Privatization to putinization: The genesis of Russia's hobbled oligarchy

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Abstract

This article examines how Russian privatization helped create the Putin political system. During the 'who lost Russia' debate in the 1990s, American economic advisors were rebuked for allowing a 'capture of the state' by the oligarchs. A larger time frame reveals that the consequences of Russian privatization were quite different from the forecasted ones. Because the new class of owners were regarded as illegitimate, lacked clear property rights, and ran conglomerates immersed in a command economy these owners, that is, oligarchs, were easily subdued by the state. As a consequence, there is little chance for a coalition of elites to mobilize against Putin.

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In the 1980s, the economists Sergei Vasil’ev and Boris L’vin proposed a program of Grand Transition: transition from authoritarianism to democracy, transition from a centrally planned economy to a market economy, and transition from an empire to federalism. All of these transitions have failed. (Illarionov, 2010)

1. Russia’s abnormal politics

This article challenges the conventional wisdom that Putin’s Russia entailed a radical break with the democracy of the 'wild 90s'. Today’s authoritarian regime, on the contrary, is a logical result of privatization, a program that was formulated, in part, by U.S. advisers.

A standard criticism of privatization was that it spawned a class of oligarchs who dared usurp the state (Hellman, 1998; Hoff and Stiglitz, 2004; Sachs, 2012). The privatizers, in rebuttal, contended that oligarchy is typical for societies in transition and actually a token of Russia’s path to “normalcy.” (Shleifer and Treisman, 2005) Synthesizing these points of view, this article maintains that privatization created a weak class of tycoons who soon found themselves enmeshed in, and beholden to, a Leviathan resurgent.

Both the 'state capture' and 'normal country' descriptions have become less apt for Russia’s brand of authoritarianism. According to such standard notions of modernization as the Lipsett hypothesis, Russia— based on macroeconomic indicators—

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1 Putin’s admirers tend to regard his rule as a natural counterbalance to the excesses of the 90s. According to Alexander Rahr, the Russian variant of the “chinesischen Modell” does not entail a return to repression and state-run ideology but rather the circumscription of the power of the oligarchs. (Rahr, 2000).
should be far more democratic than it is. Indeed the years 1999–2008 witnessed high economic growth, yet creeping oppression.² Some have explained this anomaly with the ‘resource curse’: because the Russian state derives sufficient rents from natural resources to pay off allies, there is little incentive to improve political institutions (Fish, 2005). But these models also suggest that Putin’s approval should have evaporated when resource prices abruptly declined. Some analysts, exploiting conventional models of political survival, predicted Putin’s downfall (Gontmakher, 2008; Åslund, 2005b). But his regime defied the Cassandras. Relying on these faulty models, advisers to the Obama administration mistakenly suggested that bilateral relations be ‘reset’ by backing then-president Dmitri Medvedev and his endeavors to liberalize Russian society (Lander and Barker, 2013). Thus an alternative interpretation of Russia’s governance system is required.

By “Putinization,” this article means the regime established by Vladimir Putin that allows him to intervene at will in the governmental, judicial, political, military, cultural, economic, athletic and private spheres.³ This ability is surprising, given the weakness of the state apparatus: Russia is far from being totalitarian. For an American, Russian life, especially far from the big cities, seems almost anarchical. Putinization became possible due to a complete lack of opposition from the Russian power elite, which, in its turn, is determined by the absence of clear property rights making the elite dependable on Putin and his will.⁴

This article provides a partial explanation of Putinization by demonstrating the role privatization played in creating an oligarchy which, unlike its counterparts in other countries, was unable to rule. The second section holds that reformers, placed the goal of economic reform above democratization. Privatized property, consequently, was regarded as illicit. Privatizers, as detailed in section three, hoped a legal system would arise spontaneously. But the precarious contracts produced in this environment made business even more tenuous. The forth section finds that privatized enterprises were not autonomous economic units, but interconnected firms reliant on the state for coordination. The fifth section asserts that because property had been doled out to select members of rival clans, the elites were unable to form coalitions and even less to claim popular endorsement. The oligarchs discovered that their best option was to champion a consensus dictator.⁵ The sixth section highlights the futility of oligarchic state capture in Russia. The introduction and conclusion contextualize the paper’s findings.

2. De-politicization or re-politicization?

This section explains how privatization undercut the legitimacy of businesspeople. Privatization remains acutely detested among Russians (Frye, 2006). By 2012 a record low, less than 4% of the population, planned on starting a business (Global’nyi, 2013, 15). Some blame the Soviet legacy or a ‘low-trust’ society for this result (Aghion et al., 2010; Denisova et al., 2012). But much of this burden must lay with the reformers.

Initial plans naively assumed that free privatization, rather than auctions, would be popular. “The Reform’s slogan: ‘Give people’s property to the people!’ All the enterprices of the country: stores, cafeterias, factories, plants, kolkozh, sovkhoz,⁶ automobile works and property will be handed to the people: to you and to us!” (Naishul’, 1985).

Early Western plans for transition “avoided political questions.” Even gradualist approaches assumed that the Soviet Union was in collapse so there was no time for disputations. In “a classic case of measures for the general good invoking the opposition of specific losers,” top-down macroeconomic reforms—price liberalization, slashing budgets and free trade—were to be implemented immediately (Nordhaus, 1991, 15). These transition plans were elaborated by such economists as Rudiger Dornbusch, William Nordhaus, Ian Blanchard, Jeffery Sachs, and Laurence Summers. Mostly Keynesians, they believe that intellectuals are essential to correcting unreliable democratic and economic orders.⁷ (Nordhaus, 1975; De Long et al., 1990; Thurston, 2011).

Later plans claimed that although experts knew how to fix the economy, ‘rent-seekers’ would try to thwart indispensable reforms (Aslund, 2002). It was simply assumed that opposition to reform lacked any righteousness. Certain economists even implored Russians to surpass the West by entirely demoting the political sphere (Boetke, 1993, 73–87). For Summers’ protégée, Andrei Shleifer, democracy’s banes are pressure groups. This is especially true for Russia, “where something close to the majority of the population benefits from state subsidies to inefficient industrial enterprises, and is also vastly better organized through industrial lobbies than the remainder of the population. This majority can then extract tremendous resources from the rest of the population at a huge cost to efficiency.” (Shleifer and Vishny, 1986, 175) Reformers, according to

² From 2003 to 2008, Russia’s Gross National Income rose from 8970 to 19,850 dollars (World Bank).
³ “Putinizacja” has become a popular term in the Polish press. It can be noted that “Stalinization” was first used by Trotskyites in the Russian emigrant press in the 1930s and is now accepted as an academic definition. The focus of this paper is not on Putin, the man. With some justice, such Russia experts as Stephen Cohen, Paul Robinson, and Gordon Hahn have criticized the demonization of Putin. There is no question that over the last seventeen years, everyday life has improved for most Russians and that Putin enjoys popular support. Another issue, however, is the ability of the Putin system to provide long-term growth.
⁴ Besides property rights, there are many other systemic factors which underpin the Putin system (Monday, 2011).
⁵ Konstantin Sonin has formulated mathematical models, where the oligarchs, after capturing the state, strategically favor dictatorship over weak rulers. This article, in contrast, stresses the inherent weakness of the oligarchs. (Guriev and Sonin, 2008).
⁶ Kolkozh was a collective farm; sovkhoz was a government-run farm.
⁷ This article is not suggesting any direct Keynesian influence on “Shock Therapy.” Rather, it is suggesting that Keynesians– predisposed to see markets as flawed– assigned a key role to expert intervention (Monday, 2012).
The actions of President Putin was to seize control over the media, which was later used to surgically remove opponents. This perspective, which enjoys popularity in Western academia, in the Russian context exacerbated a Slavic heritage of anti-democratic economic reasoning. Many privatizers romanticized Pinochet’s rule. Consequently, the ‘kamikazes’ had slight incentive to conduct just privatizations. Insufficient attempts were made to clarify privatization (Bogomolov, 2011). Political parties connected to the privatizers—Vybors Rossiia (Russia’s choice), Nash Dom Rossiia (Our House Russia), and Soyuz Pravykh Sil (Union of the Right Forces)—have consistently performed dismally in elections.

Rejecting the Chinese approach, reformers in 1990 contended that freeing all prices was a necessary step towards mass privatization. That hyperinflation, regarded as a necessary evil, would turn the majority of the population against liberalism was seldom debated. Inevitably, Russia’s first democratically-elected Parliament challenged privatization. This produced a violent show-down and the formation of a super-presidency (Gnatenko, 2011, 390–396).

These events are currently under intense debate in the blogosphere. Notably economist Andre Illarionov doubts that Russian privatizers were genuine democrats. In fact, Gaidar’s inflationary policies of the early 90s were a kind of expropriation of savings that embittered the majority of the Russian population against liberalism. “These were not liberal reforms, but socialist reforms.” (Ryzhkov, V., Dymarskiy, V., 2011; Gari Kasparov, 2011).

Although privatization was intended as a “critical strategy of depoliticization” (Boycko, Shleifer, Vishny, 1993a, 145), it induced re-politicization. Since the vast majority of Russians saw privatization as unlawful, the new class of property-holders was forced to seek the shelter provided by the state. In their trial, the oligarchs Roman Abramovych and Boris Berezovsky admitted that it was not possible to build up a substantial business without a political ‘krysha.’

Western elites likewise adopted the stance that this privatization was illegitimate (House of Representatives, 2000). The deeply-mistrusted oligarchs’ lavish investments in the West served only to discredit them more (Hollingsworth and Stewart, 2009). Hence they would lack Western backing when mounting challenges. By contrast, the Russian state, although weakened, remains vital to Western Realpolitik (Addley, 2013).

Lack of legitimacy gave rise during the 90s to a war of televised exposés discrediting highflying oligarchs. Among the first actions of President Putin was to seize control over the media, which was later used to surgically remove opponents.

### 3. Spontaneously constructed law

The problem of illegitimacy was compounded by tenuous property rights. In the vital sectors of the economy, ‘privatization’ involved receiving rights to cash flows, rather than reorganizing firms. This was a consequence of early privatization strategy. Opposing traditional intuitionists, such as Douglas North, Shleifer maintained that a legal framework should not be introduced before privatization. The predicament is that before privatization, all property is state-owned so that no private parties are interested in institutional reform. (Boycko, Shleifer, and Vishny, 1993a) "The politically feasible order of institutional reform, then, is privatization first, introduction of legal rules second, and bureaucratic reform only in the very long run." According to Shleifer, private companies could enforce the rules, without the courts (Hay and Shleifer, 1998, 565). Following economist Hernando de Soto, U.S. advisers claimed that the government must help make informal, ‘illegal’ methods of contract enforcement more formal. “Legal rules,” wrote Shleifer and Jonathan Hay, "should accommodate rather than interfere with the existing business practice." (Hay et al., 1996, 559, 565).

As Andrei Shleifer bluntly claimed: “The architects of the Russian privatization were aware of the dangers of poor enforcement of property rights. Yet because of the emphasis on politics, the reformers predicted that institutions would follow private property rather than the other way around.” (Shleifer and Vishny, 1986, 10–11) For Shleifer, “legal reforms often are not introduced by benevolent dictators or Parliaments, but are rather an outcome of political pressure from the property owners.” (Shleifer, 2005, 143) Thus, a desire for good laws appears only after privatization.

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8 For example, Åslund supported Gaidar, (Venjavkin L, 2012); while Aven and Kokh (2013, 124–130) saw Gaidar as a ‘true Kamikaze.’ At the same time, some American specialists demonized Yeltsin’s opponents (Cohen, 2000).

9 Ivan Rybkin recalls that although he had supported Yeltsin, he sought an alternate approach to privatization. (Kara-Murza V., 2012). Also, Hersh (1994); Reddaway and Glinsky (2001) discuss the U.S. influence on Russian economic policy.

10 ‘Krysha’ literally in Russian means “roof” but in Russian slang it means protection of criminal activities by either criminal bosses or corrupt officials, including police.

11 For example, throughout 2013 Russian media ran exposés of oligarch Sergei Polonsky’s alleged drug-addled escapades in Cambodia and Israel, thereby furthering the stereotype of the tycoon as a degenerate cosmopolitan.
Although some credulous research has uncovered evidence ratifying this notion, everyday reality indicates entrepreneurs exercise few law-making prerogatives. Under Putin, businesspeople lived with the risk of expropriation, causing them to be politically inert. More than 110,000 people are serving time for “economic crimes” so that a “business owner in Russia has a better chance of ending up in the penal colony system [...] than a common burglar does.” (Kramer, 2013a,b) Maverick-outsiders taking over small enterprises and making them profitable—the type of privatization discussed by the early literature—remain rare: Wimm-Bill-Dann Foods (a large dairy company) or Oleg Tinkov’s Beer seem exceptions. By 2012, over 93% of the Russian population saw no possibility of becoming an entrepreneur. Of all entrepreneurs in 2012, only a third had managed to maintain their businesses for over 3.5 years (Global’nyi, 2013).

Part of the inability to generate law from the ground up has to do with sex. Although mostly men start businesses in Russia, women are more likely to sustain them (Global’nyi, 2013). But the survival-of-the-fittest privatizers were all men and Russian institutions remain male bastions.

The oligarch Boris Berezovsky characterized how privatization actually occurred. During the first stage, profits are privatized, in the next stage, property is privatized and in the final stage, debt is privatized. There was no need to buy a company that could remain in the hands of the state. The main issue involved controlling management and cash flow (Khlebnikov, 2001, 169–170). For example, Berezovsky had a small direct shareholding, less than 7%, in ‘his’ company LogoVAZ (High Court, 2007, 32). In a trial between Berezovsky and Roman Abromovich, both described a complicated series of agreements, hastily arranged in airports and hotel lobbies, concerning billions of dollars.

“[...] at the core of the dispute [...] — the court found—were four highly contentious alleged oral agreements, relating to substantial assets which, if established, had serious financial and commercial consequences for the alleged parties to those agreements. Every, or almost every, aspect of the alleged agreements was in dispute. Significantly, there were no contemporaneous notes, memoranda or other documents recording the making of these alleged agreements or referring to their terms.

Berezovsky recounted: “[...] such oral agreements were simply common practice at that time [...].” (High Court, 41, 108–109) This can be seen by another lawsuit brought in London by Mikhail Cherney against the metals magnate Oleg Deripaska (Kramer, 2010; Ledeneva, 2013).

Initially it perhaps served the oligarchs’ interest not to promote property rights (Sonin, 2003; Roland, 2002). This informal system, nonetheless, ultimately worked against their interests. Oral rules make rivalry and instability particularly treacherous. The “privatization-first, legal-rules-second” approach ultimately increased dependence on the state because it proved too risky to form alternative coalitions.

4. Captive capital

A third cause of the oligarchs’ weakness involved the nature of property the oligarchs acquired. While markets were introduced at the everyday level—bookstores and movie theaters— the core of the economy remained untouched. The privatized firms were immobile and illiquid, similar to the castles in Tudor England. For disloyalty, the state could easily replace an ‘owner.’

The Soviet system created an idiosyncratic economy. The entire country became ‘one firm,’ as decreed Great Lenin. Although reformers wrote about privatizing independent microeconomic units—the Soviet economy was dominated by interconnected conglomerates, designed to fortify the Soviet military. Energy prices were the prerogative of the state. Firms were located according to the principle of defense, not business rational (Gaddy and Hill, 2003). The Soviet labor market was under state control. The modern Russian firm had to reestablish these connections so that “privatization” in the end exacerbated the reliance on non-market coordinating mechanisms.

Ronald Cause interpretation of organizational structure— which is determined by whether market or non-market methods regulate decisions—is germane. Ultimately, a firm’s bureaucratic management can be just as “non-market” as government administration.

Early discussions of transition emphasized de-monopolizing the Soviet economy as a first step (Kroll, 1991; Yavlinsky, 1992). The reformers, not only ignored these suggestions, but tried to intensify monopolization: by the mid-90s, ‘state capture’ seems to have actually become the objective. Transition architects began to purposely back the creation of cartelistic behemoths. By 2013, according to some estimates, 110 billionaires hold 35% of the country’s wealth (Credit, 2013).

Privatization, wrote Shleifer, is “not enough.” As a counter-weight to political power, ‘large shareholders’ are necessary (Boycko, Shleifer, and Vishny, 1993a, 146). In research concerning American finance, Shleifer concluded that small shareholders cannot monitor firms on their own and should be willing to forego capital gains in order to keep large shareholders 12 (Pyle, 2006; Markus, 2007) One elaborate argument for the ‘reform-from-bellow’ model highlights agreements over taxes in 2001 and Putin’s promise to stay out of business. (Loug and Weinhil, 2004). While these views may have been plausible at the beginning of Putin’s presidency, after 2004, few would claim businesspeople were driving institutional reform.
13 Shaun Walker (2010) of Independent discussed the notorious expropriation of the Yevgeny Chichvarkin cell phone business in an interview.
14 Only 6 percent of Russian politicians are women (Nemtsova, 2012).
15 The reformers assumed Russia was a ‘normal country,’ a position taken by such authorities as Theodore Von Laue, Marc Raef, and Dominic Leiven. Contending viewpoints, nonetheless, provide deeper insight into the failures of transition. Leon Trotsky and his followers found the Soviet system to be neither capitalist nor communist, but a peculiar system characterized by bureaucratic rule and differentiated property rights. (Castoriadis, 1973).
interested in management (Shleifer and Vishny, 1986, 468). From this standpoint, Shleifer proposed augmenting the role of large investors in Russia. They would counter the power of workers who out of fear of layoffs fight any attempt at restructuring. The workers might form coalitions with politicians who also oppose restructuring because they would lose their rents. “[…] control by large outside investors, who are unlikely to care about employment, is superior to control by managers, who care about it more. […] large investors are harder to convince through subsidies not to restructure since their tastes are further away from those of the politicians.” (Boycko, 1996, 317) A core reason for encouraging the free trade of vouchers was that “it vastly improves opportunities for potential large investors.” (Boycko et al., 1994, 261).

In the 90s, the advisers justified the oligarch phenomenon as an essential attribute of rapidly transforming societies. After all, robber barons and plutocratic dynasties appeared in Gilded Age America, in South Korea, and Latin America (Åslund, 2005a; Guriev, 2011, 162–165). Analyzing European history, Shleifer found growth highest in the oligarch-controlled cities (De Long and Shleifer, 1993, 671).

The Russian privatizers embraced this outlook. The notion that an advanced ‘monopoly-capitalism’ is dominated by state-sponsored oligarchies had been firmly entrenched in Soviet academic literature: “The monopolies receive billions of profit in the form of interest from government debt. The government supplies monopolies huge profits by granting them various loans, subsidies, privileges in buying raw materials and selling finished products, tax deductions, and other forms of aid.” (Kurs, 1973 620).

As opposed to Jeffery Sachs, Anatoli Chubais (a dissident economist who in 1991 became the minister in charge of the Management of State Property) saw the prime objective of privatization, not as economic, but political. In the face of spontaneous ‘nomenklatura’ (Soviet administrative class) privatization, Chubais contended there was a need to create powerful owners (khozyainy) who would oppose the return of communism out of self-interest (Filippov, 2010; Chubais, 2010). The economist Sergei Glazev, at the time a chief reformer, reasoned that privatization should not involve individual firms, but rather should foster the creation of large conglomerates that would promote a ‘technological shift.’ (Glaz’ev 1992).

The privatizers explored various means to create ‘large shareholders.’ When the voucher investment funds proved ineffective, the government created pyramid structures, bundling controlling stakes in a number of operating companies into a few holding companies, and later sold controlling stakes in the holding companies (Black et al., 2000). By 1995, the reformers openly espoused the creation of Korean-style conglomerates, ‘chaebols,’ as international champions. The oligarchs would focus on ‘real’ production, by taking control of the supply-chain, bureaucratizing management, and seeking foreign investment. These mega-companies, it was reasoned, were the only feasible counterweight to the predatory state (Fortescue, 2006; Åslund, 2004; Radygin, 2001).

Nevertheless, the loans-for-shares schemes lessened the legitimacy of the oligarchs. Even business-friendly portraits created disturbing portraits (Freeland, 2000). Furthermore, the creation of these chaebols insured the politicization of property: size made these companies more, not less, dependent on the state.

Unlike Eastern Europe, or other “normal countries,” mega-companies dominated the Russian economy. Among the world’s top 200 companies in 2013, by market capitalization, were Gazprom, Rosneft, Siburbank, TNK-BP (Tyumenskaya Neftyanaya Kompaniya), Surgutneftgaz. (“Eleven Russian companies in top-500 market cap list,” 2011). These types of giants are unknown type in Eastern Europe; South Korea boasts only two of the largest 200 companies (DeCarlo S., 2013). The oligarchs thus obtained massive latifundia, which they were incapable of independently managing, selling, or liquidating.

Gazprom soon became the archetype for the Russian chaebol: because of its centrality in financing the government, it has never succeeded in becoming truly private. Early attempts to create autonomous firms were stymied by the debt associated with property (Naishul’ 2004). The entire cashless economic facade helped to preserve the resource industry’s subsidization of the value-subtracting part of the economy (Gaddy and Ike’s, 1996). The managers of Gazprom, a company ranked among the least transparent companies in the world, are political appointees (Nielsen, 2012).

Russia’s biggest companies are in oil and natural gas: Novatek, Surgunneftgas, Rosneft, Lukoil, Sidanko, Sibneft, Tyumen Oil, VNK (Vostochnaya Neftyanaya Kompaniya), and TNK (Tyumenskaya Neftyanaya Kompaniya). These firms provide over 60% of the government budget (Grachev, 2012). Given this importance, it was inevitable that state control became central to the “Putin Doctrine” of recovering the economic, political, and geostrategic assets lost by the Soviet state in 1991 (Aron, 2013).

The Federal Agency for State Property Management is the major stakeholder in Uni. This is an example of a national force, but, as sole-employers in company towns, too sensitive to be left alone (Applebaum, 2003), as shown during a workers’ protest at the factory town Pikolova, the state oversees major decisions over employment (Elder, 2009).

Military industries cannot be regarded as truly independent and the U.S. objects to their full privatization (Austin, 2011). Finally, numerous Russian companies—notably automotive—are not internationally competitive and rely on state subsidies.

The Russian oligarchy is disparate from the firm structure of rapidly industrializing countries, which, it is claimed, were inevitably dominated by tycoons. For instance, in Gilded-Age America tycoons controlled industries in which there was the potential for economies of manufacturing scale and innovation (De Long, 1998). In Russia, by contrast, the companies which have been ranked as ‘most innovative’ are not run by oligarchs: Yandex, Abyy, M2M telematics, Optagon, and Mikron.
The feebleness of the oligarchs was aggravated by another factor: who they were. Owing to the nature of the property they inherited and the lack of property rights, ‘owners’ depended on clienteles’ networks to maintain their cash flows. The beneficiaries of privatization were not randomly selected members of society but specific social groups that commanded these networks. Five came to dominate the economy: former managers, regional leaders, the reformers who carried out privatization, ethnic minorities, and the KGB.16

The fear of the so-called red directors was widespread and actively discussed in the early literature on privatization. A leading economist and a President of the Institute of the National Economy Model Vitaly Naishul’ asked:

“Why not give the enterprises to the directors, ministers, and other bosses? Firstly, that would not be fair and no one would agree to surrender the entire country to them. Secondly, this kind of concentration of wealth in the hands of a small group would force the economy to work for the well-healed, and not the ordinary consumer. […] The October Revolution equalized the property of our country and we would never voluntarily return to a society of servants and lords.” (Naishul’, 1985).

The nomenklatura, which had already begun to take advantage of Gorbachev’s co-operativizatsia (a new mass movement to create co-operatives), was abetted by privatizers, who recognized that compromises were a prerequisite to enticing the elites into reform (Solnick, 1998). Chubais recommended, in contrast to East European privatization, that vouchers be nameless and that managers be allowed to receive large shares. “Any manager in Russia today can use the program to become rich and remain in control.” (Boycko, Shleifer, and Vishny, 1993b, 64) These concessions gave a head start to insiders in the later, auction stages of privatization. Even worse, privatization became a kind of negative selection favoring the most dishonest managers, reinforcing corruption. (Roland, 2001, 335–336).

As was feared, the red managers were more interested in stability than democracy, shielding the rents they acquired from privatization. Undeniably the ‘red directors’ quickly began to exercise a hefty sway over the government, partly because President Yeltsin felt closer to them than to the much younger economic reformers. At the beginning of Yeltsin’s presidency, such Soviet-era managers as Vladimir Shumeiko (a director of technical instrument production in Krasnodar), Yuriy Skokov (an executive at the battery producer ‘KVANT’), Oleg Sokovets (a director of sheet rolling mills in Kazakhstan), Georgii Khizha (a director of the Leningrad military enterprise Svetlana), Vladimir Kadannikov (Deputy director of the car producer Volzhsky Avtomobilny Zavod), Oleg Lobov (a chief of construction in the Urals), and Yuriy Petrov (a transportation manager in Nizhny Tagil) held prominent government posts. Russians tended to view the managers— for instance, the heroine in the movie ‘Moscow doesn’t believe in Tears’— as having earned their position. Some, notably Viktor Chernomyrdin (the founder of Gazprom and a Russian Prime Minister), have enjoyed popularity and received support even from the Communists in the Duma.

But the red directors failed to seize the state. Chernomyrdin, demonized as a nomenklatura oligarch, never became a political force, easily ceding Gazprom to the Putin team. The red directors had risen through the ranks of the Soviet system and were the oldest beneficiaries of privatization. Under strict Party control, they had little opportunity to collude. Moreover, they inherited industries with rival interests—such as energy, transportation, and manufacturing. Mostly engineers, none of the red directors had received the kind of education needed for adjusting to radically shifted circumstances.

A second beneficiary from privatization were the regional elites. During the Soviet period, the regions had rested autonomy from the Kremlin. After the collapse of the Communist Party, Boris Yeltsin was forced to tame aggressive secessionist regions by buying off the local elite (Treisman, 1996). In particular, the tax system relied on farming out privileges in return for state revenue (Stoner-Weiss, 2006). Regional chieftains—Murtaza Rakhimov (the first President of Bashkortostan), Mintimer Shamiev (first President of Tatarstan), Ramzan Kadyrov (the Head of the Chechen Republic)—have proved difficult to remove. But Russia’s geographic

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16 This list is not meant to be exclusive. For example, in 1987 the communist youth league, Komsomol, was encouraged to build apartments for profit and create small businesses (Youth Centers of Scientific and Technical Creativity). There appeared over 600 of these centers providing a kind of school for many future business people. The Komsomol, nonetheless, could not form any kind of power block because they did not see themselves as a cohesive group. Khodorkovsky correctly states, “The Komsomol was not an ideological organization.” (Khodorkovsky, 2017) Much the same goes for the Communist Party in the late 1980s.
size limits the coalition-forming ability of leaders of ethnic enclaves. While authoritative at home, they are unpopular at the national level. Only Kadyrov retains a formal office.

Chubais has claimed that his goal was to create a counterweight to nomenklatura privatization (Chubais, 2007). And the privatizers efficaciously generated other classes of owners, notably themselves. Peter Aven, a researcher at the International Institute of Applied System Analysis, then a minister of trade, became one of the world’s richest men. Andrei Vavilov, a deputy finance minister (1992–1997), has been incriminated in numerous scandals (“Sledstvie Khochet vsyo znat’” 2007). Tales of corruption in the first days of privatization are legion (Shutoy, 1994). Members of the Yeltsin and Sobchek families, along with Chubais, remain in the ranks of the power elite. Reportedly, several U.S. advisers benefited handsomely from privatization (Wедал, 2000).

This is important because the reformers had substantial leeway in determining outcomes of privatization.18 Perceptions of self-dealing, moreover, compounded privatization’s illegitimacy (Zinov’ev 2009; Solzhenitsyn, 1998). The privatizers later became the early devotees of Putin. For the Soviet economist-turned oligarch Peter (Pyotr) Aven, Russia was in need of a strong hand: “A liberal economic system needs uniform laws and rules which only a strong order can provide.” (Aven, 1999)19 The Union of the Right, a political party consisting of the leading privatizers, solidly supported an unknown Putin in 1999 and continued to champion Putin through even the most egregious controversies.20 American advisers to Russia’s privatization defend him in academia (Shleifer and Treisman, 2011). In Russian television, Chubais, the “father of privatization” is often seen in front of Putin arguing for increased government sponsorship of technology.

While rarely discussed in English-language literature, Russians have long centered their discussion of privatization on ethnicity. Many journalists, openly anti-Semitic, blame the Jews for robbing Russia. Others, more discretely use code words such as ‘cosmopolitanism.’ (Glaz’ev, 1992; Platonov, 1998) The oligarchs themselves stoked this assessment.21

In the Soviet Union, ethnicity played a pivotal role in the division of labor. Clearly, in a command economy—where all prices are fixed— who gets what must be determined by non-market means such as racial discrimination. For the Tsarist and Soviet regimes, ethnicity was crucial to governance. Unlike other European empires, Russian colonial mechanisms were aimed inward, regulated by the secret police and then the KGB (Northrop, 2003; Molchanov, 2002).

As opposed to other countries, this factor was ignored by the privatizers. For instance, in Kenya, given its colonial legacy, tribalism is considered a crucial aspect in economic policies (Klopp, 2002). Having lived in both Russia and Kenya during the 90s, I observed a similar obsession with ethnicity in daily life.

According to one study, forty-three percent of the oligarchs were ‘insiders,’ former members of the Soviet nomenklatura. The rest were “outsider” oligarchs, who were younger, better educated, and disproportionately Jewish (Braguinsky, 2009; Chua, 2004, 77–94). There are three factors which aided certain minorities in the competition for wealth during privatization.

Firstly, Stalin, following the Tsars, had severely restricted access to power by establishing strict quotas on Jewish entrance. Even today, Jews face discrimination in the bureaucracy.22 Analogous to the tenuous meshchanstvo class of the 19th century, Jews succeeded in business, a meager arena during Soviet times. Shleifer described the situation where a dominant group of discrimination. “Faster growth can be one of the few inadvertent benefits of discrimination in rent-seeking.” (Murphy, Shleifer and Vishny 1991) Many future oligarchs ventured into trade during the Gorbachev’s cooperative program. (Hoffman, 2011).

Secondly, and, as charged by countless Russian nationalists, ethnic Jews became the first oligarchs thanks to systematic favoritism. Scandalously, Boris Berezovsky along with other outside oligarchs gave kickbacks to ‘the [Yeltsin] Family’ in return for favors (“Korzhakov otvetil Yumashevoy cherez ‘MK,'” 2010). But this narrative of covetous minorities duping credulous Slavs is naïve.

A crucial determinant in the distribution of wealth was that it was in the state’s interest to dole out management to minority groups who could never become autonomous political agents. The Soviet Union grappled with egregious agency problems. By the 1980s, Moscow’s planers had lost control. Local mangers no longer listened to the center (Rutland, 1993; Naishul, 1992). Starting in the Brezhnev era, key businesses were controlled by the mafia (Vaksberg, 1991). The Kremlin’s conundrum was how to dole out autonomy without destroying authority. Their solution, typically colonial, was to cede power to agents who had little internal approval.

Yeltsin, struggling against Gorbachev, abetted the reformers and the new class of property owners precisely because they were ethnic minorities. All but reviled, these figures were politically reliant on Yeltsin. In all probability, the state was glad to see minorities end up as major property owners because placed in position of power, they were unlikely to unite in alternative coalitions. The oligarchs were not a case of evolutionary economics, but of systematic favoritism.

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17 A response to Wedal, was provided by Sachs (2000).
18 “The voucher investment funds have been envisioned by post-socialist reformers as a mixture of mutual, funds and holding companies, a chimera with no direct counterpart in an evolved market economy. […] the main reason was probably to keep equity control out of the hands of insiders (nomenklatura) and, if possible, to distribute it to financial intermediaries seen to be in ‘reform-oriented’ hands.” (Ellerman, 1998).
19 In a similar vein, Andrei Shleifer urged Russia to learn from the Chinese: “Centralization may also involve the suspension of the democratic process. […] some form of centralization is probably necessary for the federal equilibrium in Russia to change […]” (Blanchard and Shleifer, 2001, 177).
20 Gaidar, for instance, went to great lengths to explicate how Berezovsky, not the Kremlin, was responsible for Litvenenko’s polonium poisoning (Al’batz, 2007).
21 In 1996, Berezovsky boasted that seven bankers controlled over half the economy of Russia (Freeland and Thornhill, 1996).
22 Economist Evgeni Gontmakher recounts his experiences with anti-Semitism in Soviet planning agencies (Korzun, 2013).
This strategy came from the tried-and-true game plan of Russian rulers. The Tsars, themselves pure-blooded Germans, exploited rootingless Baltic Germans and Poles as advisors (Slezkin, 2004). For Stalin nationalism was a paramount criterion in power politics (Toltz, 2013).

Russians privatizers could model their transition on the ‘imperialist monopolist-capitalism’ depicted in Soviet literature. For example, in a chapter on “the formation and development of financial capital and the financial oligarchy,” one leading text defined them as “a narrow group of the richest monopolists. In every imperialist country, this kind of group consists of a few dozen families.” Prominent among ‘the oligarchs’ were ‘cosmopolitans.’ “Approximately 60% of the assets of the Rothschild group is invested outside of France. Although located at the apex of national, state-sponsored imperialism, these financial groups clearly have a cosmopolitan character.” (Kurs, 1973, 632).

The banking industry was where the majority of ‘outside’ Jewish oligarchs got their start. The Soviet state, along with fascist Germany, was unique in that it supervised money laundering and smuggling. From the earliest days, Comintern (The Communist International), functioned as a state-endorsed mafia, exploited finance to destabilize other counties (Goldman, 2003, 157; Adelman, 1995, 210–211.). It has been reported that in the early 90s the nomenklatura began to hide their money in banks connected to Russian security agencies, notably, in Khodorkovsky’s Menatep (Freidman, 2002; Compromat.ru, 1997). Alleged mafia kingpin Semion Mogilevich became another preferred banker.23

In 1992 Prime Minister and reform economist Yegor Gaidar, in order to facilitate the privatization process, favored certain banks by depositing state funds at beneficial rates. These banks reinvested these funds at market rates during hyperinflation. Vladimir Gusinski’s MOST Bank managed money for Moscow. Vladimir Potanin’s Oneksimbank was linked to the Foreign Trade Ministry and Mikhail Fridman’s Alfa Bank to the Customs Service (Bivens, 1998; Hanke et al., 1993, 36.). Khodorkovsky’s Menatep Bank funded sundry federal programs, including supplying the military with food, funneling cash for the Chernobyl cleanup, and rebuilding Chechnya. Menatep and Most engaged in the arms trade, receiving contracts with the staat-owned arms company ‘Rosvooruzhenie.’ (Golovkov and Nekhoroshev, 2000) Gusinski, Fridman, Khodorkovsky and Potanin became some of the most powerful oligarchs of the Yeltsin era.

In the meantime, the media— with such movies as Oligarch (2002) — made a concerted effort to emphasize the otherness of the oligarchs. They spotlighted Jews, who were, nonetheless among the least powerful. Putin also emphasizes their Jewishness, true enough, in a positive light (Barry, 2012).

In the late 90s the oligarchs were prevented from ‘capturing the state’ by widespread anti-Semitic feelings. They knew they were detested and that any political instability would threaten extinction. Today these sentiments are anachronistic: business people should, presumably, be trusted big businessmen. (Palmer, 1997; Albini and Anderson, 1998; Shelley, 1994). Putin with these declared preferences, the enterprises engaged in loans-for-shares schemes, largely Jewish, have steadily lost supremacy (Yakovlev and Zhuravskaya, 2009, 7).

Although receiving less media coverage than the oligarchs of the 90s, Central Asian oligarchs enjoy a snowballing prominence. For example, the potash tycoon of Dmitri Rybolevlev, whose messy divorce was rumored to have been stoked by the Kremlin, was in conflict, reportedly, with Putin ally and head of Rosneft Igor Sechin (Latynina, 2013). He eventually sold his stake in Uralkal to Putin loyalist Suliman Kerimov (Ermenenchok, 2013). Mikhail Gutseriev, an ethnic Ingush and a leader of Zhirinovsky’s LDPR, in 2000 became president of the state-owned oil company Slavneft, which he later privatized. In 2007 Gutseriev was accused of not paying taxes and forced into exile. In contrast to Khodorkovsky, Gutseriev was able to iron out his differences and is again active in business (Prîbylovsky, “Delo Gutserieva”). One of Russia’s richest men is Alisher Usmanov, who has been rumored to be connected to security organs since Soviet days and to encourage Kremlin policies in Uzbekistan (Compromat.ru, 2004; Kramer, 2013a). Although he manages a sprawling media empire, it’s hard to imagine him ‘capturing the state.’ (Murray, 2009).

A fifth winner in privatization were the so-called siliviki, former intelligence officers in the military and KGB. While journalist tend to depict their ascendance under Putin as a conspiracy, systemic aspects led to a phoenix-like rebirth (Felshtinsky, and Litvinenko, 2007). The KGB was the nervous system linking Soviet society. In the 1980s, there were 720,000 formal members, while up to 30 percent of the adult population served indirectly as KGB informers. After the death of Stalin, Alexander Shelepin professionalized the KGB by hiring university graduates. (Al’batz, 1992). The other two pillars of Soviet civilization— the Party and the military-industrial complex— were debilitated by Glasnost, a secular decline in oil prices, and privatization, thereby enhancing the KGB by default.

As with sportsmen and criminals, ex-KGB men quickly found employment protecting tycoons (Kapustin, 2000; Varese et al., 2005). Notable figures became Andrei Lugavoi, Filipp Bobkov, and Alexei Kondaurov. As opposed to other strongmen, the former Soviet intelligence officials were rare members of Soviet society with language skills, travel experience, access to modern academic literature, high (by the Soviet standards) wages, and a background in real-world finance (Lebedev, 2013). This made their presence more lasting (“KGB vo vlasti i biznese” 2002).

To get things done in Russia requires a mass of paper work and signatures. Even nominally powerful ministers can accomplish little without special people who knew how to get documents signed (Fedorov, 2011, 66). This often called for the services of former KGB agents with colleagues throughout the bureaucracy.

The partial liberalization of trade granted KGB insiders additional benefits. Under Gorbachev, the First Chief Directorate supervised the creation of foreign joint ventures (Waller, 1994, 2–4). Trade often involved exploiting the difference between Soviet and Western prices to make arbitrage profits. Many former KGB agents prospered in trade in the early years of privatization. In 1990 Viktor Ivanov founded the company ‘Blok’ with Boris Gryzlov. Sergey Chemisev, a colleague of Putin’s in Dresden, managed, from 1989 to 1996, the trading company ‘Sovintersport’ which had a monopoly on the import of Western sports equipment (Pribylovsky, “Chemisev”; Kozyrev, 2007). In 1991 ex-KGB officer Vladimir Yakunin managed the newly privatized Bank ‘Rossia.’ (Pribylovsky, 2012; “Bank”) Reportedly the KGB played a prominent role in the military and computer security spheres (Shachtman, 2012).

In Soviet times, the KGB’s Bureau 6 had a firm handle on economic counterintelligence, monitoring among other affairs, the all-important telephone system (Vertushka) which connected the who’s who of the Communist elite. It’s not surprising that privatization, from its earliest days in Leningrad under Mayor Anatoli Sobchak and the free enterprise zone projects, was overseen by KGB men (Khlebnikov, 2001, 58–69) This fostered a symbiotic relationship between business and security and military intelligence. From 1991, Putin worked closely with the privatizers, later joined by Igor Sechin and Viktor Ivanov. According to British court documents: “Putin, whom Mr. Berezovsky met for the first time in October 1991, at a meeting at which Mr. Berezovsky introduced an Oklahoman oilman to the mayor of St Petersburg […] Mr. Putin helped Mr. Berezovsky to develop LogoVAZ’s business in St Petersburg […].” (High Court, 24) Strong-man Alexander Korzhakov was on the tank with Yeltsin in his well-known show-down with the Communists; his exact role remains unclear. 25

6. The dead end of alternate coalitions

The hypothesis presented in this paper– that privatization, by creating a castle-of-sand oligarchy, ultimately empowered the state– has been frequently tested. Although the oligarchs formed short-lived coalitions, they were never able to mount a bureaucracy, Putin was easily able to push the current chieftains of Russia’s elite, toppling the Gazprom group. (Pribylovsky, 2013). The current chieftains of Russia’s ‘chaibols’— Gennadiy Timchinko, Igor Sechin, Roman Abramovich, Vladimir Yakunin, Sergey Chemezov, Vagit Alekperov, Viktor Vekselberg, — are staunch allies of Putin.

Any oligarch who has attempted state seizure has been put down. In the mid-90s, Boris Berezovsky, considering his fellow oligarchs far too submissive, attempted to convert his economic clout into political power. Perhaps conceding that as an ethnic Jew he would make an implausible national leader, Berezovsky instead styled himself an éminence grise. (Zhirinovsky, 2013).

In 1994 Berezovsky and Vladimir Potanin (a bureaucrat at the Soviet foreign trade bureau who became one of Russia’s richest men) formed an alliance which they believed could alter the legal landscape to their favor (Graham, 1999). In 1996 the oligarchs used their media resources to re-elect Boris Yeltsin.

But ‘state capture’ was soon thwarted by mistrust and insecurity. During the loans-for-shares program, Berezovsky and Vladimir Gusinsky, feeling they received less than others, launched a media campaign against Potanin and Chubais, initiating the “Bankers’ War.” (Gevorkian and Dorenko, 2002) Latter, Gusinsky and Roman Abromovich, a former business partner, challenged Berezovsky. Berezovsky, thanks to charisma, was skilled at quickly concocting short-term ‘coalitions’ and controlled sufficient media resources to blemish reputations, but he badly miscalculated when he joked he was powerful enough to elect a monkey as president.

By exiling Berezovsky, Putin gained legitimacy and earned begrudging credibility from the power elite. In mass culture, Berezovsky was depicted as Mephistopheles, vilified even in the West (Krutakov, 1997). In a misguided effort, Berezovsky tried to make an improbable comeback by sponsoring such nationalists as the journalists Alexander Prokhanov and Alexander Nemzorov (Belkovsky, 2013). When pressed, it turned out that Berezovsky had few claims to real resources, only ephemeral ‘understandings.’ Against his nemesis, he could mount only a verbal campaign. Reportedly, the ‘godfather of the Kremlin’ died in debt.

24 As deputy mayor in charge of foreign investment and trade, Putin, it has been alleged, conducted several dubious barter arrangements with German firms (Kirilenko, 2010).
25 On Yeltsin’s use of the KGB (Knight, 1996).
During the waning years of Yeltsin’s presidency, several representatives of big business, joining forces with left-leaning political leaders, mounted a serious challenge. The oligarchs Vladimir Gusinsky and Michael Khodorkovsky sided with the Moscow mayor Yuri Luzhkov and Soviet-era apparatchik, Yevgeny Primakov.

Primakov, who became Prime Minister in 1998, was reportedly encouraged by Khodorkovsky. Khodorkovsky, notably, was onboard when Primakov, on route to see Vice President Gore, decided to turn the plane around after the U.S. bombed Serbia (Zakamskaya, 2009). The default of 1998 bankrupted Menatep Bank. Outwitting his creditors with creative accounting, Khodorkovsky apparently used political connections with the Primakov administration to develop Yukos. (Matloff, 1998; Freeland, 2003).

In 1999, Luzhkov was regarded as the most powerful man in Russia (The Economist, 1999). An early opponent of privatization, he gained popularity and the support of regional elites. Luzhkov had significant administrative resources; it was rumored that in 1999, he had the Moscow fire department shut down Berezovsky newspapers (Zolotov, 1999). The Gusinsky and Khodorkovsky banking groups were linked to construction ventures in Moscow, controlled in one way or another by Luzhkov (Williams, 1998). Despite these economic interests, there was little cohesion in this alliance. It proved easy for the Putin coalition to exploit a ‘divide et impera’ strategy.

The first target became Primakov. In 1998, at the height of his popularity, it was widely reported that Primakov had prepared a list of a hundred prominent people to investigate (Levkin, 1999). As Primakov latter recounted: “They concocted the so-called ‘Primakov list’ to set, not only the President, but important social groups against me. Supposedly, I gave the security forces an assignment to gather compromising material on 150 individuals. […] Together with those who were assumed to be involved in corruption, there were people well known for their propriety.” Besides members of ‘the Family,’ the list included Khodorkosky, Gusinsky, Luzhkov, and even the pro-Gusinsky Yevgeny Kiselev.26 The prosecutor Yuri Skuratov was a wingman in the Primakov crack-down. But a video of a ‘person resembling Skuratov’ in a plan à trois put an abrupt end to Primakov’s prerogatives (Kommersant FM, 2017). At this time, the episode appeared to be a victory of the Berezovsky clan, becoming the lore of the ‘state capture’ thesis. Today’s perspective shows that this incident ushered the final to any alternative oligarch coalition. Khodorkovsky and Gusinsky would never again fully trust the politicians and offered negligible resistance when Primakov was removed from power.27 A vitriolic media campaign against the Luzhkov’s presidential bid, received a meek rebuttal from Gusinsky’s media.

The next target was Gusinsky, head of a media network known for brass coverage. (Bohlen, 1999; Kokh, 2011). Behind the bravado, Gusinsky was one of the punier oligarchs. In 1994 Alexander Korzhakov had organized a raid on Gusinsky’s headquarters (Hoffman, 2011, 289–292). Luzhkov, never trusting Gusinsky, formed joint-stock financial corporation Sistema, as a counterbalance to Gusinsky’s financial empire (Peoples.ru, 2005). Entertained by omnipresent crooked-nose caricatures of Gusinsky and Berezovsky, the populace attached little weight to the ‘freedom of the press’ offered by these eccentrics.28 Among Putin’s first acts was to shut down and reconfigure his television station, NTV. Gusinsky, in debt, could no longer count on Luzhkov, who soon sided with Putin, to smooth out his finances. In a symbolism lost on few, the privatizer Alfred Kokh played a noteworthy role in NTV’s restructuring.

In 1999 Khodorkovsky backed away from Primakov, funding marginal political parties. He was accused of sinister dealings by Western privatization advisers.29 In May 2003 the commentator Stanislav Belkovsky warned that Khodorkovsky was orchestrating an ‘oligarchic coup’ by trying to create a rigged, Parliamentary-style government (Belkovsky, 2003).30 Transferring Khodorkovsky’s dubious claims to far-flung oil fields to ‘patriotic’ owners proved crowd-pleasing and manageable. Western companies speedily agreed to conduct business with Yukos successor, Rosneft. Luzhkov proved to be more formidable. The Kremlin was eventually able to exploit allegations that his wife, Yelena Baturina, received favored treatment to gradually undercut his man-of-the—people image (NTV, 2010).

Authoritative businessmen, who unlike Semion Mogilevich, refused to collaborate have been unceremoniously marginalized. Vyacheslav Ivankov, a mobster known as ‘the little Jap’ had a funeral in 2009 that became a last hurrah for the old-time crime world. Aslan Ûsoyan (a mafia Don known as ‘Grandpa’) was gunned down in 2013. Vladimir Kumarin, famous in St. Petersburg as the ‘night-time governor’ is serving a long prison sentence. .

According to a popular interpretation, under Putin, the siloviki (former intelligence officers) replaced the Jewish oligarchs and captured the state (Borogan and Soldatov, 2011; Treisman, 2007; Goldman, 2008). But, as with the outside oligarchs, there were real limits to the power of the secret services. It was the junior KGB officers– the lieutenants– who were able to exploit the fall of the Soviet Union: they did not carry any institutional gravitas. Moreover, the KGB ‘militocracy’ (a label suggested by Russian sociologist Olga Krysthantsovskaya) played an alternate role in the Soviet Union from the Guards of Iran or the army in Turkey. The KGB was designed to keep a watchful eye over the military and state bureaucracies and these institutions, in turn, begrudged the secret service. Thus the KGB never formed a ‘deep state.’ Yeltsin’s loudest opponents – Alexander Barkashov (founder of the far-right Russian National Unity movement), Albert Makashov (a “Russia for Russians” politician), Alexander

26 Owing to the tenuous legality of privatization, it soon became apparent how the oligarchs could be held in check. In 1996 Chubais announced a tax-collecting ‘Cheka’ (barrowing an acronym form the Dzerzhinsky-era secret police,) which would work with the Federal Security Service.
27 The Skuratov take-down was organized, as it has long been rumored, by Putin (Skuratov, Yu. 2012, 111). Kurginyan (1998) provided a detailed chronology of these events.
28 Personal remembrance.
29 “Renationalization and re-privatization would harm no one but Khodorkovsky and his accomplices […]” (Black et al., 2000, 1799).
30 Belkovsky now claims this was all part of a complicated plot to dethrone Igor Sechin (Belkovsky, 2013).
Rutskoi (a Vice-President of Russia who rebelled against Yeltsin), Lev Rokhlin (a general who led a reform movement and whose murder has never been solved), Vladimir Kvachkov (a military intelligence officer convicted in an assassination attempt on Anatoli Chubais) arose from the military which has continued to resist Putin’s encroachments.

The former spies, lacking business skills, have had trouble supervising their conglomerates. The KGB fostered a special mentality, dissimilar to other oligarchs. They saw themselves as ‘warriors’ versus traders. Ken Jowitt’s (1983) description of the ‘Soviet’ mindset, its ‘striking amalgam of charismatic, traditional, and modern features’ well characterizes the heroic self-perception of many former KGB figures.

Illegitimacy, replaceability and infighting have plagued the Putin-era oligarchs. In 2002, the banker Sergei Pugachev was frequently dubbed the ‘Orthodox Berezovsky.’ (Vlasov, 2002) Reportedly in an alliance with former KGB officer Victor Ivanov, Pugachev’s Mezhprombank, then Russia’s third largest bank, tried to take control of Slavneft and other companies belonging to the oligarchs (Latynina, 2002). Apparently this ended in failure: Mezhprombank is now bankrupt and Pugachev has been indicted on corruption charges. 31 In 2005, in-fighting between the director of Gosnarkontrol (the state anti-narcotics bureau), Viktor Cherkesov, and General Vladimir Ustinov became public. The rivalry between Sechin and Sergei Ivanov is notorious. Vladimir Yakunin was removed as head of Russian Railways with little protest. The myriad media campaigns that have been launched against the most puissant siloviki are tokens of their inherent vulnerability (Navalny, 2013; Shepelin, 2013). In 2017, reports have circulated that Putin’s right-hand man, Igor Sechin, may be replaced as head of Rosneft.

Privatization incubated an inherently feeble class of owners, with highly antagonistic and contradictory ideologies. Both ‘traders’ and ‘heroes’ found their best strategy was to side with the Leviathan rather than forge a new social contract with each other. 32 This thesis was demonstrated by the United States failed efforts to destabilize the Putin presidency in retaliation for the annexation of Crimea. Based on a rational-choice model which assumes Russia is an oligarch-dominated kleptocracy, the Obama administration imposed ‘targeted’ sanctions on key oligarchs. This was an attempt to change the incentives of the power elite so that they would form a coalition against Putin. Nonetheless, even with an economic downturn and international condemnation, Putin faced no opposition among the elites. 33

7. Conclusion

Russia is not democratizing. This casts doubt on Privatizatsia as a model for other countries. Mass privatization, while disrupting the economy in the short-run, was supposed to ultimately spawn a storekeeper-democracy from the ground up. In contrast to China, Russia would be shocked forever out of authoritarianism (Pei, 2006). Despite Russia being the Clinton administration’s foreign policy priority, this program failed (Rivera, 2009). Privatization created a sui generis despotism, perhaps more entrenched than China’s.

All efforts to form an alternate coalition have been futile. The majority of ‘opposition’ candidates and parties, such as Mikhail Prokhorov, are widely regarded as pawns in Putin’s ‘virtual democracy.’ (Wilson, 2005) More viable contenders, such as Alexei Navalny, have received meager help from elites (Monday, 2013). Even Medvedev, while president, gained succor mainly among wishful thinkers in Washington (Yurgens, 2013).

The dynamics of Russia’s privatization bare similarities to Dostoevsky’s The Devils. In that novel, revolutionaries forge a bond by deciding to kill of one of their own. The oligarchs are enchained to the state by their perceived crimes.

References


31 Other ex-KGB-men, such as Gennady Gudkov, Oleg Chirkunov, and Alexander Lebedev have been easily marginalized (Bohlen, 2013).

32 Some predicted that Russian elites would eventually consent to democracy as a “second best alternative.” (McFaul, 1999). But the antagonistic viewpoints of the oligarchs precluded any Adam Przeworski-style ‘elite stalemate.’

33 By contrast, a streak of tepid economic growth and minor (by Russian standards) corruption charges led to the South Korean elite abandoning President Park Geun-hye who is now in prison.


