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RUSSIA'S OLIGARCHS

ANALYSIS

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Abstract

Oligarchs, wealthy business people who use their financial resources to influence politics, are in many countries treated as the "real" decision-makers. While their success in influencing specific policies in favour of their business interests is highly visible, their impact on political regime change is less clear. This analysis describes the different roles that Russian oligarchs have, and could have, played in the country's political regime developments.

Introduction

The rise of the first Russian oligarchs followed a largely uniform pattern. Building on personal networks from the Soviet system, they used the economic liberalisation of the late 1980s to start business activities mainly in trade and finance. In both cases, big gains were only possible with political support. Regulatory and inspection authorities turned a blind eye to the new entrepreneurs' activities. The national bank provided preferential credits. State enterprises became clients. (see e.g. Rutland 2001)

Several of the new entrepreneurs used their profits from financial and trading activities to build industrial holdings. They took over state enterprises in the course of the privatisation process and their trading companies exploited their customers' debts during bankruptcy proceedings, in order to bring them under their control. Here too, state support was indispensable. The privatisation process was in many cases manipulated by the state officials in charge of running them. The bankruptcy proceedings were also frequently steered in favour of the trading companies. (see e.g. Johnson 1997)

State Capture

This extensive rent seeking was only possible in political regimes that gave business people enough leeway for independent action, i.e., which were not fully authoritarian, while at the same time lacking the rule of law. (For a concise overview of post-Soviet cases see Hale 2015, pp. 95–110) The oligarchs' success in stabilising a political system in which they were largely free from any controls has famously been described as "state capture" by Hellman et al. (2003).

A good conceptualization of the respective political regime is provided by Levitsky and Way (2010, p. 5): "competitive authoritarian regimes are civilian regimes in which formal democratic institutions exist and are widely viewed as the primary means of gaining power, but in which incumbents' abuse of the state places them at a significant advantage vis-à-vis their opponents. Such

regimes are competitive in that opposition parties use democratic institutions to contest seriously for power, but they are not democratic because the playing field is heavily skewed in favour of incumbents. Competition is thus real but unfair."

Oligarchs can play an important role in such a system, as they can help the ruling political elite create the uneven playing field. When Boris Yeltsin won the presidential elections in 1996, although his public trust ratings had usually been in single digits in the two years prior to the election, his victory was largely attributed to the oligarchs' financial support and control over media reporting. In turn, the oligarchs received preferential treatment in privatisation auctions organised in the years before and after the election. In most cases, the bank of a favoured oligarch was awarded the task of organising the auction, which allowed it to disqualify rival bidders and sell big companies in the resource sector to a holding company controlled by the respective oligarch. In 1995 average prices paid equalled less than two years' profits of the respective companies. (see e.g. Pleines 2000, Schröder 1999).

In his second term, Yeltsin was weakened by serious personal health problems, as well as the country's economic crisis. On the one hand, this meant that oligarchs gained even more power, leading to popular talk about the "reign of the seven bankers" in reference to the seven most influential plutocrats. On the other hand, no one expected this system to last beyond the end of Yeltsin's time in office. In the final years of the Yeltsin presidency, oligarchs as well as members of the political elites, e.g., regional governors, began to position themselves for a change in power.

Three Scenarios

Concerning the impact of oligarchs on Russia's political regime, three developments seemed possible at the time. The most discussed was the role of oligarchs as power brokers. The political camp that was able to ensure support from the most important oligarchs was supposed

to win, as had happened with Yeltsin in 1996. At the same time, oligarchs who had sided with a losing candidate where likely to switch camps. In such a case, oligarchs, when trying to pick the winner of future power struggles, act as catalysts. The more obvious the winner becomes, the more oligarchs join his camp, thus speeding up his victory.

This scenario later characterized Ukraine. A telling indicator of the flexibility of Ukraine's oligarchs is their political affiliation in the national parliament. After each presidential election since 2000, each being won by an oppositional candidate to the previous incumbent, oligarchs have helped to engineer a parliamentary majority for the winner, switching sides regularly. (Pleines 2016, p.121)

A second scenario that could have played out in Russia at the end of Yeltsin's presidency, was a more direct takeover of political power by an oligarch. Boris Berezovsky, for example, one of the leading oligarchs at the time, clearly had political ambitions. He had been deputy secretary of Russia's National Security Council for a short time and was a candidate in the 1999 national parliamentary elections.

The scenario of an oligarch taking over power on his own initiative (and not as in the case of Ukraine after 2014 as part of a winning coalition) has played out in Georgia and Moldova. In Georgia, Bidzina Ivanishvili, the only Georgian who has been included on the Forbes list of billionaires to date, founded the oppositional Georgian Dream party in 2012, which won the parliamentary elections in the same year. Though for most of the time not formally in charge, Ivanishvili clearly has been dominating Georgian politics since then, e.g. forcing the government to resign in 2018 (see Pleines 2019). In Moldova, Vlad Plahotniuc, who had acquired four of five national TV stations, managed to form a broad coalition of political parties. Although his official positions—parliamentary deputy from 2010 to 2013 and again from 2014 to 2015—looked minor, he in fact indirectly controlled the government through his position as leader of the Democratic Party (Calus 2016).

In both scenarios, oligarchs were powerful enough to prevent any big political regime change, ensuring that weak controls and their own state capture continued without any challenges from rule of law or authoritarian repression.

It is important to understand that in cases where oligarchs play an independent role in politics, they have never pro-actively promoted full democratization. Even when faced with public pressure, as e.g. in Ukraine, they have continued to manipulate politics and prevent the rule of law from applying to them. Only in two historic cases, the US robber barons of the late 19th century and

the South Korean chaebols of the late 20th century, did a combination of public pressure, investigative journalism and judicial independence over the course of several decades force independent oligarchs to integrate into a fully democratic system. (For an overview of historic cases see Pleines 2019.)

What, however, happened in Russia in 2000 was a different scenario which surprised most observers. Instead of dominating politics, oligarchs were told by the newly elected president, Vladimir Putin, that "the state has a stick" and that they should subordinate to the "vertical of power".

Authoritarian Consolidation

Immediately after his election, Putin moved against business magnates with control over important mass media outlets, namely Boris Berezovsky and Vladimir Gusinsky. Oligarchs who challenged Putin politically, most prominently Mikhail Khodorkovsky, were also neutralized with the help of manipulated judicial proceedings. These oligarchs lost their core business assets and were forced into exile (see e.g. Barnes 2003, Monday 2017). Braguinsky (2009, p. 346) finds that "more than half of the postcommunist oligarchs who rose to prominence during the Yeltsin era did not survive in the ranks of the oligarchy until 2006."

However, this development did not lead to the disappearance of oligarchs in Russia. On the contrary, according to the annual lists of the world's billionaires compiled by the Forbes magazine, the number of Russian billionaires more than tripled during Putin's second term (2004–08). It fell drastically in the wake of the international financial crisis, which hit Russia hard; however, it soon stabilized at approximately 100.

This is a typical phenomenon when a political regime dominated by oligarchs goes through authoritarian consolidation. Similar developments could be observed in Venezuela under Hugo Chavez and currently in Turkey under Recep Erdoğan. In order to counterbalance the old oligarchs new loyal ones are promoted, who depend fully on the increasingly autocratic ruler. When old oligarchs are expropriated, their assets are often transferred to the new loyal ones. The resulting system has been called "business capture" by Russian analysts, as the balance of power has been reversed from the old state capture (Yakovlev 2006).

Hale (2015) gives a fuller picture of such a constellation arguing that "in post-Soviet Eurasia, networks rooted in three broad sets of collective actors typically constitute the most important building blocks of the political system, the moving parts in its regime dynamics: (1) local political machines that emerged from reforms of the early 1990s, (2) giant politicised

corporate conglomerates, (3) various branches of the state that are rich either in cash or in coercive capacity. Whoever controls theses bosses, "oligarchs", and officials controls the country. [...] Understanding that this is the way politics works, the country's machine bosses, oligarchs, and officials have a strong incentive to fall into line or, even better, to get on the chief executive's good side by proactively working in his or her interest. [...] The recent political history of almost every post-Soviet country, therefore, has included the creation of a single pyramid of authority, a giant political machine based on selectively applied coercion and reward, on individualized favour and punishment."

Outlook

In such a system, oligarchs become an integral part of the ruling political elites. They can still influence political decisions in their favour, but they are no longer in a position to dominate politics or to impact on political regime change. Levitsky and Way (2010, p. 212) characterize the resulting situation with a quote from an Armenian legislator who claimed, "you cannot be a leader of an opposition party and have a businessman as a partner—he would be eliminated as a businessman."

However, as last year's successful pro-democracy protests in Armenia have shown, oligarchs who have been fully incorporated into the ruling clientelist system are no longer in a position to independently object to political regime change. From Taiwan and Mexico in the late 20th century to Armenia and Malaysia last year, oligarchs without an independent role in politics have moved along with democratization attempts from above as well as from below, remaining largely invisible.

For the Russian case this implies that should there be an attempt at democratization in the future, with oligarchs now tightly integrated into the ruling elites, they are most likely no longer a force to reckon with.

About the Author

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"It's My Genes!"

How Russia's Super-Rich Account for their Success

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Abstract

Drawing on their Soviet heritage, many among the first generation of rich Russians explain their success as a result of biology. However, exposure to international norms is teaching newer generations of the wealthy to provide more sophisticated explanations to justify their worthiness.

Coming from Good Stock

"In the first place it's talent, intelligence, willpower and hard work," was the most frequent reply I got from my wealthy Russian respondents—multimillionaires and billionaires—to the question of what explained their success. Yekaterina, one billionaire's wife, became outright impatient with me when I asked her what qualities and skills she thought her parents had passed on to her. "Listen, Elisabeth, I got genes from my parents," she replied. "Of course, these genes allowed me to develop myself and all the qualities that led to success."

My puzzled looks must have prompted her to explain further: "I don't have any noble roots. My parents are relatively simple people. All they achieved, they achieved because of their own capabilities." Yekaterina's father was one of ten children born into a peasant family deep in rural Russia. Despite this modest background, he became a professor and "a great scientist." Right after the war, Yekaterina's mother moved from Ukraine to Moscow to study: "She made it into university on her own efforts." After graduating, she went into science research where she stayed all her professional life. "You can see, they hadn't had their paths laid out for them," Yekaterina said proudly. To her the secret of her parents' success is no mystery at all: "They possessed natural and biological resources which they managed to make the most of. They had a thirst for education, culture and a certain lifestyle, both of them. And I inherited it. That's actually really wonderful."

Otherwise, Yekaterina stuck to all the rules of modesty a descendant from a Soviet intelligentsia family is supposed to demonstrate. It took for her husband Gennady to join us to learn that she had graduated with a Red Diploma "from a very prestigious university," in physics. "There were only about two females for a hundred male students," he added proudly.

One of the couple's children is exceptionally gifted. "Our son is much better than I am," Gennady said both with modesty and pride. One can assume that growing up in the most privileged setting was rather useful to the son to have his talents not go unnoticed. Blind to

those circumstances, Gennady—a self-declared atheist, in whose family everybody had been a Communist Party member—explained his offspring's outstanding talent by two reasons: "This is thanks to God and thanks to genes."

A Common Point of View

From the perspective of many of the 80 multi-millionaires and billionaires I interviewed for my book *Rich Russians: From Oligarchs to Bourgeoisie*, attributing their fortunes to what they consider good genes and biological superiority totally makes sense: what is supposedly grounded in nature is difficult to argue against. Although such ways of "naturalizing" the social and the historical have a particularly strong tradition in Russia, elsewhere in the world the great and the good also see their fortunes and status grounded in supreme biology and character. According to several studies by the US social psychologists <u>Kraus and Keltner</u>, many of those born into and raised in the greatest privilege are convinced that their success is down to their talents and hard work.

Most of them have, however, long learned to hold back such views in public. Western attitudes towards a biological reading of the world — and the social norms dictating what one is allowed to say about such things in public — were largely transformed in the aftermath of World War II. Critical thought, especially feminist thinking, demonstrated that repressive hierarchies, which some perceive as natural and biological, were in fact simply man-made and imposed by social norms, rather than given by nature and biology. This insight radically reformed Western thinking.

A Soviet Twist

Meanwhile, in the post-war Soviet Union, conservativebiological interpretations of history and human behavior rose to the fore. An intellectual development so opposed to the one in the West was determined by two major specifics: First, Soviet policies prioritized natural science at the expense of developing the social sciences, which at least by idea are meant to foster critical inquiry. Second, genetics as a discipline had been banned for a good number of years under Stalin, so that after his death it became an attractive alternative for people who had become disillusioned with Soviet ideology.

As a result, politically conservative views came to merge with biological interpretations of history and human behavior, paradoxically especially among the most educated layers of society, the Soviet intelligentsia. The historian of science Loren Graham observed in the early 1980s that "naturist" viewpoints enjoyed uneven but surprising support across a wide spectrum of educated groups, among them academic geneticists, literary avant-gardists, dissidents, anti-Marxists, ethnic specialists, conservative nationalists, and police administrators.

This was despite the fact that Marx saw consciousness determined by being, something in which early Soviet leaders gleaned great potential for transforming society and creating the new Soviet man. Instead, Soviet traditionalist ideology by the 1960s and 1970s had long convinced even the intellectual avantgarde that everyone and everything should assume a place allocated to it by "nature." This included views on family, gender roles and motherhood.

Soviet Naturist Roots of Today's Russian Rich

That a large part of today's Russian rich were raised in this spirit goes a long way in explaining why so many of them adopted a biologically-driven perception of the world and their own position in society. Such views of the world were reinforced by the cut-throat years in the 1990s. Soviet propaganda had it that in capitalism the gains made by the few (the "capitalist sharks") inevitably lead to the suffering of many. This rationale symbiotically coexisted with the post-Soviet liberal-economic spirit into which many people were socialized during Perestroika and the early 1990s. In the late 1990s the former oligarch and long-term prisoner Mikhail Khodorkovsky, whilst en route to becoming the richest man in the country, went a step further when he told the Canadian journalist Chrystia Freeland that "if a man is not an oligarch, something is not right with him." His explanation was that as "everyone had the same starting conditions, everyone could have done it."

The predominating social-Darwinist principle "survival of the fittest" was justified as the best remedy to cure the lack of a work ethic, the inertia and inefficiency of the ordinary Soviet person. This harsh capitalist treatment would make those Soviet people who were unfit for the new conditions perish, while the fittest (the more energetic, capable, and entrepreneurial) would survive and flourish. The remedy worked. The birth rate

declined dramatically, and life expectancy plummeted. The death rate soared. Male life expectancy, which in the early 1960s was higher than in the United States, fell to nearly 57 years by the mid-1990s. It was, in the most basic physical terms, a time of the survival of the fittest. The winners shrugged their shoulders; after all they knew from Soviet propaganda that this was what capitalism was all about.

Putin's conservatism and the rising influence of the Russian Orthodox Church in the new millennium have not significantly intensified biologically driven views, but neither have new ideas emerged questioning, for example, the "naturalness" of patriarchal gender characteristics or ethnic traits. The children of the first generation of rich have happily taken on their parents' narratives, including the idea that supreme genes are running through their veins. Twenty-four-year-old Andrey was a great exception when telling me that he had a problem with having simply been born into wealth: "I don't always feel comfortable. After all, I am using someone else's money. From one perspective you can say that simply because I'm my father's son I've got the right to go on some luxurious holiday. Yet I didn't earn the money for it and actually I don't deserve this money for any other reason than that I'm my father's son.... It's actually quite out of order."

Inheriting a Work Ethic

Hardly anybody else was as self-questioning as Andrey, but many adhere to the general idea that it is important to be hard working to be the deserving children of rich parents. Yulia understands this completely. For a woman who is still in her mid-twenties, her CV is impressive. She has carried out projects in many fields: tech, finance, the state sector, media, fashion, and the arts. A couple of days prior to our meeting she received a postgraduate diploma from an East Coast university. Now she was about to return to Moscow to join the management of a large state-aligned company.

Yulia's father is a billionaire with excellent connections to the Kremlin, which is very useful given his broad investment portfolio. Although her management position is a great leap forward for someone her age, Yulia wants to follow in her father's footsteps and set up her own business. Her self-assessment is concerned with merit, experience, and vision, rather than privilege: "The spirit in my family, together with my personal views, has always driven me to do something by myself. This is important because the more responsibility you take on, the faster things develop. It's important to leave your comfort zone and speed up your development."

Yet thanks to her family, Yulia never had to work in finance or as an analyst or consultant, as many of her

peers from university have done. She is glad to have avoided this as it would only have slowed her down unnecessarily. In general, Yulia has benefitted vastly from the social networks of her well-connected father. She is aware of this when reminiscing about how many interesting things she picked up when her parents had guests over for dinner. However, when it comes to her own career, those aspects disappear from her self-assessment, which is that she has achieved success because of her "inner" strength, her discipline, and her drive.

Learning To Fit into a Global Elite

As Max Weber wrote, if a fortune is not earned, it should at least be deserved—or rather: feel deserved. The confidence and large financial resources this first generation of inherited wealth enjoy provides them with a comfortable existence and the luxury of choice to pursue interesting and innovative projects. The inculcation of appropriate manners, a certain cultural understanding as well as some ambitions and perseverance in their professional careers might enable them to develop new practices and narratives, which make them feel deserved and maybe even to be seen as deserving. Their international schooling is likely to ensure that they will not repeat Yekaterina and Gennady's rather raw and cruel statements, but that they will be able to express and articulate privilege in such a way as to signal their underlying virtues and worthiness, even in an environment marked by extreme inequality.

About the Author

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ABOUT THE RUSSIAN ANALYTICAL DIGEST

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