

The Atlas That has Not Shrugged: Why Russia's Oligarchs are an Unlikely Force for Change

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Abstract: There is demand among Russia's oligarchs for systemic change, but not for the rule of law proper. Instead, it is the de facto accountability of political elites and improved relations with the West that the Russian oligarchs want from the Kremlin. However, the oligarchs currently lack the capacity to effect change. Their insufficient leverage vis-à-vis Putin is rooted in their competition for rents, which prevents them from confronting the Kremlin as a united force. In addition to analyzing the lack of systemic pressure for change from the oligarchs, this essay considers the prospects of individual oligarchs who have nevertheless pushed openly for liberalization or tried to effect incremental change. It also draws on comparisons with other countries to chart the political behavior of Russia's business elites in the future.

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Will Russia's super rich change the political status quo? To start, we must recognize the diversity of the Russian business elites, also referred to here as the *oligarchs*. In terms of their proximity to power in today's Russia, three groups stand out: Putin's friends, *silovarchs*, and outsiders.

Putin's personal friends are connected to him through the Ozero dacha cooperative, his hobbies, and his career; this is the most exclusive network. The so-called *silovarchs* (a portmanteau of *siloviki* and oligarchs) are business elites who have leveraged their networks in the FSB (Russian Federal Security Service) or the military to amass extreme personal wealth.¹ While the circles of Putin's friends and the *silovarchs* partly overlap, the *silovarchs* make up a larger group, most of whom are not Putin's friends. An even larger number of the super rich in Russia are outsiders who are not personally connected to Putin, the military, or the FSB. Despite their lack of direct connection to Putin, however, they are still deeply embedded

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in the Russian state; their outsider status is only in reference to the two other groups.

While none of these three groups is monolithic, these categories are useful to highlight the distinct power resources at the oligarchs' disposal. Putin's friends possess the highly prized "access to the body" (*dostup k telu*): the privilege to be heard by – and possibly to sway – the most powerful individual in Russia via informal conversations. Quantitative analysis suggests that being Putin's friend increases an oligarch's wealth significantly, and that this increase is particularly pronounced in times of high oil prices.² Meanwhile, the *silovarchs* have direct access to coercion, either through their current appointments in the power agencies (the police, FSB, military, and other security services), or through their close personal contacts there. More than other groups, the *silovarchs* possess the power of (c)ommission: they can implement Putin's orders – or refuse to do so. Since 2003, Putin's friends and the *silovarchs* have steadily risen to control crony sectors of the economy and to hold important positions in the executive branch. These groups are disproportionately represented on corporate boards of the so-called state corporations, and they often own large stakes in firms from sectors in which profitability depends on government favor (including oil, utilities, telecommunications, defense, and construction).³ However, compared with Putin's friends and the *silovarchs*, the influence of outsiders is much more mediated. Some outsiders have held seats in the Duma, while others have lobbied via the Russian Union of Industrialists and Entrepreneurs (RUIE), a business association representing large capital.⁴

Our main issue – the pressure for change – generates two questions. Is there any demand for change on the part of the oligarchs (and if so, in which direction)? And to the extent such demand exists, do

the oligarchs possess sufficient leverage to shift Russia's trajectory?

The lack of oligarchic demand for systemic change toward the rule of law seems a foregone conclusion; "overdetermined" in social scientists' parlance. Let us analyze it in terms of economist Albert Hirschman's conceptualizations of responses to adversity: *exit* (opting out of future transactions), *voice* (communicating a complaint, grievance, or proposal for change), and *loyalty*.⁵

Consider *exit*. Unlike trapped constituencies, such as the uneducated labor force, Russia's business elites have ample possibilities to retire not only their capital, but also themselves, abroad.⁶ Would they risk demanding institutional change at home when they can so easily change their individual circumstances? The data on investor visas show that Russian business elites are increasingly purchasing foreign residence permits.⁷ The top issuers of investor visas for Russian big capital are, in descending order, the United Kingdom, Portugal, the United States, and Austria. In these countries, investor visas lead to permanent residence or citizenship and involve a minimum \$1 – 3 million investment and, in some cases, proof of job creation. The United States and the United Kingdom, in particular, have experienced a sharp rise in the number of investor visas issued to Russian nationals since 2010.

In terms of loyalty, it pays to support a system that allows one to prosper. For the oligarchs, it may be precisely the lack of rule of law that facilitates the expansion of riches,⁸ such as through a variety of corrupt schemes commonly referred to as "raiding."⁹ To be sure, the environment of constant danger is not for the faint of heart. According to Russian entrepreneur Mikhail Gutseriyev, who left Russia in 2007 after being pressured to sell his company Russneft, "only in London did I realize that . . . back in Russia I had spent 20 per-

cent [of my time] on business, and 80 percent on confrontation [*protivostoyanie*].”¹⁰ And yet, when given a chance in 2010, Gutseryev returned to Russia, suggesting that the risks of “confrontation” may be well worth the rewards. In a 2007 survey of the executives at 396 Russian manufacturing enterprises, 24 percent of the respondents agreed with the statement: “the poor protection of property rights presents not only a threat but also an opportunity for business growth.”¹¹

Finally, even when business elites voice their disagreement with the system, they may press the state for de facto accountability at the firm level via stakeholder alliances with labor, the community, or foreign investors.¹² Such alliances serve as ersatz institutions, allowing business owners to protect their specific firms while avoiding the need for country-level rule of law.

Taken together, the above factors imply that business elites are partly complicit in the persistence of Putinism, their complicity being not only self-fulfilling, but also self-serving. Trends among the Russian billionaires suggest as much.¹³ According to *The Economist*’s crony capitalism index for 2016, billionaire wealth from the crony sectors in Russia is the highest in the world as a percentage of GDP (18 percent), followed by Malaysia (13 percent) and the Philippines (11 percent); it has also risen since 2014 (from 16 percent).¹⁴ Meanwhile, most of the unfortunate Russian billionaires who lost their billionaire status from 2006 to 2015 were not victims of the state, but rather of market conditions or of unscrupulous rivals.¹⁵

Yet to conclude that the oligarchs are content with the status quo is premature. To identify what the oligarchs want, let us move beyond the rule of law as the benchmark.

Russia’s super rich may not want institutionalized accountability writ large (com-

petitive and honest elections, plus legislative and judiciary independence). But there is likely to be demand for de facto elite accountability. From the oligarchs’ perspective, the latter could theoretically be achieved in several ways, including 1) a relatively impartial elite arbiter, such as Soviet-era Brezhnev or Ukraine’s Kuchma before the Orange Revolution; 2) an empowered oligarch-controlled parliament, such as the Ukrainian Rada after the Orange Revolution; 3) Singapore-style authoritarian legality guaranteeing property rights without competitive politics; or 4) powerful associations of large businesses that can check the state, as in Porfirian Mexico.

The demand for such de facto elite accountability, in whatever form, is rising. The conditional nature of oligarchic ownership in Russia has long been acknowledged, the local joke being that there are no billionaires in Russia, only people working as billionaires. Yet the conditionality imposed on the oligarchs by Putin early in his first tenure (“stay out of politics, keep your property”) is becoming unreliable. The contrast between the 2003 case of Mikhail Khodorkovsky and the 2014 case of Vladimir Yevtushenkov, both business oligarch targets of Putin’s Kremlin, is telling. One could easily argue that Khodorkovsky flouted Putin’s “rules” by financing opposition parties and threatening to interfere with Russia’s foreign policy (via plans for Yukos’s pipelines and asset sales to U.S. firms). Yevtushenkov, however, epitomizes oligarchic loyalty to Putin. Yevtushenkov abandoned his patron Yuri Luzhkov, the ex-mayor of Moscow to whom Yevtushenkov owes his fortune, when Luzhkov’s relations with the Kremlin grew tense in 2010. (Yevtushenkov, it so happens, is married to Luzhkov’s wife’s sister, which must have made for some tense dinner conversations.) But no matter: Yevtushenkov’s oil company, Bashneft, was expropriated, decimating the oligarch’s wealth, despite the fact that

Yevtushenkov's progressive buy-up of Bashneft shares from 2005 to 2009 had been meticulously coordinated with the Kremlin. Igor Sechin, Putin's favored *silovarch* in charge of Rosneft, reportedly masterminded the 2014 attack on Bashneft. The fact that Putin let a loyal oligarch (Yevtushenkov) be devoured by Sechin raises the question of what exactly loyalty to Putin is worth.

Recently, another apolitical oligarch, Sergei Pugachev, has faced the Kremlin's wrath. In exile since 2012, Pugachev faces criminal charges in Russia and claims that the Kremlin had expropriated about \$15 billion of his business assets. Formerly referred to as the "Kremlin's banker," Pugachev was notably a member of Putin's inner circle in the early 2000s.

The irregular application of unwritten rules must make Russia's business elites nervous. A careful observer may note that Putin's group of friends is rather fluid. By 2010, Putin distanced himself from friends of the late 1990s and his first presidency (including Pugachev), reaching out instead to friends from his younger years: that is, from the early to mid-1990s (such as from the Ozero dacha cooperative) and even from childhood (as in the case of Arkadii Rotenberg). Is there a guarantee that Putin will not "unfriend" some of them, too?

The tide of commercial litigation by the Russian business elites in Western jurisdictions suggests that, for the oligarchs, Putin is not living up to the role of arbiter or enforcer of authoritarian legality.¹⁶ One would expect the expatriates to sue the Russian state from abroad, since the very reason for their self-exile is persecution at home and/or distrust of the Russian system. More interestingly, however, many lawsuits adjudicated abroad nowadays are between Russia-based claimants. In other words, even oligarchs who are comfortable in Putin's Russia are not satisfied with the dispute resolution in their home country. It gets better: some lawsuits now involve Rus-

sian government entities as plaintiffs suing, in Britain, the self-exiled oligarchs who reside in London (as in the case of *Deposit Insurance Agency v. Pugachev*).

Overall, there is demand for greater predictability in business-power relations on the part of the oligarchs, but no vision on how to achieve it. Given Putin's erratic decisions, the oligarchs have no reason to trust him with the role of stabilizer or enforcer, even if he plays that role by default. A more institutionalized form of authoritarian legality is also unpalatable to many oligarchs, given how diligently the FSB has been collecting *kompromat* (evidence of legal wrongdoing that can be used for blackmail) on business elites, including the *silovarchs*.¹⁷ Meanwhile, popular resentment of the super rich in Russia makes honest and competitive elections a risky proposition. Russian business elites have closely watched the instability in Ukraine in the wake of democratization, including both the reprivatization attempt after the 2004 Orange Revolution and some anticorruption initiatives after the 2014 ouster of Yanukovich.¹⁸ Finally, the oligarchs' experience with the RUIE and its mixed record in improving state-business relations has cooled business elites' enthusiasm for association building.¹⁹ RUIE's requests on behalf of Khodorkovsky and Yevtushenkov were ignored by the Kremlin. At the end of the day, the question facing the Russian oligarchs is urgent but unanswered: which way from here?

In addition to greater predictability, another vector of implicit oligarchic demand for change aims at a more West-friendly foreign policy. This demand is conditioned both by tangible personal losses from Western sanctions experienced since 2014 by Putin's friends and some of the *silovarchs*, as well as the desire by all categories of oligarchs to keep the West as a viable exit option. The latter implies that the Russian super rich want to prevent the reputational

damage abroad from spiraling entirely out of control. The twenty-one richest Russians lost a total of \$61 billion in 2014, one quarter of their total fortune, leading some analysts to predict a “chilly fallout between Putin and his oligarch pals.”²⁰ One caveat here is that new fault lines may emerge between a subset of the *silovarchs* who profit directly from the defense industry (and are therefore interested in a continued standoff with the West) and the rest of the business elites.

Most Russian oligarchs would benefit from a shift in Russia’s trajectory toward greater de facto elite accountability and lower hostility vis-à-vis the West. But is this implicit demand matched by the oligarchs’ capacity to achieve it?

The answer is no. The key reason is a collective action problem. While in smaller economies the actions of a single larger-than-life oligarch (such as Bidzina Ivanishvili in Georgia) may change the status quo, the sheer number of Russia’s super rich, all equipped with their own power resources, implies that sustainable leverage requires cooperation.

Cooperation, however, is not the Russian oligarchs’ strong suit. For Putin’s friends and the *silovarchs*, the problem resides in the competitive nature of the Russian kleptocracy. Russia’s piranha capitalism is defined as much by a “bully in the penthouse” as it is by “termites in the basement”: individual state employees at all levels of the executive hierarchy view the rents they can extract from the economy as a zero-sum game.²¹ Even if Putin wanted to be a trusted arbiter among the oligarchs, the implementation of Putin’s decisions would be a challenge in a system whose executive branch is pulled apart by competing kleptocrats, not least the *silovarchs* who have effectively undermined a number of Putin’s priorities, including international defense contracts, Gazprom’s strategy in Europe, and electoral manipulation.²²

To be sure, oligarchic clans offer a form of collective action, but they appear fragmented, overlapping, and ever changing.²³ Putin’s closest friends are not above mutual sabotage, including that of their patron: consider analysis by *The Economist* showing that a state-linked Russian oil trader, Gunvor Group, was regularly driving down the price for Urals, a Russian export oil mixture, for the private profit of Genadii Timchenko, a supposed Putin loyalist.²⁴ When nominal loyalty yields to predatory temptations, group cohesiveness suffers. Pugachev, Putin’s former St. Petersburg friend, has embezzled oligarchic donations to Putin’s election campaigns, including a \$50 million donation from Lukoil alone, according to the chief editor of Russia’s independent TV channel Dozhd’.²⁵

The outsider tycoons, too, are anything but cohesive. This was most vividly demonstrated by the five-year struggle for Norilsk Nickel between Vladimir Potanin (famous for engineering the loans-for-shares scheme in the 1990s) and Oleg Deripaska (affiliated with Dmitrii Medvedev, Aleksandr Voloshin, and the vestiges of Yeltsin’s “family”). Potanin initially outsmarted Deripaska, who, in turn, vowed to fight Potanin “to the death” as both oligarchs engaged their massive administrative resources at home while also suing each other abroad in a series of battles between 2008 and 2012.

In addition to wars within the groups of Putin’s friends, *silovarchs*, and outsiders, these groups also appear to be at each other’s throats. Four oligarchic clans, in particular, are currently competing for decreasing rents under economic decline: Putin’s friends (including Timchenko, the Rotenbergs, and the Koval’chuk brothers); the FSB-affiliated *silovarchs* headed by Rosneft’s Sechin; the army-connected *silovarchs* headed by Defense Minister Sergei Shoigu; and the Gazprom clan headed by ex-president Medvedev and Aleksei Miller. Interestingly,

Putin's friends have lost some key battles over the production of oil pipelines and the control of main TV channels.

Public knowledge of oligarchic rivalries likely constitutes only the tip of the iceberg, making collective leverage by the super rich in Russia an unlikely proposition. But collective lobbying is not the only path to leverage for the super rich.

Let us reconsider *exit*. As noted above, from the oligarchs' perspective, their opportunities to leave Russia may reduce their demand for change. However, from Putin's perspective, capital flight or its implicit threat as such can put pressure on the system by depriving the Russian economy of investment, jobs, and tax revenue. In other words, an exit may reduce the oligarchs' explicit demand for better arrangements from the state while simultaneously increasing the oligarchs' implicit leverage to get such arrangements. Exit as a form of leverage does not depend on collective action, since every oligarch can exercise it individually.

In Russia, it is more difficult for individual *silovarchs* and friends of Putin – as compared with outsider oligarchs – to rely on exit as an implicit threat, due to the intimate connections to the state apparatus of Putin's friends and the *silovarchs*, as well as the progressive tightening of (Putin-inspired) legislation restricting state employees' foreign asset ownership.

In any case, Putin has been starkly insensitive to the implicit exit threat of Russia's individual capital owners. As one oligarch noted in his comment on the Bashneft attack:

The Kremlin certainly would understand that it was going to hurt the stock market; that it's going to add to the whole economic situation; that it was going to frighten the business community. . . . They went ahead anyway . . . because they wanted to deliver a message: "Behave yourself."²⁶

Instead of counteracting capital flight by improving the investment climate, the Kremlin has tried to force capital back, for example through the "deoffshorization" campaign launched in 2013. Until recently, individual oligarchs could decide separately on whether to 1) keep their physical profit-generating assets in Russia; 2) register their assets and cash flows in Russia or offshore; 3) personally reside in Russia or abroad; or 4) let their family members reside in Russia or relocate them abroad. The winning formula for many oligarchs has been to keep their physical productive assets in Russia but register them offshore while also securing foreign residence permits for oneself and/or one's family. The deoffshorization campaign may indicate a shift in the Kremlin's attitude regarding these possibilities of *exit*. At the unlikely extreme, Putin may push the oligarchs to decide: either keep your business in Russia and register it there – or liquidate your assets in Russia and leave the country altogether. So far, many top companies such as RusAl, Metalloinvest, MTS, RusHydro, and Kamaz have pledged to stop registering businesses offshore and to repatriate their physical productive assets held abroad.

If the oligarchs' reaction to Western sanctions and economic decline is any indication, then the oligarchs' influence on Russia's trajectory will remain limited.

The RUIE has pointedly kept silent on Russia's economically ruinous foreign policy since the conflict in Ukraine has unfolded. Despite their massive financial losses in 2014, Putin's friends paraded their readiness to sacrifice even more for their leader in various interviews. Said Timchenko: "If need be, I will transfer everything to the state tomorrow. Or to charity. . . . My wife and I have discussed this many times. Personally, we do not need billions."²⁷ Of course, the propagandistic aspect of such statements aside, the oligarchs care deeply about their billions. Yet their strategy of wealth

defense has been indirect: instead of pushing Putin to change course, the oligarchs have sought compensation from the state. In September 2014, the Duma adopted a law stating that Russian citizens who lost assets abroad due to sanctions would be compensated from the Russian treasury. The law sparked a popular outcry, as Russian taxpayers balked at the prospect of bailing out the oligarchs. Vladimir Ponevezhskii, the United Russia deputy who formally initiated the law proposal, laughably defended it as potentially benefitting ordinary citizens who may own apartments in Bulgaria.²⁸ Meanwhile, Arkadii Rotenberg's property (four villas, one apartment, and one hotel) happened to be seized in Italy hours before the proposal's initiation in the Duma, which some analysts interpreted as more than coincidental.

Putin's reaction to these attempts at personal compensation by the oligarchs was negative (both the Russian government and the supreme court rejected the Duma law), although some strategically important companies, particularly Rosneft, have received ample help from the state. As for the conflict in Ukraine, it fell to professional technocrat and former minister of finance Aleksei Kudrin to speak the truth (economic decline) to power (Putin). Meanwhile, the oligarchs bit their tongue – again.

The bottom line: absent greater cooperation by the oligarchs, or higher responsiveness of the Russian leadership to the threat of capital exit, Russia's business elites have little leverage to shape the country's development.

Eppur si muove! While the oligarchs' leverage in Russia is systemically limited, cases of vocal – if so far inconsequential – opposition by business elites do exist. Two types of instances come to mind.

First, the *renegade oligarchs*, such as Khodorkovsky, Chichvarkin, or Boris Berezovsky, have experienced persecution

by the Russian state, left the country, and then invested in opposition to Putin's regime from abroad.

Prior to his 2013 (apparent) suicide, Berezovsky had conducted a broad informational campaign against Putin, including financing a film that implicated the FSB in the 1999 apartment bombings in Russia. Berezovsky also wrote open letters to Putin ("Volodya, ... as a typical dictator, you are not ready to surrender power through elections"), to the Patriarch Kirill ("Your Saintness, ... help Putin come to his senses ... take power from his hands and peacefully, wisely, Christian-like, give that power to the people"), and to George W. Bush, among others.

Mikhail Khodorkovsky was pardoned by Putin in 2013 after a politically motivated ten-year imprisonment. The oligarch has since reanimated his foundation Open Russia, which provided logistical backing to hundreds of independent and opposition candidates in the 2016 Duma elections. Khodorkovsky has forcefully criticized Russia's military actions in Ukraine. He has also hired a substantial staff of professional journalists to fuel his growing online presence.

Yevgenii Chichvarkin, the flamboyant erstwhile owner of Evrosnet (Russia's largest mobile phone retailer), fled to London in 2008 after losing his business in a series of raids by the police. Though the fabricated criminal cases against Chichvarkin in Russia were closed in 2011 (the oligarch personally appealed to Medvedev on the matter), he chose to stay in London and engage in opposition activity.

In 2016, Chichvarkin joined forces with Khodorkovsky. The oligarchs conducted an online press conference in April 2016 from London, streaming live to the Moscow offices of Open Russia. By video, Chichvarkin suggested that color revolutions "should not be feared." According to Khodorkovsky, Chichvarkin's experi-

ence in mass communications would benefit the “political-educational” mission of Open Russia. Despite their diverging political visions – Khodorkovsky calls himself a statist (*gosudarstvennik*) while Chichvarkin identifies as a libertarian – both oligarchs agreed at the conference that the current Russian power is, as Chichvarkin said, “hurtling toward a dead end.” When the Putin regime hits that dead end, the renegades plan to oversee a two-year “temporary administration” in Russia in order to ensure subsequent honest elections.

The renegade oligarchs face significant challenges in their quest to democratize Russia: they lack the support of the Russian population at large and they are disconnected from influential elites at home. If a political opening occurred in Russia, the renegades could potentially return and help steer the country, but they are unlikely to be the cause of that opening. So far, the renegades’ strategy has been to invest heavily in communications capacity; nurture and showcase a cadre of young politicians in the Duma elections; and wait for the Kremlin to make a mistake.

Putin has not been prone to mistakes, however – not when it comes to power preservation. But the Russian president may well become more vulnerable as he ages. This appears also to be Khodorkovsky’s timeline, given the oligarch’s prediction of significant change in Russia around the presidential elections of 2024.

Second, oligarchs such as Aleksandr Lebedev and Mikhail Prokhorov have engaged in the formal political process while living in Russia; I refer to such oligarchs as the *Trojans*. Like the renegades, the Trojans advocate for democratization and rule of law. However, they have stopped short of criticizing Putin directly, focusing on systemic shortcomings instead. More so than the renegades, the Trojans emphasize gradual, evolutionary changes.

Lebedev is a banker, media owner (he co-owns *Novaya gazeta* with Mikhail Gorbachev, plus several British papers), and former KGB officer. Lebedev ran for mayor of Moscow in 2003, but lost to Luzhkov. He also sought to run for mayor of Sochi in 2009, but his candidacy was disqualified. Lebedev successfully ran for the Duma, where he was a deputy from 2003 to 2007, switching his party affiliations from Rodina to United Russia to independent during his term. Lebedev has devoted resources to exposing high-level corruption in the Russian bureaucracy, and though he once cooperated with Aleksei Navalny, he has distanced himself from the prominent opposition activist since 2012.

Mikhail Prokhorov has owned major assets in mining, finance, and media (as well as the Brooklyn Nets of the National Basketball Association). He ran as an independent candidate in the 2012 presidential elections. In 2011, Prokhorov had become the leader of the Right Cause Party. After losing the presidential elections to Putin, the oligarch launched a new party, Civic Platform.

Prokhorov’s political involvement is the most high-profile to date by a Russian oligarch. His respectable 8 percent vote share in the 2012 presidential elections, despite the domination of the media by Kremlin-friendly outlets, suggests that the Trojans are better connected to Russian citizens and elites than the renegades. Furthermore, it demonstrates that divisions among Kremlin insiders can help the Trojans. Prokhorov’s political rise would have been impossible without the intensifying competition between the teams of Prime Minister Putin and President Medvedev at the time. However, Prokhorov’s experience also demonstrates two limitations of the Trojans.

First, the Trojans are no match for the Kremlin’s political technologists when it comes to strategy in the Byzantine world

of authoritarian populism. Prokhorov was defeated twice: by Putin and Volodin from without, and also by Vladislav Surkov and Medvedev from within. As the Right Cause Party was searching for leaders among the Russian establishment, Putin and his chief of staff Volodin sent signals to key figures (including German Gref, Aleksei Kudrin, and Igor Shuvalov) to stay away from the party, and they mostly did.²⁹ When Prokhorov took the helms of Right Cause, the party had already been drained of human capital at the top; its lack of professional leaders was barely compensated by celebrities like Alla Pugacheva, a Soviet-era singer whom Prokhorov recruited into the party. The next stage of Prokhorov's defeat involved his conflict with Surkov. Medvedev, interested in developing his own quasi-liberal party at the time so as to counterbalance Putin's influence, had outsourced this task to Surkov. (This is not without irony, since Surkov had also been the ideological godfather of United Russia, the presumed target of Medvedev's planned liberal force.) Surkov decided to take over an existing party, Right Cause, and pushed out Prokhorov from its leadership by cutting deals with other members of the party's governing organ. Medvedev watched from the sidelines and did not intervene.

Second, the Trojans have shown a limited commitment to political life. After defiantly declaring war on Surkov, Prokhorov traveled to Turkey for a one-month vacation. By the time of the 2014 St. Petersburg International Economic Forum, an annual event promoted by Putin, Prokhorov was entertaining Russia's elite with his traditional dance reception, complete with striptease dancers. His war on the establishment seems to have been forgotten. The message emerging from the Trojans' utility curves often spells hedonism, not political work. (Like Prokhorov, Lebedev is known to enjoy the company of intellectuals, celebrities, and beautiful wom-

en worldwide.) Unlike the renegades, the Trojans seem to play politics rather than to live politics. Opposition activity as a hobby – even when pursued by talented, charismatic, and wealthy individuals – will not unsettle Russia's political equilibrium.

Regardless of their proximity to power, most Russian oligarchs have been quiescent amidst attacks by the Kremlin, Western sanctions, and economic decline. Those who have pushed for change remain marginalized. Will this situation last? Two overarching lessons can be gleaned from other countries to forecast the political behavior of Russia's business elites.

First, oligarchs have good reasons to fear democracy, but this fear can be overcome. For the oligarchs, democratization involves multiple threats that have materialized to some extent across the world after the introduction of greater political competition. These threats include trust-busting and demonopolization reforms (South Korea); pressure for higher taxes and redistribution (Argentina, Brazil, Mexico); collapse of order and spiraling violence (Indonesia); and revision of privatization results (Ukraine).

However, democratization is by no means anathema to the super rich. They are more likely to accept it or push for it when some of the following conditions hold: economic prosperity (South Korea); declining dependence of business profits on government connections (Western Europe, Mexico, Brazil); high dependence of political elites on big business for political finance (Ukraine); or a sharp increase in the autocrat's attacks on business elites (Kyrgyzstan, Ukraine, Belarus, Kazakhstan).

Of course, just because the oligarchs voice their support for democratization does not mean that political change follows. This brings us to the second point.

To effect change, the oligarchs need the people. Mikhail Prokhorov may empathize with Chung Ju-yung, the founder of Hyun-

dai, who established a new political party and ran for president in 1991–1992 in a bid to challenge the ruling Democratic Justice Party and the incumbent. Chung ran on a platform stressing competence and professionalism, just like Prokhorov. But he suffered a humiliating defeat, despite the fact that South Korea's business elites had closed ranks behind the need for change. Though fed up with economic incompetence of the regime, the chaebols—large family-run business conglomerates—remained alienated from the population at large. Collective action by the oligarchs is not enough.

The importance of popular support should be self-evident for the renegades and the Trojans: that is, for all oligarchs who openly advocate liberalization. But if the Ukrainian experience is any guide—even for the Russian business elites who care more about their material interests than any political vision—popular support is crucial. Quantitative analysis of the Ukrainian super rich suggests that business wealth is more resilient against various shocks (including authoritarian expropriation) for oligarchs who pursue “flexible” strategies aimed at legitimacy (via media and political parties) than for oligarchs who rely on direct power or asset mobility.³⁰

While the gulf has always been enormous between Russia's business elites and the general population, the Kremlin's economic (since 2009) and foreign (since 2011) policies have driven a further wedge between the tiny fraction of Russia's “one percent” and the rest. The Kremlin's military-economic populism has combined an aggressive stance abroad with patriotic

propaganda and the financial support of vulnerable population layers at home. In budget terms, this policy paradigm is too expensive amidst economic recession. Yet while the oligarchs pick up the bill—in the form of new taxes on oil revenue, Western sanctions, and lost trade—citizens at large applaud Putin.

The oligarchs understand Putin's game. The fugitive oligarch Pugachev cannot be alone in thinking that “today, personal friendship and loyalty don't mean anything... Why does Putin need friends when 85 percent of Russians support him?”³¹ The billionaire Yurii Koval'chuk, Putin's friend who replaced Pugachev in his informal capacity as the president's personal banker, captured the prevalent mood best in his reaction to Western sanctions: “Put yourself in my place. If I start annoying him, like Kudrin does, telling him what he does not like, arguing back [*perechit'*]—how will that end for me? I will reduce my access to the body, punishing myself even stronger than the Europeans did. What for? For whom?”³²

In Ayn Rand's libertarian manifesto *Atlas Shrugged*, which has inspired generations of teenagers worldwide as well as wealthy entrepreneurs like Yevgenii Chichvarkin, large capitalists pull out of a state-dominated economy, forcing its collapse, and then take over leadership. Although some of the Russian oligarchs have resorted to an exit, it has not been sufficient for the Kremlin to change course. Meanwhile, divisions among the oligarchs as well as between the oligarchs and the population have prevented effective oppositional voice. The Russian Atlas just won't shrug.

ENDNOTES

¹ Daniel Treisman, “Putin's Silovarchs,” *Orbis* 51 (1) (2008): 141–153.

² Natalia Lamberova and Konstantin Sonin, “They are Rich Who Have True Friends: The Value of Political Connections in Russia,” working paper, 2016.

- ³ In 2007, a fundamental revision of the law on state corporations granted these conglomerates tax preferences, wide-ranging regulatory exemptions, and operational independence from local state bodies. The associated soft-budget constraints and “political capitalists” emerging from such arrangements have been shown to undermine reforms in the post-Soviet context. See Neil A. Abrams and M. Steven Fish, “Policies First, Institutions Second: Lessons from Estonia’s Economic Reforms,” *Post-Soviet Affairs* 31 (6) (2015): 491 – 513.
- ⁴ While politically impotent, the Russian parliament provides deputies with immunity from legal prosecution, which is attractive for some business elites.
- ⁵ Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, Mass.: Harvard University Press, 1970).
- ⁶ Gulnaz Sharafutdinova and Karen Dawisha, “The Escape from Institution-Building in a Globalized World: Lessons from Russia,” *Perspectives on Politics* (2016).
- ⁷ Olga Gulina, “Russia’s Investments in the West,” *Intersection*, April 27, 2016, <http://intersectionproject.eu/article/economy/russians-investments-west>.
- ⁸ Konstantin Sonin, “Why the Rich May Favor Poor Protection of Property Rights,” *Journal of Comparative Economics* 31 (4) (2003): 715 – 731.
- ⁹ Stanislav Markus, *Property, Predation, and Protection: Piranha Capitalism in Russia and Ukraine* (New York: Cambridge University Press, 2015), 54 – 64.
- ¹⁰ Irina Reznik, “Ya nikogda ne torgoval Rossiyei,” *Vedomosti*, May 19, 2010, <http://www.vedomosti.ru/newspaper/articles/2010/05/19/biznes-po-urovnyu-razvitiya-operezhayet-pravoohranitelnuyu-i-sudebnuyu-sistemy>.
- ¹¹ For a full analysis of determinants of business aggressiveness in Russia and Ukraine, see Markus, *Property, Predation, and Protection*, 111 – 112.
- ¹² Stanislav Markus, “Corporate Governance as Political Insurance: Firm-Level Institutional Creation in Emerging Markets and Beyond,” *Socio-Economic Review* 6 (1) (2008): 69 – 98; and Stanislav Markus, “Secure Property as a Bottom-Up Process: Firms, Stakeholders, and Predators in Weak States,” *World Politics* 64 (2) (2012): 242 – 277.
- ¹³ Henry E. Hale, *Patronal Politics: Eurasian Regime Dynamics in Comparative Perspective* (New York: Cambridge University Press, 2015).
- ¹⁴ See “Comparing Crony Capitalism Around the World,” *The Economist*, May 5, 2016, <http://www.economist.com/blogs/graphicdetail/2016/05/daily-chart-2>.
- ¹⁵ Daniel Treisman, “Russia’s Billionaires,” *American Economic Review* 106 (5) (2016).
- ¹⁶ Delphine Nougayrède, “Outsourcing Law in Post-Soviet Russia,” *Journal of Eurasian Law* 3 (6) (2013).
- ¹⁷ Alana V. Ledeneva, *Can Russia Modernize? Sistema, Power Networks and Informal Governance* (New York: Cambridge University Press 2013), 38.
- ¹⁸ Stanislav Markus, “Sovereign Commitment and Property Rights: The Case of Ukraine’s Orange Revolution,” *Studies in Comparative International Development* 51 (4) (2016).
- ¹⁹ Interestingly, the association of midsize enterprises, Business Russia (*Delovaya Rossiya*), has been much more successful in Russia since the financial crisis, as compared with the RUIE, which unites large capital. Lacking the individual political resources of the oligarchs, midsize firms felt greater pressure to unite and, through their association, have pushed through amendments to the criminal code aimed at decriminalizing business; the institutionalization of the office of the “federal ombudsman for the protection of business people”; and the implementation of regulatory impact assessment; among other changes. See Stanislav Markus, “Capitalists of All Russia, Unite! Business Mobilization Under Debilitated Dirigisme,” *Polity* 39 (3) (2007): 277 – 304; and Markus, *Property, Predation, and Protection*.

- ²⁰ Henry Meyer and Irina Reznik, "The Chilly Fallout Between Putin and His Oligarchic Pals," Bloomberg, January 22, 2015, <https://www.bloomberg.com/news/articles/2015-01-22/putin-said-to-shrink-inner-circle-as-ukraine-hawks-trump-tycoons>.
- ²¹ Markus, *Property, Predation, and Protection*, 2.
- ²² *Ibid.*, 89 – 97.
- ²³ Some of the oligarchic formations suggested by observers over time include: 1) *piterskiye chekisty* (FSB associates from St. Petersburg) around Sechin; 2) *piterskiye chekisty* around Patrushev; 3) *piterskiye fiziki* (physicists from St. Petersburg); 4) Orthodox *chekisty*; 5) Voloshin's group; 6) Medvedev's group; and 7) Leonid Reiman's group.
- ²⁴ "Gunvor: Riddles, Mysteries and Enigmas," *The Economist*, May 5, 2012, <http://www.economist.com/node/21554185>.
- ²⁵ Mikhail Zygar', *Vsya kremlovskaya rat'* (Moscow: Intellektual'naya Literatura, 2016), 21, 37.
- ²⁶ Steven L. Myers and Jo Becker, "Even Loyalty No Guarantee Against Putin," *The New York Times*, December 26, 2014, https://www.nytimes.com/2014/12/27/world/even-loyalty-no-guarantee-against-putin.html?_r=0.
- ²⁷ TASS (Russian News Agency) interview with Gennadii Timchenko, Project "Pervye Litsa," August 4, 2014, <http://tass.ru/ekonomika/1357928>.
- ²⁸ Ekho Moskvyy interview with Vladimir Ponevezhskii, September 30, 2014, <http://echo.msk.ru/programs/razvorot/1409024-echo/>.
- ²⁹ Zygar', *Vsya kremlovskaya rat'*.
- ³⁰ The darker side of the Ukrainian lesson is that adaptability and deniability, which these flexible strategies assure, can make the oligarchs immune to democratic pressures. See Stanislav Markus and Volha Charnysh, "The Flexible Few: Oligarchs and Wealth Defense in Developing Democracies," *Comparative Political Studies* (forthcoming), <http://journals.sagepub.com/doi/full/10.1177/0010414016688000>.
- ³¹ Meyer and Reznik, "The Chilly Fallout Between Putin and His Oligarch Pals."
- ³² Zygar', *Vsya kremlovskaya rat'*, 370.