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The Problem Facing Today's Corrupt Officials and Soviet Black Marketeers: What to Do With the Cash?

Unable to bank their ill-gotten gains, today's corrupt officials find themselves in the same circumstances as the tsekhoviki, the magnates of the late Soviet Union's underground economy.

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Igor Ivanko / Moskva News Agency

Who says we're heading for a cashless society? When Ivan Belozertsev, governor of Penza region, was arrested and his house searched this month, they found about 500 million rubles ($6.6 million) at his home.

Still, this was nothing to the haul found when FSB Colonel Kirill Cherkalin was arrested in 2019. He turned out to be sitting on 12 billion rubles ($158 million) in cash and valuables,

putting to shame the previous record-holder, police Colonel Dmitry Zakharchenko, whose stash was a paltry 9 billion rubles, when he was arrested in 2017.

Grainy police video shots of sack after sack of money being hauled out of another over-decorated home have become ritual components of the name and shame news story. If nothing else, they help establish the arrestee's guilt in the public mind long before any trial. Cherkalin's case, incidentally, has still to come to court, but Zakharchenko was sentenced to thirteen years in prison.

Nonetheless, Cherkalin has already had his and his family's assets confiscated: four flats, two dachas, six plots of land plots amounting to 7,116 square meters, 14 other premises, plus cars and cash — including over 8 million euros — for a total value of over 6 billion rubles ($79 million).

Gangster bankers

So what about the other 6 billion rubles? The explanation may lie in a current Russian practice with interesting parallels to Soviet times.

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It is no coincidence that Cherkalin worked in the FSB's notorious Economic Security Service (SEB), while Zakharchenko had been deputy head of the Interior Ministry's economic security and anti-corruption directorate. These agencies have emerged as the most lucrative sources of rent, bribes and extortion within the Russian security state. People within it can and do make fantastic amounts of money through all kinds of illegal schemes and outright plunder.

However, they also sometimes acquire another role: as an informal, underworld bank.

What, after all, can you do with all your ill-gotten gains? The Russians have all kinds of complex and inventive schemes to generate *obnal*.

Whereas conventional money laundering is about taking dirty money and concealing its illicit origins, until it can pass as legitimate, this is about taking clean money and moving it off the books so it can be used for dubious purposes, from insider trading to outright bribery.

However, it is still money, and to then try and put it in a bank risks bringing attention to your sudden and inexplicable wealth. This may attract the attention of Rosfinmonitoring, the Federal Service for Financial Monitoring. It may also embolden more ruthless predators and risk empowering your political rivals.

As Belozertsev has shown, for many the answer is simply to stockpile cash (which, after all, can always be recycled as a bribe), because they simply have too much safety to invest of deposit. Such are the woes of the corrupt official.

This is, of course, dangerous. Someone could burgle your home, or, worse yet, it can be found by investigators. One answer is to outsource sitting on your loot to someone whom you feel you can trust and who ought to be beyond suspicion.

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Senior figures in the economic security structures – gamekeepers turned poachers – have successfully acquired this role. The notion is that they are either beyond suspicion or, more plausibly, so well connected that their properties are deemed sacrosanct or they would at least get fair warning before any search.

I do not know, but wonder if that helps explain that extra 6 billion on which Cherkalin was sitting, and certainly some of Zakharchenko's stash.

This seems to be a practice dating back to the mid-2000s, and worked for years. As these cases illustrate, its time may be coming to an end. The powers that be are alert to it, and while Russia is still ruled by kleptocrats, there has been a real and significant campaign against corruption at the lower and medium ranks. Even the SEB is not quite as bullet-proof as once it seemed.

So corrupt Russians will perhaps have to get used to living amidst mounds of cash, with all the vulnerabilities that entails.

For example, two men have just been convicted of kidnapping a retired FSB Major General Alexander Pastushkov in summer 2018. They drove him to a house outside Moscow and then tortured him until he was willing to lead them to his home in the Odintsovsky district. From the garden, they dug up seven plastic containers contained the equivalent of $5 million dollars in various currencies.

The victim turned to the police, who in 2019 arrested the criminals. However, the investigators then began to wonder quite how the general had come to accumulate the equivalent of 315 million rubles. That he was the former first deputy head of the FSB's construction department was probably no accident.

He hurriedly tried to change his statement and claim that nothing had been stolen from him, but too late. While the kidnappers were sentenced to ten years in prison, he had $1.1 million, 5 million rubles, and property with a value estimated at 36 million rubles confiscated.

Soviet parallels

Unable to bank their ill-gotten gains, unable to turn to the authorities if anything happens to it, today's corrupt officials find themselves in the same circumstances as the *tsekhoviki*, the magnates of the late Soviet Union's underground economy.

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Many of them became fantastically wealthy thanks to their smuggling operations and, especially, illegal factories churning out goods in demand in an era of scarcity and rationing. Where possible they often sought to convert cash into more portable valuables such as diamonds and tsarist-era gold coins, but they still often found themselves sitting on mountains of cash.

One of the first gangsters to see this opportunity in the 1960s was Gennady Karkov, known as

‘the Mongol.’

As I explain in my book *The Vory*, he and his men, wearing fake police uniforms, would likewise seize their victims and drive them out of town. *Tsekhoviki* would be tortured to give up their money in a variety of sadistic ways, from burning them with hot irons to, most dramatically, nailing them into a coffin, which the burly henchman known as ‘Executioner’ would then begin to saw in two, as if in a magic trick. People paid up.

Karkov counted on the fact that his victims could not go to the police without admitting that they too had committed crimes with potentially very serious consequences.

After all, serious economic crimes could lead to the death penalty, while when Karkov was eventually caught in 1972, he received just 14 years in a strict regime prison colony.

Eventually, the *vory v zakone*, the aristocrats of the Soviet underworld, reached a deal with the *tsekhoviki*, in effect ‘taxing’ them in return for leaving them alone.

Maybe in due course, the state will end up doing the same, offering an amnesty in return for a generous cut of all the dirty money sitting buried in back gardens and stuffed in closets across Russia.

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