criminality so thoroughly articulated by a Russian in 1991, because the Mont Pelerin Society trained its sights on the Soviet Union, and eastern Europe, nearly a decade before.

"In 1983, the Centre for Research into Communist Economies (CRCE) was organized in London, out of the Institute for Economic Affairs. The IEA, headed by Lord Harris of High Cross, is the main Mont Pelerin think-tank in Britain.

"CRCE representatives began to go into eastern Europe in the mid-1980s, especially to Hungary. There, they met a young Russian economist named Anatoli Chubais, member of a loose group that included Yegor Gaidar and other future leading lights of the 'reform' in Russia. There were similar contacts, also made in Hungary, of the CRCE with people from Poland and Czechoslovakia, including the future prime ministers of those countries, Leszek Balcerowicz and Vaclav Klaus. Before long, Gaidar and other Russians were travelling to London as guests of the CRCE, or convening with students of the Mont Pelerin agenda from throughout eastern Europe, at seminars held in Hungary, Vienna, or the United States.

"Lord Harris, among whose published titles is *The End of Government . . . ?*, co-founded the Moscow-based International Center for Research into Economic Transformation (ICRET), in 1990. It began to collaborate closely with the similarly named (Russian) Institute for the Economy in Transition, launched under the auspices of Academician Abel Aganbegyan and subsequently headed by Yegor Gaidar and Vladimir Mau. At the end of 1991, that Russian institute nearly folded, because most of its staff entered the government of Yegor Gaidar, the first prime minister of independent Russia, chosen by President Yeltsin. From the Mont Pelerin-trained group, Gaidar became prime minister; Mau was his

assistant for economic policy; Andrei Nechayev was minister of economics; Leonid Grigoryev (later at the World Bank) was chairman of the Committee on Foreign Investment; 500 Days Plan co-author V. Mashchits headed the committee for economic relations with Community of Independent States countries; Pyotr Aven was minister of foreign trade; Sergei Vasilyev was head of the government's Center for Economic Reforms. Konstantin Kagalovsky, the first executive director of Lord Harris's ICRET, was detailed by the Russian government to handle its negotiations with the International Monetary Fund (IMF)! Above all of them, Anatoli Chubais spread his wings as the privatization czar — officially, as chairman of the State Committee for the Management of State Property, which was actually a commissariat for eliminating state property.

"Lord Harris and his collaborators were in a position analogous to that of British Foreign Office agent Bernard Pares in March 1917, who exclaimed over the Kerensky cabinet, formed after Russia's 'February Revolution,' that 'it seemed like a dream. Of the twelve new ministers, seven were actually collaborators of my *Russian Review* in Liverpool. . . . To me it all seemed almost too good to be true.' "

### 'One of ours'

In a March 1996 interview, Lord Harris fondly recalled his Russian pupils: "We got to know Gaidar and some of his friends. . . . We've had them over here, we introduced them to Thatcher and this kind of thing. . . . I have met people in Russia, I used to be able to rattle off their names, names like Kagalovsky, and Vasilyev, and all these people, and I have met chaps who are as lively-minded, and open-minded and as liberal-minded, as the people who make up the IEA in London and elsewhere. I have met chaps there who know about Hayek, I didn't have to tell them. They have read Hayek and [Milton] Friedman and others, and are very, very bright."

As liaison with the IMF, Kagalovsky gave the press conference on March 3, 1992, to announce Russia's first memorandum to the IMF, clearing the way for membership. It was the first of many official pronouncements about how Russia would be squeezed by the IMF, to extract a new income stream for the international financial bubble, under the cover of "fighting inflation": "I will remind that the main purpose of this program is to ultimately and irrevocably surmount *inflation*."

Like many of the "young reformers," Kagalovsky soon departed into the politely called "private sector." Pyotr Aven's company was "FinPA," which stands for "The Finances of Pyotr Aven," and his bank was named Alpha Bank, after the most privileged, "alpha" clones in Aldous Huxley's *Brave New World*. Alfred Kokh shifted from the State Property Privatization Committee, to work full time at the Montes Auri ("Mountains of Gold") investment firm. Yukos Oil and Bank Menatep, where Kagalovsky went, just don't have their ideology quite so blatantly posted on the marquee.