PUTIN AND THE OLIGARCHS

Peter Rutland

[Forthcoming in Stephen Wegren (ed.) *Putin's Russia* (Rowman and Littlefield, 3rd edition, 2009]

The age of the oligarchs as a political class came and went. Ten years ago, they seemed to have seized control of the commanding heights of Russia's economy and its political institutions. But just as quickly as they appeared, they retreated, in the face of Vladimir Putin's assault at the head of a rejuvenated Russian state. Was oligarchic rule a feasible option for Russia, or was it only a transitional phase? What is the role that the oligarchs play in Putin's Russia? Are they a boon, or an obstacle, to democracy?

According to Aristotle, oligarchy, which he defined as rule by the wealthy few, was the least stable and hence least desirable form of government. Oligarchs were sufficiently few in number to easily collude to promote their private interests against the public interest. This danger has animated a distinguished line of political thinkers from James Madison on. At the same time, oligarchs are too numerous, and their interests too mutually antagonistic, to be able to come to a stable consensus on public policy. Hence Aristotle argued they would soon be displaced by an autocrat, or an aristocracy – a small group that differs from an oligarchy in being based on heredity and virtue, as opposed to the haphazard accumulation of wealth that is characteristic of an oligarchy.

Aristotle's warning that oligarchy is inherently unstable seems to have been borne out by the Russian experience since 1991. The Russian oligarchs came out of existing (and rapidly expiring) Soviet era institutions – such as academic institutes, or the Komsomol (Young Communist League). They essentially started as individuals, but quickly created a network of institutions for the purpose of factional collusion – saunas, tennis clubs, private restaurants. The oligarchs did not have the opportunity or capacity to form a core set of shared values, they did not have the experience of being raised and educated as a cohesive elite. This is a point of difference from the established oligarchies that have effectively ruled countries in Latin America, the Philippines or Japan for decades. Thus Russian oligarchy seems to be a political-economic model as yet unable to reproduce itself over time, a one-shot phenomenon that arose in the chaos of the Soviet collapse and that retreated as the Russian state reasserted its authority.

The economic background

The Russian economy has gone through a wrenching decade, with unpredictable developments that brought risk and opportunity in equal measure. Economic recovery was disrupted by a series of political crises: the struggle for power between President Boris Yeltsin and the parliament in 1992-93, Yeltsin's bid for re-election in 1996, and the search for a successor in 1999. These were interspersed with economic crises: privatization scandals, bank crises, and above all the August 1998 financial crash. After 1998, the crises seem to have receded, and GDP has been growing at around 7 percent a year. But fear of a return of the earlier chaos still shapes the mind-set of many political and economic actors, to which has been added a new fear – of growing state authoritarianism. The global financial crisis that hit Russia in the summer of 2008 revived doubts about the sustainability of Russia's energy-driven economic development model.

Two positive trends nevertheless emerged during the 1990s. First, Russia became a market economy, albeit one with "Russian characteristics." The centralized, command economy was dismantled. Seventy percent of economic activity now takes place in legally independent private corporations, and price controls on most goods have been abolished.[1] (The most important

[1] Anders Aslund, *Russia's Capitalist Revolution* (Washington, DC: Petersen Institute, 2007).

exception is the price that Russian consumers pay for natural gas, electricity and housing utilities.)

Second, Russia has become much more integrated into the global economy than was the Soviet Union. Trade went from 17 percent of GDP in 1990 to 48 percent in 2004.[2] And most of Russia's trade is with Europe, not with the former Soviet states. By 2007 the Commonwealth of Independent States only accounted for 15 percent of Russia's export and 23 percent of its imports.

The main question mark hanging over Russia's economic future is that of governance. In the 1990s Russia gave birth to several dozen successful and internationally prominent business corporations. In 15 years Russia went from a society where entrepreneurship was a crime, to one which had produced 36 individual dollar billionaires by 2004, the third highest number in the world.[3] In a World Bank sponsored study of industrial concentration, the country's 23 largest firms were estimated to account for 30 percent of Russia's gross domestic product in 2001, and those firms were effectively controlled by a mere 37 individuals.[4] A 2005-06 study of a sample 1,000 firms similarly found that 35 percent had a single majority shareholder.[5] By international standards, this is an astonishing concentration of wealth and industrial power – all the more so given that Russia is a large country, with the world's eighth largest economy. It was all the more surprising given the fact that private ownership had been outlawed during the decades of Soviet rule. Not a single capitalist had existed legally in the country just 15 years earlier.

Western observers were initially uncomfortable with the rise of the oligarchs, whose ascendance coincided with a wave of lawlessness, contract killings and grotesque displays of wealth. At least the appearance of the oligarchs seemed to refute the argument that Russians were innately incapable of behaving like entrepreneurs, of taking risks and reaping the rewards. Soon, Western economists were arguing that the oligarchs were playing a necessary role in creating the Russian market economy, akin to the US robber barons of the late 19th century.[6] Some economists have argued that the concentration of ownership in individual hands is a rough and ready solution to the problem of enforcing property rights in absence of strong rule of law.[7] The oligarchs pushed out communist-era bureaucrats and managers, and in the pursuit of personal gain they turned the sow's ear of soviet enterprises into the silk purse of profit-seeking firms. Liberal reformers such as Prime Minister Yegor Gaidar were convinced that the oligarchic capitalism that they helped to construct in Russia beat the alternative – which they portrayed as a return to central planning.[8]

But to function in the textbook manner, free markets require multiple producers and free entry of new firms, plus a set of institutions that were conspicuously absent in Russia (rule of law,

---

[2] World Bank, *From Transition to Development*, (April 2004), www.worldbank.org.ru. The 48 percent share in part reflects the under-valued exchange rate. The World Bank's purchasing power estimate for 2002 boosted Russian GNI from $306 billion to $1,165 billion. This would accordingly reduce the share of trade in GDP.

[3] "Rising tide," *Forbes*, March 15, 2004. The magazine counted zero Russian billionaires in 2000, and 17 in 2003, based on an estimate of their assets.

[4] The study was conducted in 2003 and was looking at company structure as of 2001. Sergei Guriev, and Andrei Rachinsky, "Oligarchs: the past or the future of Russian capitalism?," Moscow, Moscow, Cefir, June 15, 2004. www.cefir.org/papers

[5] Sergei Guriev, et al, "Corporate governance practices and prospects in transition countries', Moscow, Cefir, June 28, 2007. www.cefir.ru/papers

[6] Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia* (Cambridge, MA, MIT Press, 2001).

[7] Olga Lazareva, et al, "A survey of corporate governance in Russia," Moscow, Cefir, Working Paper no. 103, June 2007, p. 13.

[8] Yegor Gaidar, *Collapse of an Empire: Lessons for Modern Russia* (Washington, DC, Brookings Institution, 2007).

free press, banking system, regulatory agencies, etc.) No matter. The reformers assumed that oligarchic capitalism was a transitional phase, one that would give way to liberal capitalism after the economic system had matured. Once the oligarchs had accumulated some wealth, they would have a strong personal interest in seeing the rule of law take hold, in order to protect their wealth from the next wave of oligarchs. They would not want to go through life looking over their shoulder at the next asset-stripper, driving around in columns of heavily-armored vehicles, and hiding their families from kidnappers behind high dacha walls and on foreign estates. The counter-argument was that the oligarchs had a vested interest in trying to preserve the status quo of partial reform, since further liberalization would compete away their oligopolistic profits.[9]

However, the structure of ownership in the new Russian economy was very opaque. The security of the property rights of the new captains of Russian industry was unclear, and under President Vladimir Putin the state seemed bent on reasserting its control over Russian industry. The key turning point was the arrest on October 25, 2003 of the richest man in Russia, Mikhail Khodorkovsky, the head of Russia's largest oil company, Yukos. Khodorkovsky was subsequently sentenced to eight years in jail for tax evasion.[10] One could not ask for a more vivid illustration of the limits of business independence in Russia. The fact that business evolved into a narrow oligarchy made it relatively easy for the state to recapture the commanding heights of the economy under Vladimir Putin. Even as late as 2003, most observers assumed that the system of oligarchic capitalism had stabilized: few foresaw Putin's crackdown. But since then a new model of state capitalism has emerged in Russia.

The rise of the oligarchs

With the collapse of the USSR in December 1991, a huge void of political and economic power opened up in the post–Soviet Union. Key institutional structures such as the Communist Party and the central planning system were dismantled, and the new entities that emerged in their wake (the presidential administration, the State Committee for the Administration of State Property, regional governors) were hard-pressed to expand their effective zone of control.

In the chaos of transition, power shifted from formal political institutions to informal networks of influence among individuals who had political connections or economic resources at their disposal. While market forces penetrated large sections of economic activity, the Russian economy was only partially marketized by the liberalization reforms. A whole parallel barter economy sprang up, accounting for perhaps half of all business-to-business transactions.[1] The interface between polity and economy was mediated by corruption and mutual favors, instead of political orders as under the old regime.

The first period of chaotic liberalization in 1992 saw the rapid emergence of a multitude of independent economic actors – from street traders, who were now allowed to buy and sell in public markets, up to factory directors, now free to manage their still state-owned factories without supervision by central planners. They often seized the opportunity to route sales through intermediary firms that they (or their relatives) owned, enabling them to skim off the profits from the firm's operations. This process saw a leakage of power from state to non-state actors, and from the federal center to the regions. Individual regional leaders signed bilateral "treaties" with President Boris Yeltsin on the division of responsibilities with the federal center, beginning with Tatarstan in 1994. (By 1996 46 of Rusia's 89 regions had signed such treaties.)

This early period also saw the breakdown of respect for the law and a surge of crime and corruption. Alarmingly, businesses started using criminal groups and not the courts to enforce

---

[9] Joel Hellman, "Winners take all. The politics of partial reform in post-communist transitions," *World Politics*, no. 50 (January 1998), pp. 203-34.
[10] Natalya Byanova and Andrei Litvinov, "Russian pogrom against the oligarchs," *Gazeta*, December 24, 2003.

contracts and secure their property rights.[11] This criminalization of Russian business was a highly volatile process that opened the door to a later counter-offensive by state security organs. The lack of a firm legal basis for their rapidly-acquired wealth made the new business elite vulnerable to attack by the state, the guardian of legality The rapidity and rapaciousness of their enrichment meant that they lacked a strong social basis of support, such that when the state came knocking on their door it would be with strong public approval.

The first phase of "wild privatization" was followed by a period of gradual consolidation. More powerful competitors pushed out their weaker rivals, and economic power was concentrated in the hands of a small number of individuals. These figures headed business corporations, but had close connections to the political leadership at national or regional level. Russia had dismantled an autocracy, but instead of rule by the many (democracy) it had arrived at rule by the few (oligarchy).

Most of these oligarchs headed private corporations formed on the basis of former state enterprises, such as regional oil companies, banks or metallurgical plants. They typically made their first million through commodity trading, importing scarce goods or financial brokering, and then grew by acquiring state assets as they were privatized.[12] Most of the first wave of oligarchs was concentrated in the banking sector. (See Table One) Banking was a lucrative business since the banks served as intermediaries reaping profits from Russia's booming natural resource exports, exploiting the gap between the ruble-denominated domestic economy and the dollar-denominated foreign trade. Also banks were the main vehicle for the many of the most lucrative privatizations of state-owned assets.

[INSERT TABLE ONE ABOUT HERE]

A pivotal event in the transition to oligarchy were the loans for shares auctions in 1995-96, when key firms such as Norilsk Nickel and the Sibneft oil company were sold off at bargain prices to politically-favored businessmen. The auctions were rigged to exclude competitive bidding, and were structured in the form of a loan to the state treasury against which the company's shares were pledged as collateral – to avoid giving the impression of a direct sell-off of state assets. After one year, if the loan was not repaid, the new owner could take possession of the shares. The scheme was introduced by presidential decree: there was no way that the opposition dominated State Duma would have approved of the scheme. In return, these oligarchs helped Boris Yeltsin win re-election in June 1996 by putting their financial and organizational resources at the president's disposal. Above all, it was the mobilization of their press and TV empires which pulled Yeltsin through to victory.

The oligarchic consolidation in 1994-96 coincided with a degree of macroeconomic stabilization. Inflation came down from 1500 percent in 1992 to 25 percent in 1996 and 12 percent in 1997. GDP even recorded slight growth of 0.7 percent in 1997, after seven years of decline. It was at this point that the term "oligarch" entered the Russian political lexicon.[13] In spring 1997 the word was taken up by Boris Nemtsov, a deputy prime minister who was pushing for a new round of liberal reforms, along with fellow deputy premier Anatolii Chubais. Nemtsov

[11] Federico Varese, *The Russian Mafia* (New York: Oxford University Press, 2002).
[12] See Rose Brady, *Kapitalizm: Russia's Struggle to Free its Economy* (New Haven: Yale University Press, 1999); Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* (New York: Crown Business, 2000); Paul Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia* (New York: Harcourt, 2000); Li-Chen Sim, *The Rise and Fall of Privatization in the Russian Oil Industry* (Palgrave Macmillan 2008).
[13] The word "oligarch" was first used by Aleksandr Privalov of *Ekspert* magazine, who started a regular poll of elites, publishing rankings of who were seen as the most influential political and business figures. Olga Romanova, "Novosti," *Vedomosti*, January 29, 2002.

and Chubais wanted to cut corruption and introduce more competition into the “crony capitalism” that had been forged between the newly-emerged oligarchs and the weakened state.

The 1997 reform drive failed in the face of energetic opposition from regional governors and business oligarchs, who mobilized their supporters in the State Duma. Moreover, the macroeconomic stabilization proved illusory. The government was borrowing heavily to cover its budget deficit, and the Asian financial crisis in 1997 caused a slump in world oil prices that eroded Russia’s current account surplus. That led to a run on the ruble and the dramatic devaluation and debt default in August 1998, during which most private banks collapsed and the ruble lost 75 percent of its value.

The demise of oligarchic capitalism was due to deep contradictions in the model, and not merely contingent factors such as Yeltsin’s incompetence or the August 1998 financial crash. Two contradictions stand out. First, the oligarchs were parasitic on the Russian state. They were draining it of assets and revenues, to the point where the soaring budget deficit and profiteering from high-interest treasury bonds helped trigger the 1998 crash. Second, the oligarchs lacked a political strategy for legitimating their rule in the eyes of the Russian public. The cynical manipulation of public opinion through campaign shenanigans and pre-election budget spending may have secured Yeltsin’s re-election in 1996, but there was no guarantee that such tactics could work in each future election. Third, the oligarchs were deeply divided among themselves. They did not trust each other, fighting bitterly for example over the privatization of the telecom holding company Svyazinvest in summer of 1997.

They were also split over the Yeltsin succession. The oligarchs did not have an institutional procedure for resolving disputes among themselves. The only “mechanism” they had was appeal to Boris Yeltsin. Given that Yeltsin was physically incapacitated for most of the time, this meant they competed for the favor of the Kremlin courtiers (the “Family”) who controlled access to the president. Yeltsin’s second and final term as president was due to end in March 2000, and the oligarchic system did not have any procedure in place for picking a successor.

Thus at the end of the Yeltsin era, Russia’s evolution towards what is regarded in the West as a “normal” market economy was stalled in midstream. Powerful leaders had a vested interest in preserving the status quo, and there was no significant coalition of groups with a stake in further reform. The economy had been sufficiently liberalized to enable the oligarchs to enrich themselves, but not so much as to expose them to effective competition (from foreign companies, for example). This situation was inefficient and morally indefensible, but it was unclear whether or not it was politically and economically stable. Could it continue indefinitely, or would it require a fresh round of market reform? In the end, Russia moved in an unexpected third direction, neither the status quo nor a resumption of reform – the return of state control.

Putin takes control

Yeltsin went through a series of prime ministers in 1998-99, searching for a reliable successor who could maintain the political system that he had created. In August 1999 he appointed Vladimir Putin as Prime Minister, and after a wave of apartment house bombings the next month, attributed to Chechen terrorists, Putin sent federal forces back into Chechnya.

The December 1999 State Duma elections were seen as a sort of presidential “primary”: it was assumed that the leader of the winning party would be well placed for a run at the presidency. The oligarchs funded rival parties which fought a bitter and dirty media campaign. The Kremlin slapped together a pro-Putin Unity party which managed to win second place after the Communists. Yeltsin then pre-empted the race for the presidential succession by resigning ahead of schedule on 31 December 1999, nominating Putin as acting president. Putin proceeded to sweep the March 2000 presidential election.

Putin said that his intention was to continue market reform and not to revisit Yeltsin’s privatization program. It looked as if Putin wanted to strengthen the power of the state but not break the pluralistic character of the system as a whole.[14] Adding to the sense of continuity was the fact that many key figures from Yeltsin's inner circle were kept on, such as chief of staff Aleksander Voloshin and Prime Minister Mikhail Kasyanov. It was also noteworthy that Putin retained the services of Anatolii Chubais, the former privatization chief and for many on the left the most hated face of the Yeltsin reforms. Putin kept Chubais on as head of the electricity monopoly Unified Energy System (RAO EES). Putin tasked him with privatizing the firm – Russia's biggest company: a project which was to stretch out over eight years.

Putin proved more independent than many observes had supposed, and he moved swiftly to distance the oligarchs from the center of political power. In the summer of 2000 Putin seized control of the two national TV stations owned by Boris Berezovsky and Vladimir Gusinsky, driving them into exile.[15] This was accomplished by sending in the tax police and threatening them with long jail terms. Most of the other oligarchs assumed that so long as they kept away from mass media (television in particular) it would be business as usual.

Still, some of the oligarchs envied the power of the president. In spring 2003 Mikhail Khodorkovsky, the founder of the Yukos oil company and the richest man in Russia, started signaling his interest in a political career. Rumors began circulating that Khodorkovsky intended to run for the presidency in 2008 – if not in 2004. Yukos was active in buying the loyalty of Duma deputies, and did not hesitate to use its leverage to block legislation that it disliked, such as higher oil excise taxes and revisions to the 1995 law on production sharing (an arrangement that allowed approved foreign companies to recoup their investments in oil and gas fields before they started paying taxes). In the December 2003 State Duma election, Khodorkovsky poured money into parties across the political spectrum. Yukos-linked analysts were floating the idea of introducing a parliamentary system of government, in which the government would be answerable to the State Duma (presumably oligarch controlled) rather than to the president.[16]

On the economic front, Khodorkovsky tried to strengthen his position by adopting international accounting standards and adding Westerners to the Yukos board, with a view to offering a large stake in the company to a Western oil major.[17] This would enable him to cash out some of his share holdings, valued at their peak at $15 billion. To increase Yukos's attractiveness he tried to develop new export possibilities, outside the state-owned Transneft pipeline system. He pursued an agreement with China to finance a $3 billion pipeline to carry oil from Angarsk in Siberia to Daqing in China. He also mounted an aggressive international PR campaign, funding international charities, and getting himself appointed to worthy foundation boards, such as that of the International Crisis Group. He thought that these steps would make it too risky for Putin to take him down. But his strategy backfired. The more successful he was, the greater the threat he represented to the Kremlin. In the summer of 2003 Putin gave the green light for the arrest of Khodorovsky and half-a-dozen other Yukos executives, and the dismemberment of Yukos.

This set the scene for a sweeping victory for the pro-Putin United Russia in the December 2003 State Duma election. United Russia won 37.6 percent of the popular vote in the party-list race that fills half the 450-seat chamber, giving them 120 seats, plus another 126 seats in single-mandate races. After the election 60 independents who won in single-seat races joined United Russia, raising their numbers to 304 – above the two-thirds majority required to change the constitution. The Yukos affair also led to the departure of the remaining key members of Yeltsin's "Family" from the Kremlin. Chief of Staff Voloshin resigned in November 2003 shortly

[14] Natalya Astrakhanova, "Natural clan selection," *Ekspert*, no. 46, December 2001.
[15] Christian Caryl, "Twilight of the oligarchs," *Newsweek International*, February 5, 2001.
[16] "Oligarkhi-zagovorshchiki," *Stolichnaya vechenyaya gazeta*, 29 May 2003; Sovet po natsional'noi strategii, "V Rossii gotovitsya oligarkhicheskii perevorot," www.utro.ru, May 26, 2003.
[17] Lyudmila Romanova, "O strategii Khodorkovskogo," *Mirovaya energeticheskaya politika,* May 31, 2003, pp 18-21. Exxon was assumed to be a likely candidate.

after Khodorkovsky's arrest, and Putin fired premier Kasyanov one month before the March 2004 presidential election.

The oligarchs underestimated Putin's power and his political acumen. Putin had the vast resources of the Russian state at hand, a cornucopia of sticks and carrots that soon won the loyalty of virtually all the regional bosses and business leaders. The security apparatus of the Soviet state, the renamed Federal Security Service, had shrunk in size, but was still intact and eager to expand its sphere of action once its former leader became president. Putin also enjoyed huge popular legitimacy, having been directly elected in March 2000, and again in March 2004, and maintaining approval ratings above 70 percent in the intervening period.

The new business corporations were very powerful political actors, with considerable economic resources and direct access to the political power elite. But the headlong speed of their rise meant their popular legitimacy was fragile and their base of support in society very narrow.[18] In Russia both the state and society are suspicious of business, a value orientation that has deep roots in Russian culture. This was true in the Tsarist period, in Soviet times, and in the post-Soviet era. In each period, the rationale behind the hostility shifted in a new direction, but in all three periods big business was associated with injustice and exploitation. According to a 2003 ROMIR poll, 45 percent considered the influence of big business on the economy was negative and only 25 percent saw it as positive. Their influence on politics was seen as negative by 49 percent and positive by 17 percent.[19] In a FOM poll of June 2003 71 percent agreed with the statement that you cannot earn a lot of money without breaking the law.

Oligarchs aside, public attitudes towards the market economy and business in general are quite positive. In one late 2004 survey 65 percent of respondents below pension age expressed approval of the market economy, and only 15 percent disapproval. Among pensioners, the corresponding figures were 34 percent and 42 percent.[20] On the other hand if asked to choose between a stronger state and developing private enterprise, the state prevailed by 82 percent to 12 percent.

The main obstacle to the spread of market competition is the delayed privatization of the electricity industry. Before privatization can succeed the prices paid by consumers need to be raised, in order to make regional electricity companies attractive to private investors. Ever since 1991, some of the rents from energy exports have bee channeled to subsidize Russian households and domestic manufacturers. The main vehicle for cross-subsidization is the maintenance of artificially low prices for domestic consumers of gas and electricity. The biggest beneficiaries have been the energy-intensive metals producers, who have enjoyed an export boom thanks to electricity prices which are one quarter of those in Europe. As of March 2008 Gazprom was only permitted to charge $60 per 1,000 cubic meters of gas to domestic industrial customers and $50 for households, while export prices had reached $370.[21] The national electricity holding company RAO EES was officially dissolved in July 2008, but the new private regional energy companies are struggling because prices are still regulated, and are too low to finance investment to replace the ageing capital stock.

---

[18] Sergei Peregudov, "Korporativnyi capital i instituty vlasti," *Polis*, no 5, 2002; Sergei Peregudov, *Korporatsiya, obshchestvo, gosudarstvo*, (Moscow: Nauka, 2003).

[19] N.I. Gorin et al, "Obshchestvo, biznes, vlast'," *Obshchestvo i ekonomika*, no. 12, December 2003, pp. 36-63. The only "positive" element in these polls is that respondents are just as suspicious of state officials as they are of businessmen.

[20] Alexander Kolesnichenko, "No aversion to private enterprise," *Novye Izvestiya*, March 4, 2005. Survey of 15,000 Nov-Dec 2004 by Romir and the Social Projects Institute.

[21] Putin meeting with Gazprom Board Chairman Aleksei Miller, March 14, 2008, www.kremlin.ru; http://eng.gazpromquestions.ru/index.php?id=5

Business strategies

At the end of the Yeltsin era, Russia's evolution towards what is regarded in the West as a "normal" market economy was stalled in midstream. Powerful leaders had a vested interest in preserving the status quo, and there was no significant coalition of groups with a stake in further reform. The economy had been sufficiently liberalized to enable the oligarchs to enrich themselves, but not so much as to expose them to effective competition (from foreign companies, for example). This situation was inefficient and morally indefensible, but it was unclear whether it was politically and economically stable. Could it continue indefinitely, or would it require a fresh round of market reform? In the end, Russia moved in a third direction – the return of state control.

In retrospect, we can see that oligarchic capitalism was highly unstable, since the economic fate of the individual oligarchs was too closely tied to the course of state policy. Who would be given the right to acquire the remaining assets of state industry as they were put up for privatization? For how long would the government retain control over the "natural monopolies" such as the railways, Gazprom, Unified Energy System, the oil pipeline operator Transneft, Gazprom, the telecom holding Rostelecom? How could the public be persuaded to bite the bullet and accept postponed but necessary reforms of the taxation system, cuts in social benefits and increases in utility prices?

Yeltsin's political economy was built around horizontal bargaining between a plurality of actors, and it did not provide a clear and decisive answer to any of these questions. Putin replaced Yeltsin's system with a centralized, authoritarian hierarchy, what came to be called the "power vertical." By 2004 it was increasingly clear that the Yeltsin regime had given way to a system of what we may as well call "state capitalism." Aleksei Zudin argues that Putin set out from the very beginning with such a goal in mind: to fundamentally weaken the oligarchs and turn them into a subordinate group, an instrument of state rule.[22] Sergei Peregudov in contrast sees more of a balance, an "iron triangle" of a bureaucratic elite, the presidential apparatus and business corporations.[23] There is no doubt that the oligarchs had the ability to veto certain policy initiatives during Putin's first term, thanks to their influence in the State Duma.[24] But the Yukos affair destroyed this balance.

What, then, is the role of business in the state capitalist system which Putin has fashioned? Albert Hirschman famously analyzed the basic political options as exit, voice and loyalty.[25] The oligarchs certainly had an exit strategy: they could always cash out and vacation on the French Riviera, or buy a British soccer team. Roman Abramovich is the poster child for the internationalization of the Russian oligarchy. He acquired a a "navy" of luxury yachts, including one that cost an estimated $300 million. He spent a similar amount acquiring Chelsea soccer club and buying up top players. But pride, greed and patriotism prevented some of the oligarchs from exercising the exit option. "Voice," meaning organized political activity in defense of their interests, was gradually squeezed out of the range of options by Putin's systematic restoration of the "power vertical" – beginning with the TV stations, continuing with the State Duma election and ending with the abolition of elected governors.

That leaves "loyalty" as the only available strategy. It is not only that oligarchs must now be personally loyal to the Kremlin and stay out of politics. They must conduct their business in more transparent way, following Russian laws and paying Russian taxes. They are also expected

[22] Aleksei Zudin, "Neokorporatizm v Rossii?," *Pro et Contra*, vol. 6. no. 4, 2001.
[23] Peregudov 2002, *op. cit*.
[24] Roland Nash, chief strategist, Renaissance Capital, "Who needs politics anyway?," Prime Tass, December 17, 2003.
[25] Albert Hirschman, *Exit, Voice and Loyalty. Responses to Decline in Firms, Organizations and States* (Cambridge, MA: Harvard University Press, 1970).

to play an active role in helping the Kremlin to realize its political, economic and social agenda, dipping into their coffers to subsidize Kremlin-approved social programs.[26]

The Yukos affair dramatically revealed that the tax inspectors, the courts and the security services are all willing tools of the Kremlin. The introduction in 2000 of seven federal districts headed by presidential representatives restored the president's ability to exert direct control of the power organs in all regions of Russia. In the absence of clear property rights that can be defended in independent court system, Russian business remains very vulnerable to state pressure.

Businesses had various strategies to insulate themselves from such uncertainties. They have actively pursued vertical integration, seeking to protect themselves by controlling the entire production cycle (eg. metal companies buy ports to ensure the security of their exports). They tried rooting themselves into regional bastions, buying off regional administrations, if not running for governor themselves.[27] That door was slammed shut with Putin's surprise decision to abolish elections for regional leaders in September 2004, a step ostensibly taken in response to the Beslan school crisis. In future all governors and republic presidents will be nominated by Putin, subject to approval by regional legislatures.

Then there is the international dimension. The Russian political economy was not a closed system. It was very open to international influences and opportunities. Both Putin and his oligarch rivals sought international support as part of their strategy to acquire and consolidate power. This made the balance of forces between Putin and the oligarchs inherently unstable and unpredictable. Not all the relevant variables and actors were within the Russian Federation. At first the internationalization of business took the form of entrepreneurial activity to take advantage of the vast gulf between Russia's domestic prices and global prices by importing manufactured goods and exporting resources. That was accompanied by exploitation of the international financial system to hide revenue from Russian tax authorities through the use of shell-companies, off-shore bank accounts and transfer pricing. Some of the most detailed information about the extent of these practices has been coming out in the Yukos trial.[28] Even state-controlled institutions such as the Central Bank and Gazprom were heavily engaged in these activities in the 1990s.

Some of them also considered an exit-and-return strategy, thinking that the West could offer both political legitimation and practical financial support. This strategy was exemplified by Berezovsky and subsequently Khodorkovsky. However, the internationalization strategy failed. International condemnation was not strong enough to deter Putin from arresting Khodorkovsky and dismantling Yukos. An appeal to a Houston court against the bankrupcty of Yukos by its holding company, Menatep, did cause some Western banks to pull back from financing the purchase of its subsidiary, Yuganskneftegaz, in December 2004. But the Kremlin brazenly pushed ahead with the auction, using a phony subsidiary to transfer the assets to state-owned Rosneft, which was in the process of merging with Gazprom.

Some commentators expressed the expectation that the transition from Putin to Dmitry Medvedev in 2008 will lead to the restoration of a more open and pluralist system, noting that Medvedev had never served in the ranks of the Federal Security Service and espoused a strong commitment to engagement with the West. But the impact of the global financial crisis that erupted in the summer of 2008 made that look increasingly unlikely.

---

[26] Interview with Economic Development and Trade Minister German Gref by Vera Sitnina, *Vremya novostei*, December 22, 2003.

[27] Natalya Zubarevich, "Prishel, uvidel, pobedil? Krupnyi biznes i regional'naya vlast," *Pro et Contra*, vol. 7, no. 1, 2002.

[28] A Paris-based former Yukos associate, Elena Collongues-Popova, revealed details of some of the myriad offshore companies through which Yukos had allegedly evaded taxes: Jeanne Whalen, "A jilted banker's view of Khodorkovsky's empire," *Wall Street Journal*, January 2, 2004.

Russia's new capitalist elite

Even though Putin beat back the political challenge of the rising capitalists, the oligarchs as a class have not disappeared. On the contrary, under Putin they increased in number and saw their wealth multiply. Cases like Khodorkovsky and Berezovsky were exceptions, and did not presage the destruction of the capitalist class. They signaled the new rules of the political game, and capitalists who followed those rules were allowed to hold onto their businesses. Moreover, the political stability and economic growth which Russia experienced during Putin's presidency enabled them to increase their wealth many times over. The oligarchs benefited from the sustained boom in global oil and metals prices, and from Russia's surging economy and soaring stock market. An important element was global integration – roughly half of the money in the Russian stock market came from foreign investors, and Russian firms in turn were listing their shares on Western stock markets, and launching IPOs (initial public offerings) of their shares abroad. For example, in July 2006 Rosneft sold off 15 percent of its stock in an IPO on the London stock exchange, raising $11 billion. In 2007 foreigners bought $26.6 billion of assets inside Russia, while Russian firms spent almost as much – $23.3 billion – in foreign acquisitions.[29] Stock market capitalization rose to 44 percent of GDP by 2005, while the RTS index went from 300 in 2000 to 2,360 in December 2007.[30] By 2007 the market capitalization of the 200 biggest Russian firms was in excess if $1 trillion (one third of which was Gazprom).

Forbes magazine reported there were 33 individuals in Russia in 2006 with personal assets above $1 billion, the third highest number of billionaires in the world. Their ranks had risen to 87 by 2008, putting Russia in second place after the US.[31] (See Table Two) *Forbes* estimates their combined assets doubled from $90 billion in 2005 to $172 billion in 2006, and more than doubled again to $455 billion by spring of 2008. (Though the subsequent global crash wiped out at least half their wealth.) It is interesting to note that only a dozen or so of the oligarchs on the *Forbes*' 2007 list are based primarily in the oil and gas industry. Banking is the largest single source of wealth (much of that of course coming from the recycling of petrodollars). But there are also several dozen metals-based billionaires, and half-a-dozen coal tycoons. There are even oligarchs whose fortune is based in humble commodities such as cement or vodka. A new cluster of magnates whose wealth was generated in retailing and real estate has appeared in the last few years.

This all testifies to some degree of "spreading around" of wealth from the oil and gas sector (if not exactly "trickling down" to the mass of society). The sectoral and regional dispersion of the new capitalist elite suggests that it might not be so easy for Russia's hyper-centralized state and personalized decision-making process to monitor and control the activities of these 87 billionaires.

Of the original ten on the 1997 list, by 2007 one was in jail (Khodorkovsky), two were in exile (Berezovsky and Gusinsky), three had dropped out of the billionaire league (Smolensky, Vinogradov and Vyakhirev), and only four were still on the *Forbes* list – Potanin, Deripaska, Fridman and Aven. (The exiled Berezovsky was still on the list, at no. 897, with an estimated net worth of $1.3 billion.)

INSERT TABLE TWO ABOUT HERE

[29] *Vedomosti*, March 13, 2008.

[30] O. Lazareva, O. et al, "A survey of corporate governance in Russia," Moscow, Cefir, Working Paper no. 103, June 2007.

[31] There are 1,125 billionaires on the list, including 439 Americans, 87 Russians and 59 Germans.

Lobbying practices

Russia has evolved into a vibrant, capitalist economy with dozens of independent private owners commanding internationally influential businesses. This is about as far removed from the Soviet era centrally planned economy as one can imagine. And yet this pluralistic and dynamic economy exists alongside – and within – a political framework that became increasing closed and authoritarian in the 2000s.

On one hand, post-Soviet Russia does have a large number of social, economic and political actors (companies, labor unions, social organizations, etc.) that exist outside the state apparatus – both in law and in reality. On the other hand, the rule of law is exceptionally weak, and the state is able to exert strong influence over the conduct of most social actors.

Putin has made some efforts to institutionalize business-state relations, but the context became one of control rather than dialog. He instituted regular face-to-face meetings between the president and leading business executives, about twice a year. On July 28, 2000 Putin met with 21 leading businessmen in the Kremlin, mostly from energy companies.[32] In contrast to previous meetings between Yeltsin and business leaders, this time it seemed to be the president laying down terms to the oligarchs, rather than the other way around. Putin cautioned the oligarchs to stay out of politics and pledged to maintain "equidistance" from them as president, not favoring one over the other.[33] Subsequent meetings were usually low-key affairs discussing issues like trade policy and customs reform, and even these modest gatherings ground to a halt in the wake of the Yukos affair. Business leaders were fearful that Putin would give in to pressure from the nationalists in the Duma and the security bloc (siloviki) in his own administration, and embark on wholesale renationalization of the industries privatized in the 1990s.

In November 2000 Putin selected the Russian Union of Industrialists and Entrepreneurs (RSPP) as the designated interlocutor with the business community. "Putin issued a 'royal command' for all Russian business leaders to unite in the RSPP and to submit all complaints via this body, collectively, after working out a common opinion."[34] The RSPP was a rather staid, decade-old organization representing traditional state-owned factories, but in 2001 it found itself taken over by the brash new oligarchs. But the reformed RSPP was still deeply split between neoliberals and neo-statists, which inhibited their ability to give clear advice to government development plans.

The Kremlin decided to spread its bets, lest the RSPP become too independent minded. They encouraged the formation of alternative groups such as Delovaya Rossiya and the United Entrepreneurs' Organizations of Russia (OPORA), which was supposed to reach out to small and medium enterprises. In December 2001 former prime minister and Putin supporter Yevgenii Primakov was appointed head of the Chamber of Commerce and Industry (TPP).[35]

Most business lobbying under Putin, as under Yeltsin, took the form of direct approaches to government officials by business groups, either individually or by industrial sector. They lobby for tax breaks, for protective tariffs, and for government contracts. Their efforts ebb and flow depending on national and international trading conditions. Thus for example the steel industry,

---

[32] Inessa Slavutinskaya, "Liberalissimo," *Profil*, August 7, 2000.
[33] Boris Vishnevsky et al, "Equidistance in different directions," *Obshchaya gazeta*, June 7-13, 2001.
[34] Aleksei Bogaturov , "The Kasyanov cabinet is finishing its game," *Rodnaya gazeta*, June 27, 2003; Aleksei Yefimov, "The oligarchs come crawling on their knees," *Nezavisimaya gazeta*, October 23, 2003.
[35] *Izvestiya*, December 11, 2001.

dominated by the Big four companies (Novolipetsk, Severstal, Magnitka, and Evrazholding) was lobbying for state protection in 2001, but by 2004 they were born-again free traders.[36]

The legislative branch attracted a lot of attention from businessmen in the late 1990s. In the elections of 1995 and especially in 1999, many businessmen spent hefty sums to try to win a seat in the Duma. Their motives were often more individual than political. A Duma deputy is immune from prosecution unless the body votes to strip him of this privilege. Also a Duma seat would bring contacts useful for spreading their business beyond their home region

Business-connected deputies were so influential in the Duma, and even more so in the Federation Council (where they held more than half the seats), that they were effectively substituting themselves for the role conventionally played by political parties. Leading corporations like Yukos and Gazprom were also the most politically active, with Gazprom supporting an estimated 130 candidates in the 1999 elections.[37] In the 2003 election roughly 20 percent of the candidates were directly linked to business corporations, even including the Communist nominees (24 percent of whose candidates were thus identified).[38] These business friendly representatives served their paymasters well, blocking new legislation on everything from the closure of tax loopholes to new production sharing legislation that would allow in more foreign investors.

The rise of state corporatism

It is important to remember that not all Russian industry is owned by private businessmen. Alongside the private oligarchs there are also what could be called "state oligarchs," individuals who are government officials delegated to manage or supervise state-owned companies. After taking office Putin moved to ensure that the leading state corporations were headed by people loyal to him. In May 2001 he ousted the long-standing Gazprom chief, Rem Vyakhirev, and replaced him with a young and trusted economist from Putin's home-town of St. Petersburg, Aleksei Miller. Gazprom's exports ($15 billion in 2001, rising to double that by the end of the decade) make it Russia's largest single cash earner. Later in 2001 Putin removed the head of Russian Railways, Nikolai Aksenenko, who was dogged with accusations of corruption. He also removed Viktor Gerashchenko, head of the Central Bank, in March 2002 and replaced him with Sergei Ignatiev, who was serving as deputy finance minister.

Even before the Yukos affair of 2003, the state still held a 100 percent stake in some 100 companies, including the oil company Rosneft, the oil pipeline monopoly Transneft, the aircraft maker Sukhoi and the Russian Railways Corporation. It was holding shares in some 4,000 other companies, including a majority stake in the savings bank Sberbank (62 percent), Aeroflot (51 percent) the electricity giant Unified Energy Systems (51 percent), and the natural gas monopoly Gazprom (38 percent).[39] Then in 2004 Putin launched a campaign to bring more companies back under state control – beginning with the assets of the bankrupted Yukos corporation.

In the wake of the break-up of Yukos the share of oil output produced by majority state-owned companies rose, from 10 percent in 2000 to 42 percent in 2008.[40] The overall state share

[36] Dmitrii Butrin, "Gosplan ekonomicheskogo rosta," Gazeta.ru, April 26, 2004.
[37] Sergei Kolmakov, "The role of financial-industrial groups in Russian political parties," *Russia Watch*, no. 9, January 2003 JFK School, Harvard University.
[38] Francesca Mereu, "Business will have big voice in Duma," *Moscow Times*, November 13, 2003.
[39] Natalya Alyakrinskaya and Dmitry Dokuchev, "State = board of directors," *Moscow Times*, June 9, 2004.
[40] Miriam Elder, "How the state got a grip on energy', *Moscow Times*, March 14, 2008.

in the economy rose from 30 percent to 35 percent. [41] The main Yukos production unit, Yuganskneftegaz, was sold to state-owned Rosneft for $9.35 billion in December 2004. Its other two main subsidiaries, Samaraneftegaz and Tomskneft, were sold to Rosneft by auction in May 2007 for $13.2 billion. A plan for Gazprom to absorb Rosneft was derailed after months of backroom maneuvering, but the government went ahead with a complex plan to buy 10.7 percent of Gazprom shares in order to raise the state holding to 51 percent, using a loan to be paid off with a public offering of $7.5 billion of Rosneft stock. Gazprom was compensated for its failure to take over Rosneft by being allowed to buy independent gas producer Nortgaz and Roman Abramovich's Sibneft, the fifth largest oil company, in November 2005. Gazprom paid $13 billion for 73 percent of Sibneft shares, close to a market price.[42]

This growing state-controlled sector was acquired and managed through somewhat unorthodox methods. The state was just as complicit as the oligarchs in using shell companies, off-shore banking and other nefarious maneuverings to conceal its economic activity from outside observers. This tradition extends back to the 1990s, and includes a broad spectrum of government and parastatal agencies, from the Orthodox Church to the Central Bank. But it has become even more entrenched under Putin. The initial sale of Yukos assets, for example, was laundered through a false intermediary company, Baikal trading. One third of Russian oil is sold through a Swiss-based intermediary Gunvor (whose principal owner, Gennady Timchenko, is no. 462 on the *Forbes* list).[43] Russia's gas sales to Ukraine have been channeled through a succession of intermediary companies (first Itera and then RosUkrEnergo), registered through a shadowy network of internationally-registered companies whose beneficiary owners are unclear.[44] There was also consolidation in the engineering sector – the three state-owned firms RAO EES, Gazprom and Rosoboronexport (the arms exporter) bought the engineering firms Silovye mashiny and OMZ and auto producer Avtovaz, respectively. The state's total shareholding portfolio is estimated to have had a market value of $469 billion in 2007, equal to 40 percent of the capitalization of Russia's stock market.[45]

Government oversight of the companies is achieved through the placement of currently-serving members of the executive branch on corporate boards, in some cases as chairmen. Many of these board members are drawn from Putin's own retinue. For example, in July 2004 Putin's deputy chief of staff Igor Sechin replaced Economic Development and Trade Minister German Gref as chairman of Rosneft. Presidential aide Viktor Ivanov chairs Aeroflot and the Almaz-Antei arms firm; presidential aide Igor Shuvalov chairs Sovkomflot; First Deputy Prime Minister Sergei Ivanov heads the United Aircraft Building Corporation. Apart from Viktor Ivanov, former KGB men placed on boards included Nikolai Tokarev (Zarubezneft); Sergei Chemezov (Rosoboronexport) and Andrei Belyaninov (Federal Arms Procurement Service). Sergei Guriev's 2007 survey found that 29 percent of the firms in their sample had a government representative

---

[41] Neil Buckley and Arkady Ostrovsky, "Back in business - how Putin's allies are turning Russia into a corporate state," *Financial Times*, June 19, 2006.

[42] By 2004, the largest companies by share of reserves were: Lukoil 23 percent, Rosneft (including Yuganskneftegaz) 14 percent, TNK-BP 12 percent, Yukos 11 percent, Surgut 9 percent, Gazprom 9 percent, Tatneft 8 percent and Bashneft 3 percent. Energy Information Administration, *Country Analysis Brief-Russia* (Washington, DC, U.S. Department of Energy, 2006), at www.eia.doe.gov/emeu/cabs/Russia/Oil_exports.html

[43] Boris Nemtsov and Vladimir Milov, *Putin: Itogi [Putin: the Results]* (February 7, 2008.), p. 14. Available at: http://grani.ru/Politics/m.133236.html#9 and in English at: http://russophobe.blogspot.com/2008/03/boris-nemtsovs-white-paper-in-full.html

[44] Global Witness, *Its a gas. Funny business in the Turkmen-Ukraine gas trade*, (London, Global Witness, July 25, 2006).

[45] *Vedomosti*, February 6, 2008.

on their board.[46] One anonymous banker told a journalist that "All big companies have to put people from the security services on the board of directors."[47] Even Arkady Dvorkovich, the head of the presidential analytical directorate, complained that the new state corporations are exempt from basic audit requirements.[48] Putin assured leaders of the Chamber of Trade and Industry that "We don't want to create state capitalism," but his actions don't correspond to this sentiment.[49]

This all means that many Russian business corporations occupy a grey area – they are not fully independent of the state, but not fully part of it either. Decision-making is opaque and hidden from public view, brokered in face-to-face meetings between the leaders of state corporations and top government officials. These companies are run on a commercial basis, reporting profits and losses and paying dividends to shareholders. Many of them have adopted international accounting standards in order to attract foreign investors, and to float their own shares abroad. But they also expected to obey state mandates (conveyed through backroom communications), which means that they are not profit-maximizers like most other international corporations.

Small businesses

The oligarchs controlled a large chunk of the Russian economy, but not all of it. At the other end of the scale, small businesses have been mostly shut out from the political battle of the giants – and from economic policy making. In 2004 there were 4.7 million sole proprietors and 952,000 small companies in Russia (defined as those with turnover less than 15 million rubles or $550,000, a year and less than 100 workers). The number of enterprises had not increased over the previous decade – testimony to the crushing pressure on entrepreneurs from state bureaucrats on one side and mafia protection rackets on the other. Small businesses accounted for 17 percent of GDP: less than half the proportion in comparable economies (and well below the 60 percent level in the US).[50]

President Vladimir Putin oversaw the introduction of new laws on inspection, licensing and registration in 2001-02, which eased the bureaucratic burden on small firms, according to surveys by the Center for Economic and Financial Research. The reforms cut the wait time and reduced the list of business activities which required licenses from 250 to 103.[51] Still, the Transparency International index of corruption perceptions give Russia exactly the same dismal score (2.3 on a 10-point scale) in 2007 that it earned in 1997.[52]

The most radical measure pushed through by Economy Minister German Gref was a reform of the tax system, under which a progressive income tax of 12 to 30 percent was replaced with a flat tax of 13 percent in 2001. The payroll tax was cut from 40 percent to 26 percent and corporate profit tax was raised to 35 percent but later cut to 24 percent. The income tax cut was followed the next year by a 25 percent increase in tax revenue, probably due to the reporting of

[46] Sergei Guriev, et al, "Corporate governance practices and prospects in transition countries," Moscow, Cefir, June 28, 2007. www.cefir.ru/papers

[47] Francisca Mereu, "Putin made good on promise to FSB," *Moscow Times*, February 8, 2008.

[48] E. Belyakov, "Exhausted by state corporations," *Gazeta*, October 4, 2007.

[49] Cited in AFP, December 11, 2007.

[50] A. Reut, "We're stuck between socialism and capitalism," *Izvestiya*, July 12, 2007.

[51] Yevgenny Yakovlev and Yekaterina Zhuravskaya, "Deregulation of business," Moscow, Cefir Working Paper no. 97, December 2007.

"Monitoring of administrative barriers to small business development in Russia," December 21, 2004, www.cefir.org.

[52] That placed Russia 121st out of 163 countries in 2007, an improvement over 49th out of 52 in 1997. http://www.transparency.org/policy_research/surveys_indices/cpi/2007

previously concealed income, rather than to any incentive effect.[53]

One example of the ineptness of government policy in this area is the fate of the Federal Fund for Support of Small Business, whose closure was announced on 4 March 2005. The FFPMP was created in 1995 with a 25 billion ruble ($1 billion) budget to invest in small business promotion. It set up a network of regional offices, and got additional funding such as a $150 million loan from Dresdner Bank in 1997. However, it was an ineffective bureaucracy that was unable to reach small businesses. An additional complication was that it was competing with a $300 million fund of small business lending set up by the European Bank for Reconstruction and Development. A 2003 survey by the Ministry of Economic Development and Trade found that only 5 percent of entrepreneurs had come across the fund. The Federal Anti-Monopoly Service fought to protect the agency, which was under its jurisdiction, but after a two-year struggle the FFPMP was shut down.[54]

Conclusion

Western perceptions of Russia are now entering their third paradigm shift. The first shift, that took place in 1992, was the conviction that Russia had shed its communist legacy and was building a normal, market economy. That paradigm collapsed with the August 1998 crash, although it still has some adherents.

The second shift was the surprising appearance of Vladimir Putin, who brought stability and order to Russian politics – while also pursuing a policy of alliance with the West and adherence to a market economy. According to this view, while Putin pursued tough, Machiavellian policies towards Chechen separatists, regional leaders and his political opponents, he wanted to press ahead with market reforms in order to turn Russia into a modern, efficient economy – the only viable basis for a leading state power in the 21st century.

Even this "market autocrat" paradigm recognized that Putin's split-personality was reflected in a division within his administration between the Petersburg liberals and the sinister siloviki. But it was also widely assumed that Putin was interested in keeping a balance between the two factions, and had the political resources and acumen to do so. With regard to the oligarchs, Putin wanted to lay down new rules for the game, quite different from those which prevailed during the Yeltsin era. The oligarchs would have to keep out of politics, in return for which Putin would allow them to keep their business empires and would even adhere to a policy of "equidistance", not favoring one oligarch over another.

However, the Yukos affair – the arrest of Mikhail Khodorkovsky in October 2003 and the forced sale of the company's main asset, Yuganskneftegaz, in December 2004 – raised profound doubts about the viability of the "market autocrat" paradigm. Some suggest that Putin never intended to coexist with the oligarchs, that he was always bent on establishing a vertical hierarchy of power, centered in the Kremlin. First, Putin drove the oligarchs out of the media, in the summer of 2000. Then he used the presidential representatives to curb the powers of regional bosses. Finally in 2003 he pushed the oligarchs out of the State Duma, by crushing the liberal parties that they financed and which were the main conduit for their lobbying.

Some argue that Yukos is an exceptional case, that Putin was merely creating a stable political environment within which market capitalism can flourish. Putin has no inclination to reverse the privatizations of the 1990s, no desire to "kill the goose that lays the golden eggs." He seems quite happy to work with oligarchs such as Vladimir Potanin, Roman Abramovich, Mikhail Fridman, and Anatolii Chubais. So once the Khodorkovsky case was over, for most of the oligarchs it was business as usual. Generally speaking, where you stand on stand on this issue

---

[53] M. Keen, Y. Kim, and R. Varsano, 'The "flat taxes': Principles and evidence', IMF Working Paper no 218, September 2006.

[54] Dmitrii Buttrin, "Dirizhiskskaya Panama," gazeta.ru, March 5 2005.

depends on where you sit. Human rights activists belong to the first camp. Most Western bankers, frustrated at being shut out from the Russian market, and experts of the international financial institutions, belong to the second.

Table One **The 1997 Oligarchs**

Name	Initial core assets
Boris Berezovsky	ORT (TV station), Logovaz (auto dealer), Aeroflot (airline)
Vladimir Potanin	Interros (metals)
Mikhail Khodorkovsky	Rosprom (industrial holding company) , Menatep (bank)
Vladimir Gusinsky	Most Bank, NTV (TV station)
Oleg Deripaska	Rusal (aluminum)
Vladimir Vinogradov	Inkombank (bank)
Mikhail Fridman	Alfa Group (bank)
Pyotr Aven	Alfa Bank (bank)
Alexander Smolensky	SBS-Agro (bank)
Rem Vyakhirev	Gazprom (natural gas)

[Note: Berezovsky's estimated net worth in 1997 was around $3 billion, Potanin $1.5 billion, and the others around $1 billion.]

Table Two THE TOP RUSSIAN OLIGARCHS 2007

World Ranking 2007	(2005)		Estimated net worth ($ bn) 2007	(2005)	Core assets
9	(84)	Oleg Deripaska	28.0	(5.5)	Base Element, Rusal (metals) GAZ (autos)
15	(21)	Roman Abramovich	23.5	(13.3)	Millhouse, Sibneft (oil), Rusal (aluminum)
18	(107)	Alexei Mordashov	21.2	(4.8)	Severstal (steel)
20	(60)	Mikhail Fridman	20.8	(7.0)	Alfa Group, TNK-BP
21	(60)	Vladimir Lisin	20.3	(7.0)	Novolipetsk steel
24	(117)	Mikhail Prokhorov	19.5	(4.4)	Norilsk Nickel
25	(117)	Vladimir Potanin	19.3	(4.4)	Interros, Norilsk Nickel, Sidanco
36	-	Suleiman Kerimov	17.5	-	possibly Nafta-Moscow, SPK Razvitie
54	(306)	German Khan	13.9	(2.1)	Alfa Group, TNK-BP
56	(122)	Vagit Alekperov	13.0	(4.3)	Lukoil, Imperial Bank
59	-	Dmitry Rybolovlev	12.8	-	Urakkali (fertilizer)
63	(413)	Iskander Makhmudov	11.9	(1.6)	UGMK (Ural Mining & Metals Co)
65	(272)	Alexander Abramov	11.5	(2.3)	Evrazholding (coal, steel)
67	(94)	Viktor Vekselberg	11.2	(5.0)	TNK-BP, SUAL Holding (aluminum)
72	(413)	Alexei Kuzmichev	10.8	(1.6)	Alpha Group
73	(151)	Viktor Rashnikov	10.4	(3.6)	Magnitogorsk Metals
77	(258)	Vladimir Yevtushenkov	10.0	(2.4)	AFK Sistema (holding), MTS (telecom)
77	(437)	Igor Zyuzin	10.0	(1.5)	Yuzhny Kuzbass (coal), Mechel (steel)
94	(366)	Alisher Usmanov	9.3	(1.8)	Metalloinvest, (iron & steel)
113	(306)	Nikolai Tsvetkov	8.0	(2.1)	Uralsib, formerly Nikoil (oil, insurance)
149	(321)	Leonid Fedun	6.4	(2.0)	Lukoil
149	(228)	Boris Ivanishvili	6.4	(2.6)	Mikhailovsky (mining)
149	(548)	Sergei Popov	6.4	(1.2)	MDM Group (metals)
158	(548)	Andrei Melnichenko	6.2	(1.2)	MDM Group (metals)
160	-	Kirill Pisarev	6.1	-	PIK group (real estate)
160	-	Yuri Zhukov	6.1	-	PIK group (real estate)
164	-	Dmitry Pumpyansky	6.0	-	TMK Pipe (steel)
178	-	Pyotr Aven	5.5	-	Alfa Group
178	-	Alexander Frolov	5.5	-	Evrazholding (coal, steel)
214	-	Leonid Mikhelson	4.7	-	Novatek (gas)
253	(507)	Elena Baturina	4.2	(1.3)	Inteko (Moscow construction)
260	-	Vasily Anisimov	4.0	-	Metalloinvest (earlier, Ross. Kredit bank)
260	-	Mikhail Balakin	4.0	-	SU-155 (Moscow construction)
260	-	Andrei Molchanov	4.0	-	LSR (St. Petersburg construction)
277	-	Gleb Fetisov	3.9	-	Alfa Bank, telecom
307	-	Rustam Tariko	3.5	-	Russ. Standard Bank, Standart vodka
334	-	Andrei Skoch	3.3	-	Metalloinvest, metals
358	-	Filaret Galchev	3.1	-	Eurocement (coal, cement)
358	(413)	Alexander Lebedev	3.1	(1.6)	National Reserve Co. (banking, aircraft)
446	(272)	Vladimir Bogdanov	2.6	(2.3)	Surgutneftegaz (oil)
446	-	Mikhail Gutseriev	2.6	-	Slavneft, Rusneft (oil)
446	-	Vyacheslav Kantor	2.6	-	Akron (fertilizer, real estate)
462	-	Gennady Timchenko	2.5	-	Gunvor (oil trading)
524	-	Aleksei Ananyev	2.3	-	(trading, bank, real estate)
524	-	Dmitry Ananyev	2.3	-	(trading, bank, real estate)
524	-	Shalva Chigirinsky	2.3	-	S&T group (oil, real estate)
605	-	Danil Khachaturov	2.0	-	Rossgostrakh (insurance)
605	-	Sergei Pugachev	2.0	-	Unified Industry Corp. (bank, real estate)
652	-	Igor Altushkin	1.9	-	RMK (copper)
655	-	Sergei Galitsky	1.9	-	Magnit (retailing)
652	-	Yuri Kovalchuk	1.9	-	Rossiya bank (banking, insurance)

Source: "The World's Billionaires," *Forbes*, 3 May 2008,
http://www.forbes.com/lists/2008/10/billionaires08_The-Worlds-Billionaires_Rank_5.html
Accessed December 1, 2008.

Notes: All those listed above are Russian citizens. This table shows the top 50 of the 87 Russians on the list. "-" means they were not included in the 2005 *Forbes* list.

Suggested readings

Anders Aslund, *Russia's Capitalist Revolution* (Washington, DC: Petersen Institute, 2007).

Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* (New York: Crown Business, 2000).

David Hoffman, *The Oligarchs. Wealth and Power in the New Russia* (New York: Public Affairs, 2003).

Paul Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia* (New York: Harcourt, 2000).

Boris Nemtsov and Vladimir Milov, *Putin: the Results* (February 7, 2008.). Available at: http://russophobe.blogspot.com/2008/03/boris-nemtsovs-white-paper-in-full.html

Li-Chen Sim, *The Rise and Fall of Privatization in the Russian Oil Industry* (Palgrave Macmillan 2008).