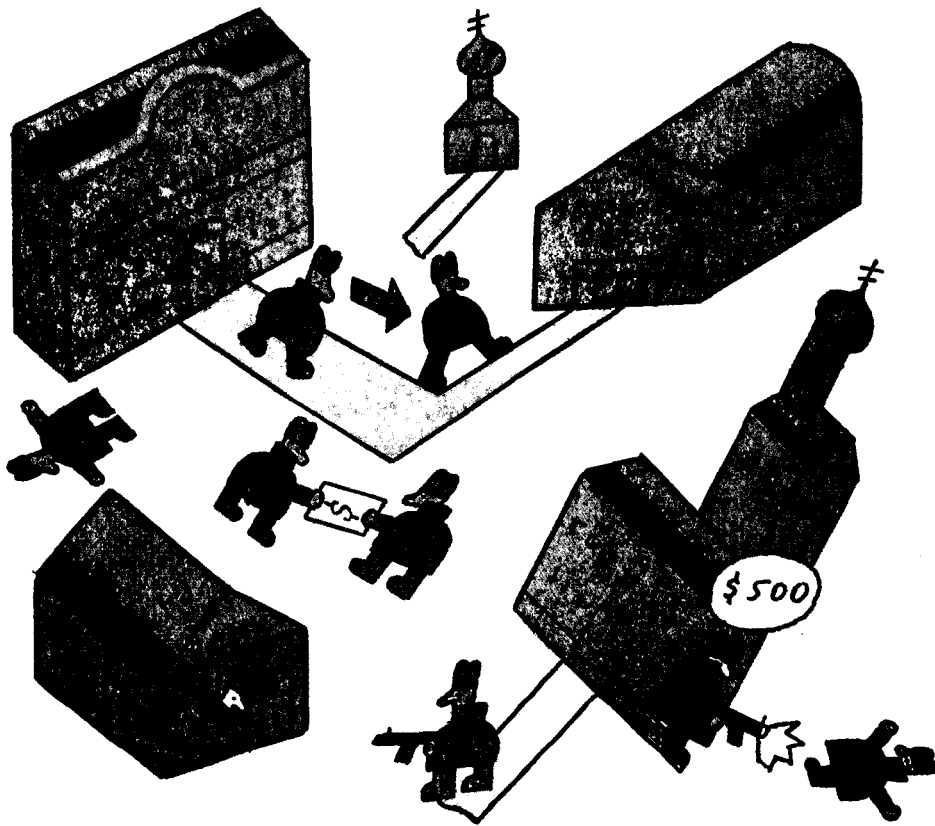




# of RUBLES



import privileges and ordered it to pay tariffs retroactively. But this past summer, two presidential orders were issued allowing the RFIVA to write off 287 billion rubles (some \$57 million) as aid to disabled vets, and awarding it 40 billion rubles (\$8 million) as compensation for the losses incurred when its "special importer" status was revoked.

An official of the tax police told *Sevodnya*: "Radchikov is not the highest echelon of the RFIVA's financial pyramid. We didn't find the main money—it went abroad. The attack on Radchikov is evidence that he knew too much." The double hit, like most such attacks, has not been solved.

The undisputed king of import privileges is the National Sports Foundation (NFS), which finances athletic competitions and Olympic hopefuls. It has fared better than the other exempted organizations, because sports are popular in high places here. Among the presidential administration's myriad committees and commissions, only

latter died on the spot, while Radchikov was taken to a Moscow hospital with six bullets in his head.

RFIVA is one of a number of organizations exempted by a 1993 Boris Yeltsin executive order from having to pay duties on imported goods. The rationale for the decree was to help cash-strapped charitable groups to raise funds. Following the attack on Radchikov, the newspaper *Sevodnya* reported that the government had investigated the foundation in late 1994, after the murder of yet another of its officials. The government discovered that over a nine-month period, only \$18 million of the organization's \$192.8 million imports revenue had actually been transferred to the foundation's accounts—and of that \$18 million, only 24.5 percent was spent to help disabled vets.

Following the investigation, the government removed RFIVA's the Coordinating Committee for Physical Education and Sports, headed by Shamil Tarpishev, has a Kremlin address. The Coordinating Committee's telephone number is identical to that of the NFS, and Tarpishev is Yeltsin's favorite tennis partner.

After Yeltsin's 1993 decree, the NFS signed contracts reportedly worth \$5 billion to import consumer goods, particularly alcohol and cigarettes. That is why Marlboros are cheaper here than in the United States, and why the kiosks are overflowing with imported vodka. According to one expert, 80-85 percent of the Western booze and 90 percent of the Western cigarettes entering Russia do so under NFS exemptions.

A private trading-company executive explained to me how the system works. The official duty on beer, for example, is 300 percent, which adds up to about \$1.50 per liter for some brands.

(For vodka, the duty is a whopping 500 percent.) No one, however, pays the official duty. A trading company that wants to import beer works out a deal with the government whereby it gets what amounts to duty-free status—it pays something on the order of 15 cents per liter into the Treasury. The trading company must then work out another “unofficial” payment to the NFS or one of the other exempted groups like RFIVA. This payment is negotiable, but these organizations are in a strong bargaining position, since contraband operations are their only competition.

The exemptions are costing the cash-strapped federal government an estimated \$200 million a month, and are extremely unpopular with the IMF and other international donors to Russia. They were set to expire this past July 1, but each of the exempted organizations reportedly received private documents validated by the State Customs Committee allowing them to postpone payment for several years; they were also allowed to make payment in rubles, which are rapidly deflating.

In September Anatoly Chubais, first deputy prime minister in charge of economic policy and the only remaining member in government of Yegor Gaidar’s original reform team, laid down the law: The exemptions would be revoked as of October 1. “Either the exemptions go,” Chubais told the newspaper *Izvestia*, “or I go.” But on November 3, the State Customs Committee told the Interfax news agency that the government had extended the NFS exemptions until December 1, and sources tell me they may be extended yet again until March.

Despite its influence, even the NFS has not been untouched by the Russian business bloodbath. Last March Lev Gavrilin, one of its top officials, was shot dead near his home in central Moscow. The rule here is: the greater the concentration of money in any industry, the higher the murder rate. The aluminum production and export business has seen a host of killings, as has the banking industry: 53 bank officials have been slain since 1992. One recent survey found that one-third of all bank heads have received death threats.

Several days after the October murders of two more prominent businessmen—the president of St. Petersburg’s Baltic Shipping Company was shot to death, and the head of a large Vladivostok fishing concern was blown up in his home—I spoke with Oleg Orlov, the executive secretary of the coordinating council of the Business Roundtable. “There is an obvious tendency toward self-destruction within Russian business,” he said.

Orlov believes that the Roundtable’s Charter, which has been publicly supported by Chubais and Prime Minister Viktor Chernomyrdin, will be effective. The Roundtable will use its influence to prevent violators from receiving licenses and bank credits, and will “recommend or not recommend” Russian firms to potential Western partners. The association has also created a Council for the Security of Enterprise, which will unite the security services of various private businesses.

This last measure may be the most significant. The Russian Academy of Sciences conducted a study, excerpted in *Izvestia* in September, that described what might be called the de facto privatization of Russian law enforcement. Attracted by the higher salaries available in private security, officers have been leaving their jobs in droves. In recent years the Moscow KGB has lost half its personnel,

and, according to the Security Committee of the State Duma, the lower house of Russia’s parliament, there are now more than 25,000 private security firms in the country, employing 800,000 people.

The study estimated that half of the heads of these firms are former state security officials, a quarter are ex-Interior Ministry, and a quarter are from the GRU (military intelligence) and the armed forces. Many private security entities are virtual armies: Sergei Rodinov, the head of Imperial Bank, one of Russia’s largest, told the newspaper *Obshaya Gazeta* that 60 percent of his bank’s employees work in its security service.

**C**riminal groups, now facing competition in the “protection” business, have likewise begun recruiting ex-military and law enforcement personnel. There are also signs that the more established mafia clans have evolved from crude extortion rackets into smoother protection operations, even offering legal advice and information services. Indeed, *Sevodnya* recently reported that “one of the capital’s criminal groups” even receives a “stable” percentage of the government’s agricultural credits.

But as the protection schemes have diversified, a new and more violent breed of criminal has arrived as well. These young thugs are known as *otmorozhennymi*—“the frostbitten”—and can reportedly be hired for a contract murder for as little as \$500. Valery Velichko, former chief of staff of the KGB’s ninth directorate (charged with protecting top Soviet officials) and now head of a private security firm, told me that the *otmorozhennymi* each control a small bit of turf and do not recognize the authority of the established clans.

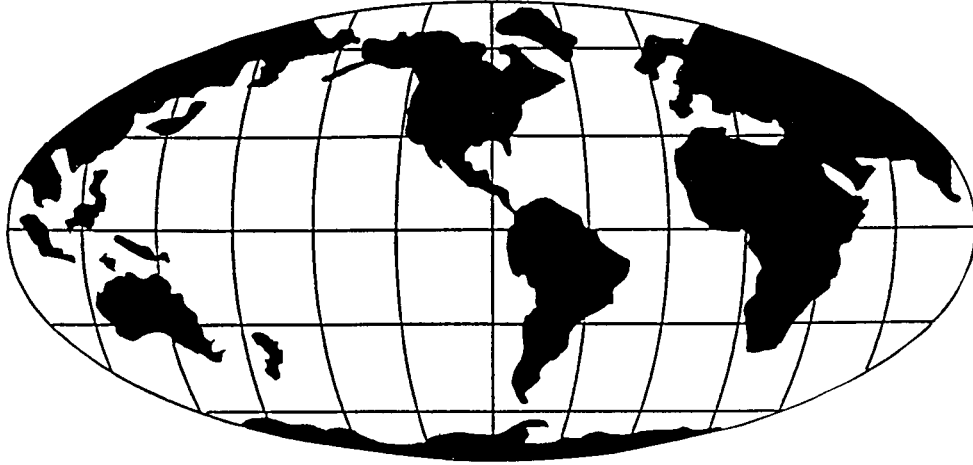
They also run protection rackets. *Argumenty i Fakty* recently ran an interview with an anonymous woman who runs a stall in a local Moscow market and was the girlfriend of one of the racketeers. She described his constant shooting up of drugs, financed by the \$10,000 a month he earns extorting 30 market stalls—including hers. She also described how he and his band have bought off the local cops.

In a recent column published in *Nezavisimaya Gazeta*, ex-ambassador to the U.S. and Yabloko party official Vladimir Lukin wrote of the “indubitable moral degradation” that Russia is witnessing. “Perhaps the peak of the disease engulfing society is the new relationship toward life and death,” Lukin wrote. “The natural human fear of the border between the two has been lost. Nothing could be a more certain symptom of the disease which has seized us than the feeling of indifference—which has emerged, grown and strengthened—toward the daily violent death taking place before our very eyes. It is already a deformation of historical, if not apocalyptic proportions.”

The roots of this disease, he maintains, are in the “dual morality” engendered under Communism: “One morality for you, for yours, for internal use. Another for the taciturn and the humble, for the good-natured and the agreeable, for the simpletons, for the confused—in a word, for the masses. This is mafia consciousness.”

Unfortunately, it is the Communists and the “national patriots” who are likely to benefit from the inevitable backlash, not people like Lukin. Reformer Yegor Gaidar, whose Russia’s Democratic Choice party appears poised for disaster in the December parliamentary vote, recently said that the best analogy for the current situation is the

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1920's—the period of the New Economic Policy. Gaidar predicted that if the Communists and their allies launch a successful march through Russia's political institutions, society will be plunged back into hunting-gathering. *Izvestia*, in a kind of coda to Gaidar's comments, printed internal Soviet government documents from the end of 1991, showing that the country was then on the verge of complete economic collapse and even famine.

In the bad old days, of course, the hunter-gatherers were in search of sugar, meat, and other necessities. As the old Soviet joke went, a man approaches a shop and asks if there is any meat. "No," the shopkeeper replies, "here we don't have any fish." He points to the next store over—"there they don't have any meat."

These days, while massive corruption still reigns, Moscow's new prosperity is visible on every corner. Everybody seems to be sitting behind the wheel of a Lada, Zhiguli, BMW, or Nissan 4x4. Everywhere, all day, there are *probki*—traffic jams—so bad that the radio stations now play drive-time programming from morning to night. Stuck the other day in a cab—which, like most, was equipped with a spanking-new Sony stereo—I was listening to a call-in show, on which listeners were being asked to comment on the Central Electoral Commission's disqualification of economist Grigory Yavlinsky's Yabloko party from December's parliamentary contest. (The CEC's decision, based on Yabloko's violation of Russia's Byzantine regulations governing party registration, was quickly overturned by the Supreme Court, and the party was registered.) Given the proliferation of mobile phones in the New Russia, I'm sure some of the callers were drivers stuck in a similar mess.

The frenetic, vehicular demonstration of new prosperity reminded me of a conversation I'd had several days earlier at Club Magnifique, a recently-opened venue on Petrovka Street, one block from my apartment. Volodya, a young businessman, was telling me about his disastrous foray into the world of auto sales. A year ago, he imported a half-dozen slightly used German luxury cars into Russia, and did it by the book, registering them according to the official procedure at customs and paying the whopping import duties. "I found that I could only sell them at a huge loss," he said, "because most of the foreign cars sold here—probably eighty percent of them, at least—are hot." Auto theft is a huge import business; Volodya said the major transshipment point between the West and Russia is Bulgaria. Naturally, this boom industry requires the "cooperation" of customs and other officials. Volodya's attempts to unload his vehicles were cut short when they disappeared from the lot where he was keeping them. They were uninsured. "Now," he shrugged, "I'm in banking."

The Russian government has taken some steps to cut into the auto-pirates' empire. They recently lowered the import tariffs on cars from 35-75 percent (depending on the make) to 10-25 percent. And Moscow's GAI traffic police, whose roadblocks seem constantly to

*The rule here is: the greater the concentration of money in any industry, the higher the murder rate. Fifty-three bank officials have been slain since 1992.*

grow in number, now often run checks on the tag numbers, registrations, and engine serial numbers of the cars they stop.

Volodya, however, doubts there is an "administrative" solution to the problem. He argues that if Western auto makers want to establish a legitimate, long-term market in Russia, they should lower prices, making up the difference in what they charge for parts and servicing at authorized automotive centers.

These, he said, should refuse to

service stolen vehicles. So far, however, the Western companies seem to be sticking to a when-in-Rome strategy: BMW, for instance, not long ago opened a major service center in Solntsevo, a Moscow suburb that is home to one of the capital's major mafia groups. In such circles the BMW is called a *boyevaya mashina bratvi*—a "combat machine of the brotherhood."

When we left Club Magnifique, Volodya offered me and my friends a lift to our destination—the John Bull Pub on Kutuzovsky Prospect. The British pub's grand opening this summer was postponed a few days when a bomb blew up on one of its window ledges. Police authorities said the explosion, which took place in the middle of the night, was a warning: the owners had either not paid a criminal group for a *krysha*—a "roof," slang for protection—or had paid the wrong one.

In any event, on the way to the John Bull we were pulled over at a GAI check-point. The officer invented an irregularity on Volodya's registration, and then checked the serial number on the Volvo 850's engine. Volodya got out of the car while they radioed the information to headquarters. We waited and waited. Finally, he returned, and we drove off. He had paid them off, of course—the computer check, Volodya thought, was just a gambit to wear down his patience and get him to cough up a bribe.

It was a typical moment in this very untypical New Russia, the kind the Russians already have quite a good joke about. A GAI traffic cop who has been having an unprofitable week resolves to reverse his run of bad luck. First he stops a Jeep Cherokee, but the driver flashes an ID from the Federal Security Service, the current incarnation of the KGB. Next he waves his baton at a BMW: this time the occupant works for the presidential administration. In frustration the cop then pulls over a Volvo, but once again the driver pulls rank—this time it's a Foreign Ministry official.

The cop's failures put him in a foul mood when he arrives home. He yells at his wife to fix dinner, and shouts at junior to produce his report card—immediately. The son is terrified, and whispers to his mother, "I got all 2's"—the equivalent of D's—"He'll kill me!"

"Here's a 50,000 ruble note," says his mom. "Put it between the pages of the report card, like this." She folds the bill and tucks it in his grade report. The cop begins to see all those 2's, and his face reddens with anger. And then he sees the bribe, his first of the day, and a smile crosses his face. "At home, at least," he says with delight, "v'syo v'poryadke"—"Everything is in order!"

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CRONIES IN A WIDE RANGE OF COVERUPS AND CHICANERY

**A**fter former Associate Attorney General Webster Hubbell was charged with income tax evasion and mail fraud in December 1994, Bill and Hillary Clinton were quick to distance themselves from the potentially explosive situation. "This matter does not concern the president, the first lady, or Whitewater Development Corporation in any way," their lawyer David Kendall said. "The charges here are totally unrelated—they arrive out of Mr. Hubbell's personal income tax returns and individual billing procedures as an attorney in private practice in Little Rock before he came to Washington."

Technicalities aside, Kendall's explanation was a convenient dodge. According to Justice Department telephone logs and appointment calendars recently obtained by *The American Spectator*, Webb Hubbell was in fact at the center of the Clintons' Whitewater morass, about which the president and the first lady were understandably very concerned. David Kendall himself—along with other trusted Clinton political fixers such as James Lyons—had been hard at work trying to disentangle Bill and Hillary from the public relations disaster Hubbell's troubles might pose. At the same time, Hubbell was cooperating with the Clintons to minimize the political impact his indictment would have on them.

by  
Rebecca  
Borders