

OPINION: Bank of New York Scandal Turns into Ethnic Witch Hunt

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NEW YORK--In the hours after the 1995 bombing of the Murrah Federal Building in Oklahoma City, law enforcement officials fanned through the nation's airports, looking for men of Middle-East extraction.

Yet this terrorist act was carried out by members of an anti- government militia, a movement as homegrown as they get. Similarly, Aldrich Ames, presumably an upright Mormon, was responsible for the most damaging spy case of the Cold War.

However, when allegations of Chinese nuclear spying surfaced earlier this year, the only person implicated was an ethnic Chinese, who to this day remains in a legal limbo, tried in the court of public opinion but not charged with any crime.

Current accusations of money-laundering centered on the Bank of New York seem to belong to the same school of ethnic targeting. Once again, we see an American institution--in this case one of the oldest U.S. banks, founded more than 200 years ago by one of the nation's Founding Fathers, Alexander Hamilton--corrupted by a bunch of shifty aliens.

Although no one has been charged, one Bank of New York employee has been suspended and another fired.

The press has gone over their background with a fine-toothed comb, dwelling on the fact that both are Russian immigrants and naturalized U.S. citizens. Particularly suspicious, it seems, are their marital ties to Russian businessmen.

The more prominent of the two husbands, Konstantin Kagalovsky, has been dissected in a number of articles, even though his involvement with the alleged money-laundering is altogether unclear.

Also missing from this extensive coverage is what U.S. laws, rules and regulations have actually been violated, and in what way.

Accounts at the Bank of New York were used by a variety of Russian banks, brokerage firms, corporations and private individuals to circumvent Russia's strict currency laws.

That is hardly surprising. Corruption, bribery, theft and asset- stripping are pandemic in post-communist Russia, and ill-gotten gains are typically smuggled abroad in violation of Russian law.

The massive flow of funds probably included at least some of the proceeds of the \$ 4.8 billion that the International Monetary Fund pumped into Russia in 1998 in a failed attempt to shore up the ruble.

Before August 1998, the Russian government, a number of regional governments and a few banks and industrial corporations were borrowing in world capital markets. A substantial portion of that money was likewise misused and misappropriated.

The owners of the funds leaving Russia through the Bank of New York-- and through numerous other American, European and Asian banks providing banking services to Russian financial institutions--are prominent Russian business executives, bureaucrats and politicians, including ones at a very high level.

Also, since Russia is permeated by organized crime, the funds leaving Russia doubtless include proceeds from various criminal activities, often channeled through legitimate businesses.

But there is another side to this story: Honest businesses also resort to smuggling money off-shore to protect their profits from a confiscatory taxation system and to finance their operations in an environment where bank lending is unavailable.

This is a deplorable reality, but the causes of it are systemic and institutional, not the actions of a few banking employees of Russian origin.

The main culprit is the Russian government, which has created a system of nationwide pilfering and corruption that makes the Nigeria of deceased strongman Sani Abacha look tame by comparison.

But another culprit is the U.S. government, which has provided support for the Russian government and, in the process, depicted a corrupt kleptocracy as a market economy.

Also at fault are the IMF, the World Bank and other multilateral lenders that pumped vast sums into Russia without keeping tabs on how the money was spent.

Western investment banks played a role, too. They were so hungry for lucrative Eurobond deals for Russian issuers they closed their eyes to the fact that the borrowed funds were misappropriated and that bondholders stood little chance of being repaid.

In fact, even as the press continues to focus on personalities in the Bank of New York scandal, investigators are increasingly looking at the systems of safeguards within the bank.

The Bank of New York, a notoriously tight-fisted institution, lacked appropriate monitoring mechanisms to assess the nature of computer-generated transactions in its corporate accounts.

But the Bank of New York is only the tip of this iceberg. Scandals related to business activities in Russia will now be coming out of the woodwork at a rapid pace.

In both countries there are forces that want to maintain the flow of negative information out of Russia. The United States has presidential elections in November 2000, while Russia has parliamentary elections this December and a presidential election next June.

Two powerful groups are fighting a life-and-death battle for the Russian presidency. On one side is President Boris Yeltsin and his Kremlin entourage, on the other Moscow Mayor Yuri Luzhkov and former Prime Minister Yevgeny Primakov.

It is a struggle for power in its purest form, without any ideological underpinnings. The weapon of choice is the smear campaign, and Western journalists are being approached with leads on shadowy dealings involving Russia's high and mighty.

Meanwhile, in the United States, the Republicans are casting about for substantive issues to use against the Clinton administration.

The Democrats are almost invulnerable: The economy is doing extremely well while the latest policy initiative abroad, the war over Kosovo, was a resounding success.

Russia may prove to be the Achilles' heel, however. Criticism of the administration's Russia policy looks set to become the main foreign policy theme of the upcoming campaign.

The American press not only seems eager to be used by all sides in the election campaigns in the two countries, but to lower the level of the debate. Even on the pages of respectable publications, the Russian businessman and the Russian-American have become stock villains from Central Casting.

While such stereotyping is obviously unfair to Russian-Americans, it is also a disservice to readers. An ethnic witch hunt has been substituted for a serious discussion of complex issues and disturbing processes taking place in Russia--which remains a nuclear superpower.

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