

# Pyramids and Prophets (1999)

*Eliot Borenstein*

*Despite the earnest rise of new financial institutions in the building of the Russian Federation, few had forgotten that Soviet-era banks were long run by the government and for the government. In the most comfortable days of the 1970s and early 1980s, most citizens still held whatever cash they had at home, and almost no one had pension savings, as they could expect a complete range of government services upon retirement.*

*With the Wild West atmosphere of the early 1990s, distrust of institutions carried over into financial markets, and trade of all kinds—an advanced art form in the Soviet period—thrived foremost among friends, friends of friends, and friends of acquaintances. Thus was the stage set for the events of 1988 to 1994, narrated here by Eliot Borenstein, when the Moscow entrepreneur Sergei Mavrodi operated MMM, a financial services agency that fed pipe dreams (and remarkably few payouts) to tens of thousands of Russian investors. At its height the pyramid scheme’s fictitious everyman, “Lenia Golubkov” (portrayed in a series of popular television commercials by the actor Vladimir Permiakov), ranked higher than President Yeltsin in public opinion polls.*

*In the more than a decade of legal wrangling that followed the pyramid’s collapse, government officials estimated total losses of one hundred million dollars, coming largely from the pockets of average Russians. Despite the collapse, Mavrodi continued to enjoy support. He was elected to the country’s governing Duma the year of the scheme’s collapse, claimed parliamentary immunity from prosecution until ejected by the government, and then disappeared from Russia entirely. Returning years later, he served four and a half years in prison for his crimes. Pensioners welcomed him on his release from prison, insisting to reporters that they believed Mavrodi would have honored the company’s payout obligations had the government not intervened to stop him.*

## *Initial Mystery*

To understand the MMM phenomenon, a few words about the nature and history of the company are in order. MMM was founded by Sergei Mavrodi as a

cooperative in 1988. A 1979 graduate of the Moscow Institute of Electronic Machine Building, Mavrodi's involvement in "business" dates back to 1981, years before Gorbachev's reforms would render such activity legal. Over the years, Mavrodi slowly climbed the black-market ladder, selling first jeans and records, then eventually computers and other expensive consumer goods. According to the newspaper *Moskovskie novosti*, Mavrodi spent most of the 1980s registered as an elevator attendant, janitor, and night watchman in order to avoid prosecution for "parasitism" (lack of an official job) while developing his black-market career. For the first few years of its existence, MMM kept a low profile in both the markets and the media; in the late 1980s it was the Alisa company, with its ubiquitous barking dog, that dominated the airwaves. As MMM expanded, its troubles with the law also grew, most notably over the question of taxes. In January 1992, MMM's accountants were arrested for nonpayment of taxes and for presenting false balance sheets. In April of the following year, Makhaon, an MMM subsidiary, was prosecuted for hiding one billion rubles. MMM-Bank, another affiliate, was closed in the fall of 1993, but its money disappeared before unpaid taxes could be collected. Soon MMM's run-ins with the law took a burlesque turn that strained credibility even more than its ad campaign: in May 1994, a Toyota carrying important documents relating to eighteen divisions of MMM was mysteriously hijacked on its way to the offices of the tax police: the car was later found, but the documents had vanished for good.

Perhaps not surprisingly, the beginning of MMM's troubled relationship with the authorities roughly coincided with the company's rise to prominence in the public consciousness (1992–94). If the government was intrigued by MMM's activity, ordinary Russians were no less so. From the very beginning, MMM was a creature of Moscow's equivalent of Madison Avenue, a set of mysterious initials and enigmatic advertisements that seemed designed to arouse the public's curiosity. In the early 1990s, MMM lavished money on exquisitely produced billboards displayed in metro stations throughout the country's major cities: one would have had to be blind not to recognize MMM's ever-present butterfly symbol, often accompanied by the enigmatic slogan "из тени в свет перелетая" (Flying out of the dark into the light). Perhaps these words were an announcement that MMM would indeed finally "come to light" and reveal its true nature, but its early television advertisements only increased the mystery, even as they emphasized the company's widespread name recognition. One ad in particular comes to mind, the commercial that might best be called "The Annunciation of MMM." This TV spot immediately stood out for its high production values (still a rarity in 1992) and excellent direction; it was a combination of Western quality with Russian faces. In it,

the camera shows us people from a wide variety of backgrounds, at work, at play, engaging in casual conversation. One after another, each one sees a light emanating from the heavens and looks up. Finally, we see what they see: the huge letters “MMM,” accompanied by a God-like baritone proclaiming: “нас знают все” (“Everyone knows us,” or, more literally, “We are known by all”). In effect, the ad worked like an incantation: endless repetitions of the words “everybody knows us” ultimately rendered them true: who didn’t recognize MMM? At the same time, the ad played on a variety of mass traditions: the ever-present Soviet *мы* (we) that was the subject of so many political slogans had now become an object, *нас* (us), while the masses became the subject, *все* (everyone). Although both Soviet propaganda and post-Soviet advertising target the “masses,” their different approaches to the populace reflect contradictory metaphors of the body politic: for Soviet propaganda, with its roots in the collectivist romanticism of the proletarian culture movement, the masses moved as one body.

When the masses become consumers, however, the once-nationalist public body becomes fragmented, privatized. Although the advertiser operates on a large scale, he must nevertheless develop the illusion of a personal relationship between the product and the consumer. The MMM ad treated consumers as anything but undifferentiated masses or class types: the revelation of MMM was, like the revelation at Sinai, a collective event experienced by each person individually. Moreover, the Sinai comparison leads to an important point: the advertisement is suffused with a distinctly nonsecular glow. In the United States, such an approach fairly reeks of Protestantism: the skeptical housewife comes to accept Clorox bleach as her personal saviour. Appropriately, this MMM ad appeals to a closer, Russian Orthodox context: as the individuals who make up the Russian *все* each, in turn, look up and display their profiles to the camera, their poses effortlessly switch from the casual to the iconic, and each one basks in the reflected halo of corporate transfiguration.

Eventually, the advertisers lifted the veil of mystery from their product, and MMM was revealed to be an investment group. This, however, was no ordinary fund: first of all, it did not involve the direct purchase of stocks. Instead, MMM’s “partners” bought pieces of paper that gave them redemption rights to stocks, which in turn might someday earn dividends. Most investors never redeemed their paper for actual stock; instead, the paper itself was the source of unheard-of profits. MMM newspaper ads repeatedly crowed that “our shares are guaranteed to be liquid”—they could be bought and sold at any time. Moreover, whereas the new capitalist stock market was a source of potential anxiety for consumers who were only just being weaned from a planned economy, MMM’s shares came with a guarantee: not only would they

always go up in price faster than the rate of inflation, but, in the best traditions of Gosplan (the Soviet governmental entity in charge of central economic planning), their future value was announced several days in advance. There was, however, no rational explanation for such profits; certainly, no investments in Russia at the time could yield such returns, nor could the currency markets (despite the inexorable decline of the ruble); even drug trafficking was less lucrative than the 3,000% annual dividends promised by MMM.

Although a number of hypotheses have been proposed to explain MMM, the prevailing mode is quite simple: it was a pyramid scheme that operated on an elegant and simple premise: if enough people were convinced to buy the shares at 1,000 rubles (the original price), even more investors could be persuaded to buy them at 1,200. Some of those who bought in at 1,000 took their money and ran, but others kept it in because the price went up as promised, suggesting further profits. When the company increased the price again, its proven track record of profitability lured new buyers, whose higher investment paid off the old buyers. In a pyramid, old investors are paid off thanks to new investments, but pyramids usually collapse when the price for new stocks gets too high to be affordable, driving down the number of buyers and, eventually, the value of the shares. Shareholders panic and ask for their money back, but the company cannot oblige: the stock undergoes a kind of physical sublimation, and “guaranteed liquidity” gives way to hot air. Investors can certainly make money on pyramids, but only if they get in early enough, since the scheme is based on an inflationary spiral. To put it bluntly, pyramid schemes function very much like a notoriously unreliable method of contraception, in which a calamitous outcome can be avoided only given a timely withdrawal.

### *Playing the Market*

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Since MMM was trying to soak up the paltry savings of engineers and pensioners, the heroes and heroines of the company’s mini-melodramas were carefully designed to be ordinary: “New Russians” need not apply. Thus Russia was introduced to its new national hero, a man who would displace the butterfly as MMM’s primary symbol: Lenia Golubkov, construction worker. Lenia Golubkov was a cross between a Horatio Alger success story, a Russian fairy tale, and a socialist realist nightmare. If the much-maligned protagonist of the socialist realist novel developed an unhealthy attachment to his tractor, machine operator Lenia Golubkov, the Soviet hero’s capitalist grandson, was

only too happy to strike it rich and give his unlamented excavator a divorce. When first we meet Lenia, he is a typical working stiff who jumps at the chance to buy МММ shares and make money from thin air. Initially, his goals are small, hence the oft-quoted refrain from Lenia's first commercial: "Куплю жене сапоги" (I'll buy my wife some boots . . .). The boots are followed by a fur coat, a dacha, and even, eventually, a trip to California to attend the World Cup soccer championship: indeed, Lenia needed a "family growth chart" to keep track of his burgeoning wealth through 1993, all thanks to МММ. As numerous commentators pointed out at the time, Lenia is a postmodern Ivanushkadurachok (Ivan the Fool), a fairy-tale hero who found the secret to success that involved no effort on his part.

Lenia was quickly joined by an equally colorful supporting cast: his plump, fur-clad wife and his tattooed brother Ivan often shared the camera with him. But there were also other heroes, each designed to appeal to different segments of the audience: Nikolai Fomich and his wife, Elizaveta Andreevna, pensioners who can barely make ends meet. What can possibly save them, other than МММ? Igor and Iuliia, the young, party-loving would-be entrepreneurs of the МММ-TV generation, advise their friends to invest in МММ in order to make money to pay off a business debt. And, of course, there was Marina Sergeevna, a lonely, single woman of a certain age. As we see her leaving her apartment, the announcer tells us that "Марина Сергеевна никому не верит" (Marina Sergeevna trusts no one). Even though she has seen МММ's commercials, she is on her way to the Sberbank to give her hard-earned rubles to the state-owned entity that has defrauded its customers so many times. One of her neighbors tells her about her own success with МММ, and finally she is convinced to put part of her money in the bank and invest part in МММ. A nervous week goes by, and Marina Sergeevna cashes in her shares at an МММ trading point in order to receive the promised profit. Her reaction: "Надо же, не обманули!" (How about that! They were telling the truth!) To which the announcer responds, "Правильно, Марина Сергеевна!" (That's right, Marina Sergeevna!) Like the Wizard of Oz, МММ provides something for everyone: a dog for Nikolai Fomich, a pair of boots for Lenia's wife, and even new love for Marina Sergeevna. Just as Vladimir Zhirinovskiy would promise to personally console all of Russia's lonely women with his sexual favors, Marina Sergeevna not only gains much-needed cash, she also meets a man, Volodia.

ANNOUNCER: Marina Sergeevna arrived at her friend's birthday party. But she didn't come alone. There were congratulations. And, as is the custom, they drank and had snacks. Then they danced. And then they talked. The men had their own conversations, and so did the women.

WOMAN: You're so lucky, Marinka! How I envy you! How I envy you, how I envy you!

ANNOUNCER: Marina! You do have something worth envying. А/О МММ.

Ведущий: Марина Сергеевна пришла на день рождения к своей подруге.

Но не одна. Звучали поздравления. И, как водится, выпивали и закусывали. Потом были танцы. Ну, а потом разговоры. У мужчин—свои.

А у женщин—свои. Женщина: Счастливая ты, Маринка. Я так тебе завидую! Так завидую, так завидую!

Ведущий: Марина! И есть чему позавидовать А/О “МММ.”

Marina Sergeevna's friend feels compelled to express her envy three times in a row. While one might be tempted to ascribe this repetition to the laziness of the script writer, this folkloric triple invocation of envy is actually the key to the commercial. One of the appeals to socialist ideology (if not Soviet reality) is that it promises to eliminate envy by eliminating discrepancies in wealth: while the Soviet Union was hardly egalitarian, the conspicuous consumption of the post-Soviet New Russians has provoked the scorn (and envy) of the majority of citizens still hovering around the poverty level. Marina Sergeevna's economic success is portrayed almost exclusively in terms of her personal happiness, which may be “worth envying” but could hardly invite the hostility so often provoked by wealth. Moreover, even as the woman “envies” Marina Sergeevna, she is also able to celebrate with her, to share in her happiness. To some extent, this is an oblique expansion on Mavrodi's euphemism for his investors: “partners.” МММ struck a devious compromise between the values of state socialism and “wild” capitalism: the success of individuals spreads happiness to everyone around them.

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### *МММ as Shadow Cabinet*

Of course, the greatest challenge to Golubkov's creators was the pyramid's collapse in the summer of 1994. As the value of МММ's shares continued to rise, the government intensified its scrutiny of the company's operations. On July 18, the State Anti-Monopoly Commission urged television stations to stop broadcasting МММ's commercials, but the plea fell on deaf ears; 2,666 МММ ads had aired on Russian television in March, April, and May 1994, bringing financially strapped stations much-needed cash. Of far greater consequence was an announcement made by the Tax Inspectorate three days later: МММ's subsidiary Invest-Consulting owed 49.9 billion rubles in taxes, payable imme-

diately. Mavrodi responded the next day (July 22) by upping the ante: if forced to pay, he would shut down MMM and let the government deal with his outraged shareholders. By the time MMM shut down all its trading offices on July 26, panic had already erupted. Huge crowds gathered outside the company's main office on Varshavka—from two to three thousand people on July 26 to an estimated thirteen thousand the following day. Independent dealers were already buying up MMM shares at 65,000–75,000 rubles on the twenty-sixth, down from 115,000–125,000 before the crisis began. Typically, the government and MMM moved to calm down the unruly crowd in their own fashions: Mavrodi recorded a soothing message, while the authorities sent in OMON, the “special forces” that are as inevitable in any post-Soviet mass crisis as a chorus is in a Greek tragedy. On July 29, MMM, laying the responsibility for the panic entirely at the feet of the government, announced that circumstances had forced it to drop the official price of MMM's shares from 115,000 rubles to 950. By evening, the crowd had stopped traffic on Varshavka, and only OMON could restore order. The next day, Mavrodi issued new MMM “tickets,” which the Ministry of Finance announced it would not recognize; for its part, MMM designated these tickets “promotional material”—truth in advertising at last, even if only in the fine print. The new tickets also differed from their predecessors in bearing the likeness of Sergei Mavrodi himself, a wise move from the standpoint of publicity, if not aesthetics, for it suggested that MMM's founder had no plans to try to slip out of the country unnoticed. The tickets' official rate was 1,065 rubles, and despite the assault on MMM's reputation, brisk trading began.

One would think that the results of a battle between the central government and one private company would be a foregone conclusion, and yet the government's campaign against MMM was foundering, at least in part because it did not know how to fight an enemy based entirely on image rather than substance. The government's lack of comprehension of the rules of the narrative game was a definite obstacle to its belated attempt to clamp down on MMM's operations, and it allowed Mavrodi to outmaneuver his enemies every step of the way. As a result, officials made themselves look foolish when they engaged in a war not just with the company, but with its fictional creations as well. One of the more memorable moments came when Prime Minister Viktor Chernomyrdin addressed Marina Sergeevna and Lenia Golubkov on national television, warning them that they should be more careful with their money. Mavrodi then turned the tables on Chernomyrdin: “So, the authorities do not like Lenia Golubkov and Marina Sergeevna,” he responded in the nation's newspapers. “But do Lenia Golubkov and Marina Sergeevna like the authorities? No one's asked about that. Yet.” If the prime minister and Mav-

rodi were engaged in a war of words, then Chernomyrdin was well on his way to defeat. He had already ceded important rhetorical ground by invoking MMM's characters as if they were real: in his response, Mavrodi also referred to Lenia and Marina Sergeevna by name, but their enemies, "the authorities," remained abstract. As a result, MMM's heroes not only appeared to be classic "little men" victimized by inhuman bureaucratic forces, they also seemed more "real" than the nameless governmental authorities who opposed them. Moreover, Mavrodi's words contained a thinly veiled threat: if the government closed down MMM, then Mavrodi's "partners" would get their revenge at the ballot box.

Indeed, as events unfolded over the next two years, it became more and more clear that MMM and its "partners" were styling themselves as an alternative not only to the current "party of power," but to the Russian state itself. Mavrodi claimed that MMM was the most powerful political force in the entire Russian Federation, large enough to gather the one million signatures needed to call a referendum on the current government and the constitution. Yeltsin's government was particularly vulnerable at that point, having just put the country through an almost interminable four-question referendum process in a failed attempt to resolve the country's constitutional crisis. By August 8, Mavrodi's "partners" were openly talking of nominating him for president. If only a few years ago the greatest threat to Yeltsin's government seemed to be from the Communists, now MMM appeared to be on its way to taking over the mantle of the opposition: when diehard Communists organized a demonstration commemorating the failed coup attempt against Mikhail Gorbachev on August 19, an MMM rally held on the same day had a far greater turnout.