BUSINESS AND CIVIL SOCIETY IN RUSSIA

By Peter Rutland [1]

Private business is a vital element in any civil society. Business has the resources and expertise to defend and advance its interests in the face of pressure from the state. In most countries. there is concern that business may be too strong and successful a player in civil society. Business groups may be able to overpower labor unions, exploit and cheat unorganized consumers, and even "capture" state instititions and political parties, thereby turning the state into an instrument for the advancement of its corporate interests rather than the common good.

In the Soviet Union, legally independent business corporations did not exist. All industrial institutions were owned and controlled by the state, and tried to advance their interests through a dense network of bureaucratic bargaining. In the fifteen years since the collapse of the Soivet Union, the institutional structure of the Russian economy has been dramatically transformed. Large private business corporations dominate the economic scene and are active players in political life.

However, since the accession of Vladimir Putin to the presidency at the end of 1999, the Russian state has been reasserting its power, forcing Russian business to retreat. At the time of writing (mid 2004) it is unclear how far Putin will go in his campaign to bring Russian business back under state control.

Understanding civil society: the Anglo-Saxon model

Civil society is a contested concept. It has a variety of meanings, and has itself become a tool of political struggle, both in the West and in Russia itself. Broadly speaking, the term refers to organized groups representing social interests that are independent of the state and pose a check on its power.

The concept of civil society arose in 18th century Scotland in response to the spread of capitalism, which saw the growth of merchants and manufacturers independent of the state. Civil society is closely connected to the concept of rule of law – an independent judicial system which can fairly administer the law. The rule of law provides a framework for the adjudication of disputes between

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[1] Al Evans, Laura Henry and Lisa Sunstrom (eds.), *Russian Civil Society* (ME Sharpe, 2006), ch. 5, pp. 73-94.

members of civil society. Also, in a society governed by rule of law, even state institutions must obey the law. The capitalists of 19th century Scotland wanted to protect their interests against each other, but also against the sovereign state.

Thus from the very beginning, the concept of civil society saw independent business interests as an essential component. Only if there is a significant part of society earning its livelihood outside the state can one hope to see a dispersal of political power. Members of this capitalist class were among the most active proponents of the virtues of civil society, which they saw as serving their own interests as well as the public good.

The Anglo-Saxon model is typically invoked as the ideal type of civil society. It presupposes a broadly developed market economy with a large and diverse population of market actors: independent farmers, small businessmen and the like. From the writings of James Madison through to the pluralist school of the 1950s, the emphasis was on competition between independent economic and political actors producing a rough equilibrium in the political market-place. At the same time there was a fear that business and other private interests could threaten civil society if they became too powerful, and exerted disproportionate influence over the state (recall James Madison's warning of the evils of faction). These fears materialized during the era of "robber barons" in late 19th century America. In reponse there arose the doctrine of pluralism, the belief that there should be a diversity of business interests and a variety of organizations representing them, to ensure that no one group would achieve a dominant position, at least not on a permanent basis.

Pluralist theory assumed not just a plurality of actors within the business sector, but also a plurality of dimensions of interest representation. Business interests would compete along with groups representing labor, consumers, regional interests, religious confessions, etc. It was recognized that civil society was imperfect; that some groups would be better able to advance their interests than others. But in the pluralist paradigm, the social system has self-correcting tendencies, such that no one group would be able to enforce its interests all the time.

Civil society in Russia

How does Russia measure up against this ideal type of civil society?[2] On one hand, post-Soviet Russia does have a large number of social, economic and political actors (companies, labor unions, social organizations, etc.) that exist outside the state apparatus – both in law and in reality.

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[2] Aleksandr Khlopin, "Grazhdanskoe obshchestvo v Rossii," *Pro et Contra*, vol. 7, no. 1, 2002.

On the other hand, the rule of law is exceptionally weak, and the state is able to exert strong influence over the conduct of most social actors. There is a contradiction, then, between the rapid appearance of civil society *actors* and their limited power in practice.

This paradox is particularly sharp if one looks specifically at the business component of civil society. After 1991 Russia very rapidly gave birth to several dozen successful and internationally prominent business corporations. In 15 years Russia went from a society where entrepreneurship was a crime, to one which had produced 36 individual billionaires, the third highest number in the world.[3] In a World Bank study of industrial concentration, the country's 23 largest firms were estimated to account for 30% of Russia's gross domestic product, and these firms were effectively controlled by a mere 37 individuals.[4] By international standards, this is an astonishing concentration of wealth and industrial power in such a large country, all the more surprising given that this entire economic elite did not exist 15 years ago.

Yet in July 2003 prosecutors started arresting top executives of Russia's largest oil company, Yukos, on various fraud charges. And on 25 October 2003 the richest man in Russia, Yukos head Mikhail Khodorkovsky, was himself jailed on vague charges of tax evasion, and he stayed in prison until his trial started in June 2004. One could not ask for a more vivid illustration of the limits of civil society in Russia.

This chapter will try to explore the contradictory evidence for the presence and absence of civil society in Russia, as exemplified by the Khodorkovsky case. Does the arrest of Khodorkovsky prove that civil society is dead in Russia, and that all businesses are subservient to the state? Or is his case an exception, that shows the limits of business power, but does not reflect the real, day-to-day influence of the business community?

The Russian transition to capitalism

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[3] "Rising tide," *Forbes*, 15 March 2004. Some of the people on the list complained that *Forbes* exaggerated their wealth, although Boris Berezovsky said he was richer than *Forbes* reported. (*Vedomosti*, 13 May 2004) Forbes listed 25 billionaires in February, then increased the number to 36 in May, reflecting new estimates of their stock holdings. They counted zero Russian billionaires in 2000, and 17 in 2003.

[4] World Bank, *From Transition to Development*. (draft) April 2004, www.worldbank.org.ru. See also the explanation of the report by the lead author Christof Ruehl, World Bank press conference, Federal News Service, 7 April 2004. The study was conducted in 2003 and was looking at company structure as of 2001.

Russia's transition to democracy was accompanied by a remarkably rapid transition to capitalism. In the space of a decade, Russia went from an economy where more than 90% of activity was under state control, to an economy where 70% of assets and employment were in legally private corporations. Yet Russia somehow managed to make the leap from state socialism to capitalism without developing the rule or law and civil society.

One can divide the Russian economic transition into three phases; 1992-94, 1995-98; and 1999-2004.

The first phase 1992-94

The first period of chaotic liberalization and voucher privatization (1992-94) saw the rapid emergence of a multitude of independent economic actors – from street traders, now allowed to buy and sell in public markets, up to factory directors, now free to "privatize" their still state-owned factory cash flows by routing sales through intermediary firms. This process saw a leakage of power from state to non-state actors, and from the federal center to the regions. Individual regional leaders signed bilateral "treaties"with President Boris Yeltsin on the division of reponsibilities with the federal center, beginning with Tatarstan in 1994. (By 1996 46 of Rusia's 89 regions had signed such treaties.) The period also saw the breakdown of respect for the law and a surge of crime and corruption.

These processes resulted in a weak state and the dispersal of power, but did not lead to the appearance of civil society in the classic sense of the term. In the chaos of transition, power shifted from formal political institutions to informal networks of influence among individuals who had political connections or economic resources at their disposal.

The process of dismantling formal institutions was actively encouraged by the liberal leaders of the state, such as Yegor Gaidar (prime minister in 1992). They saw it is a way of preventing a return to Communist power. The reformist leaders gave higher priority to avoiding a return to the past than building new institutions for the future.[5] Promoting respect for the law, effective regulatory institutions or a healthy civil society was simply not on their agenda. The architects of the new decentralized political economy hoped that it would be a transitional stage, a painful but

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[5]. Vladimir Gel'man, "Institutsional'noe stroitel'stvo i neformal'nye instituty v sovremmenoi Rossiiskoi politike," *Polis*, no. 4, August 2003.

short interlude that would open the door to the eventual emergence of civil society and a stable democracy.

While market forces penetrated large sections of economic activity, the Russian economy as a whole was only partially marketized by the Yeltsin reforms. In the face of runway inflation, a cash squeeze, and the breakdown of bank credits, a parallel economy sprang up, where factories traded goods with each other through physical barter or using pseudo-currencies such as bills of exchange or tax credits. This parallel economy accounted for perhaps half of all business-to-business transactions.[6] The interface between polity and economy was mediated by corruption and mutual favors, instead of by political orders as under the old regime. It did not involve by the sort of transparent political bargaining and legal adjudication characteristic of civil society. Alarmingly, businesses started using criminal groups and not the courts to enforce contracts and secure their property rights.[7]

Yulia Latynina vividly explained the process:[8]:

"Back in the late 1980s, when the future oligarchs were just getting started in a frenzy of dirt and blood, each faced an impossible task: dealing with the thugs who walked into their offices, stuck guns to their heads and demanded money. They solved this problem by amassing security forces and privatizing the state along with the cops and the prosecutors. Then, instead of disarming and disbanding their privatized police forces, the oligarchs began to battle one another. They taught the prosecutors how to use criminal investigations to pry factories away from their owners. They created Frankenstein, but Frankenstein did not obey his master for long."

The existence of organized crime by itself neither proves nor disproves the existence of civil society. (Robert Putnam's book on Italy, which re-ignited American interest in civil society, does not discuss whether the presence of the Mafia weakens or strengthens social capital.[9]) But as Latynina suggests, the criminalization of Russian business was a highly volatile process that opened the door to a counter-offensive by state security organs.

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[6] Alena V. Ledeneva, *Russia's Economy of Favours: Blat, Networking and Informal Exchanges* (Cambridge University Press 1998); David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (New York: Cornell University Press, 1999).

[7] Federico Varese, *The Russian Mafia* (New York: Oxford University Press, 2002).

[8] Yulia Latynina, "Who is the biggest loser?" *Moscow Times*, 29 October 2003

[9] Robert D. Putnam, *Making Democracy Work. Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1994)/

The lack of a firm legal basis for their rapidly-acquired wealth made the new business elite vulnerable to attack by the state, the guardian of legality (especially in the Russian historical context). The rapidity and rapaciousness of their enrichment meant that they lacked a strong social basis of support, such that when the state came knocking on their door it would be with public approval, not approbation.

The second phase 1995-98

Second, there was a phase of gradual consolidation (1995-98). More powerful competitors pushed out their weaker rivals, and a system of "oligarchic capitalism" emerged in which influence was concentrated in the hands of a small number of powerful individuals. These figures headed business corporations, but had close connections to the political leadership at national or regional level. Russia had dismantled an autocracy, but instead of rule by the many (democracy) it had arrived at rule by the few (oligarchy).

Most of these oligarchs headed private corporations formed on the basis of former state enterprises, such as regional oil companies, banks or metallurgical plants. They typically made their first million through commodity trading, importing scarce goods or financial brokering, and then grew by acquiring state assets as they were privatized.[10] Alfa Group, Inkombank, Rosprom, SBS-Agro and Rossiiskii Kredit all had their origins in enterprises formed under the auspices of the Communist Party of the Soviet Union or its youth branch, the Komsomol. Vladimir Potanin's Oneksimbank came out of the foreign trade ministry, but grew into the most extensive and diversified of the oligarchic holdings, Interros, that owns the minerals giant Norilsk Nickel.[11] Among the top oligarchs only Vladimir Gusinsky's Most Group and Boris Berezovsky's Logovaz can be regarded as relatively independent start-up operations.[12] Berezovsky began with a chain of

[10] For journalists' accounts see Rose Brady, *Kapitalizm: Russia's Struggle to Free its Economy* (New Haven: Yale University Press, 1999); Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* (New York: Crown Business, 2000); Paul Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia* (New York: Harcourt, 2000); Matthew Brzezinski, *Casino Moscow: a Tale of Greed and Adventure on Capitalism's Wildest Frontier* (New York: Free Press, 2001).

[11] Tatyana Lysova, "Reform of the oligarchs," *Ekspert*, 18 March 1998.

[12] Other, less politicall prominent oligarchs who were start-up billionaires include Igor Yakovlev of the Eldorado retail chain, and cell-phone magnates Dmitri Zimin (VimpelCom) and Vladimir Yevtushenkov (MTS).

auto dealerships, then went on to acquire the international operations of Aeroflot, the ORT television station, and the Sibneft oil company. Vladimir Gusinsky began with an information service, then moved into publishing and banking.

A pivotal event in the transition to oligarchy were the loans for shares auctions in 1995-96, when key firms such as Norilsk Nickel and the Sibneft oil company were sold off at bargain prices to politically-favored businessmen. In return these oligarchs helped Boris Yeltsin win re-election in June 1996 by putting their financial and organizational resources at the president's disposal. Above all, it was the mobilization of their press and TV empires which pulled Yeltsin through to victory. Some of the businessmen were rewarded for their help by being appointed to government positions in the fall of 1996. Thus Boris Berezovsky became deputy secretary of the Security Council and Vladimir Potanin became deputy prime minister, although both lasted less than a year.

The oligarchic consolidation in 1994-96 coincided with a degree of macroeconomic stabilization. Inflation came down from 1500% in 1992 to 25% in 1996 and 12% in 1997. GDP even recorded slight growth of 0.7% in 1997, after seven years of decline. It was at this point that the term "oligarch" entered the Russian political lexicon.[13] In spring 1997 t was taken up by Boris Nemtsov, a deputy prime minister who was pushing for a new round of liberal reforms, along with fellow deputy premier Anatolii Chubais. Nemtsov and Chubais wanted to cut corruption and introduce more competition into the "crony capitalism" that had been forged between the newly-emerged oligarchs and the weakened state.

Had Nemtsov and Chubais succeeded, perhaps Russia's oligarchic capitalism could have evolved into something like a civil society. The Russian state was weak, having leaked political power to the regions and economic power to the oligarchs. The 1997 reform drive failed in the face of energetic opposition from regional governors and business oligarchs, who mobilized their supporters in the State Duma. Moreover, the macroeconomic stabilization proved illusory. The government was borrowing heavily to cover its budget deficit. The Asian financial crisis in 1997 caused a slump in world oil prices, that in turn eroded Russia's curent account surplus. That together with the ballooning budget deficit led to a run on the ruble and the dramatic devaluation and debt default in August 1998.

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[13] The word "oligarch" was first used by Aleksandr Privalov of *Ekspert* magazine, who started a regular poll of elites, publishing rankings of who were seen as the most influential political and business figures. Olga Romanova, "Novosti," *Vedomosti*, 29 January 2002.

We will never know for sure, but one can argue that the demise of oligarchic capitalism was due to deep contradictions in the model, and not merely contingent factors such as Yeltsin's incompetence or the August 1998 financial crash. Two contradictions stand out. First, the oligarchs were parasitic on the Russian state. They were draining it of assets and revenues, to the point where the budgetary imbalance and profiteering from high-interest treasury bonds helped trigger the 1998 crash. Second, the oligarchs were deeply divided among themselves. They did not trust eachother, fighting bitterly over the privatization of the telecom holding company Svyazinvest in summer of 1997.[14] By September the feuding – in the form of personal attacks and corruption allegations in rival newspapers – was so intense that Yeltsin called the six leading bankers to a meeting and persuaded them to declare a truce.[15]

Crony capitalism, it seemed, was here to stay. The reform process was stalled in midstream.[16] Powerful leaders had a vested interest in preserving the status quo, and there was no significant coalition of groups with a stake in further reform. The economy had been sufficiently liberalized to enable the oligarchs to enrich themselves, but no so much as to expose them to effective competition (from foreign companies, for example). Ordinary citizens were dissatisfied but felt powerless to change the status quo. They retreated into their family survival strategies and private networking – which included cheating on taxes and paying bribes, further corroding the social values necessary for civil society to flourish.

There was no question that the new business corporations were very powerful political actors, with considerable economic resources, a strong identity within each corporation, and access to the political power elite. But the headlong speed of their rise meant their legitimacy was fragile and social base weak.[17] Both state and society are suspicious of business, a value orientation that has deep roots in Russian culture, pre-Soviet, Soviet and post-Soviet. Big business is associated with injustice. According to a 2003 ROMIR poll, 45% consider the influence of big business on the economy is negative, 25%, and on politics 49% negative and 17% positive.[18] In a FOM poll of

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[14] Stephen Fortescue, "Pravit li Rossie oligarchiya?" *Polis*, vol. 5, no. 8, 2002.

[15] Dmitrii Pinsker, "Anti-Davos in Moscow," *Itogi*, 23 September 97.

[16] Joel Hellman, "Winners take all. The politics of partial reform in post-communist transitions," *World Politics*, no. 50 (January 1998), pp. 203-34.

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

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

June 2003 71% agreed with the statement that you cannot earn a lot of money without breaking the law.

In most societies, capitalists were forced to overcome their differences and act collectively to ward off a challenge from the rest of society, in the form of organized labor or socialist parties seeking power through the ballot box. In post-Soviet Russia labor was weak and demoralized, and the left wing of the political spectrum was dominated by the backward-looking Communist Party, which could never garner more than 30% of the vote. So Russian business never faced a serious left-wing challenge that would have forced it to act in a cooperative and socially responsible fashion.

The oligarchs did not have a mechanism for resolving disputes among themselves. The only "mechanism" they had was appeal to Boris Yeltsin. Given that Yeltsin was physically incapacitated for most of the time, this meant they competed for the favor of the Kremlin courtiers (the "Family") who controlled access to the president. Yeltsin's second and final term as president would end in March 2000, and the oligarchic system did not have any mechanism in place for picking a successor to Yeltsin.

The third phase 1999-2004

The tremendous uncertainty over the Yeltsin succession triggered mounting instability. Yeltsin went through a succession of prime ministers in 1998-99, searching for a reliable successor who could maintain the political system that he had created. (Sergei Kirienko was followed by Yevgenii Primakov,and then Sergei Stepashin.) The State Duma elections scheduled for December 1999 were seen as a sort of presidential "primary," it was assumed that the leader of the winning party would be well placed for a run at the presidency. The oligarchs funded rival parties in the Duma election, which was fought through a bitter and dirty media campaign.

Ousted Prime Minister Primakov joined forced with regional bosses Yurii Luzkhov (Moscow Mayor) and Mintimer Shaimiev (President of Tatarstan) to form the Fatherland-All Russia alliance. In the wake of the Chechen terrorist raid on Dagestan in August 1999 Yeltsin appointed yet another new Prime Minister: Vladimir Putin, the head of the Federal Security Service. In the wake of a wave of apartment house bombings, in September Putin sent federal forces back into Chechnya. The Kremlin slapped together a pro-Putin Unity party, and Berezovsky's ORT TV channel rallied to the Kremlin cause, launching blistering attacks on Luzhkov and Primakov. Meanwhile Gusinsky's NTV backed Fatherland/All Russia. Unity finished second in the Duma election with 23% of the vote, only just behind the Communists, pushing Fatherland/All Russia into third place with 13%. Yeltsin pre-empted the race for the presidential succession by resigning ahead of schedule on 31 December 1999, nominating Putin as acting president. Putin proceeded to sweep the March 2000 presidential election.

At first, it looked as if Putin was going to preserve the essential features of Yeltsin's oligarchic capitalism. He said that his intention was to continue market reform and to leave the results of Yeltsin's privatization program in place. Many key figures from Yeltsin's inner circle or "Family" were kept on in the Kremlin, such as chief of staff Aleksander Voloshin and Prime Minister Mikhail Kasyanov. Berezovsky gave out the impression that he personally had been the architect of Putin's rise to power. However, one week before the election Putin sent a warning signal. Speaking to Radio Mayak on 18 March he attacked the oligarchs who have been "merging power with capital" and declared that "Such a class of oligarchs will cease to exist."

Putin proved more independent than many observes had supposed, not willing to preserve the privileged political role that the oligarchs had carved out during the Yeltsin years. In the summer of 2000 Putin moved quickly to win back control of the national TV stations, driving their owners Boris Berezovsky and Vladimir Gusinsky into exile. He did this through a shrewd combination of threats of criminal investigation and economic pressure by loyal oligarchs. Masked tax and security police staged a dramatic raid on Gusinsky's Media-Most offices in downtown Moscow on May 11, just four days after Putin's inauguration. This was followed up by the Gazprom company calling in $400 million it had lent to Gusinsky's NTV. In July Gusinsky made a secret deal with Press Minister Mikhail Lesin and the head of Gazprom-Media, Alfred Kokh, under which he agreed to cede control over NTV in return for the cancellation of its debts to Gazprom and the dropping of criminal charges. He then fled the country.

At the same time Putin created a new system of federal districts headed by presidential plenipotentiaries, with the goal of forcing the regional governors to obey federal laws and directives. On 31 May 2000 Berezovsky published an open letter denouncing Putin's federal reform plans. In June, under pressure to repay a $100 million loan from state-owned Vneshekonombank, Berezovsky agreed to transfer his 49% stake in the ORT television company back to the state. In July procurators started an investigation of Berezovsky in connection with Aeroflot's foreign currency accounts, and by November 2000 he too had gone into exile

Although some saw Putin's summer 2000 offensive as signaling the end of the oligarchs, Putin's crackdown was limited to Gusinsky and Berezovsky., who controlled media empires that had directly challenged Putin's rule.[19] The other oligarchs assumed that so long as they kept away from mass media (television in particular) it would be business as usual. In 2001, Aleksandr Tsipko argued that "Just as under Yeltsin, Russia is still ruled by a group of oligarchs via their proteges in the president's administration, the government and the security services."[20]

Yeltsin's system was roughly pluralistic, with a competition for influence between several centers of power – the oligarchs, the Kremlin, regional governors, and political parties in the State Duma. At first, it looked as if Putin wanted to strengthen the power of the state but not break the pluralistic character of the system as a whole.[21] But as time went on, it became increasingly clear that Putin wanted to replace pluralism with a centralized, authoritarian hierarchy, the "power vertical." The Yeltsin system *could* perhaps have evolved into a civil society: but the Putin project is its antithesis.

The pivotal confrontation which revealed the contours of Putin's regime was the showdown with oil oligarch Mikhail Khodorkovsky in 2003.[22] By 2004 it was clear that oligarchic capitalism had given way to a system of state capitalism.

The limits of oligarchic capitalism

Why did the system of oligarchic capitalism prove unstable? Several factors were involved. First, the economic fate of the individual oligarchs was just too closely tied to the course of state policy. Who would be given the right to acquire the remaining assets of state industry as they were put up for privatization? For how long would the government retain control over the "natural monopolies" such as the railways, Gazprom, Unified Energy System, the oil pipeline operator Transneft, Gazprom, the telecom holding Rostelecom?

Second, there is the matter of pride and envy. Some of the oligarchs envied the power of the president, and sought some of that glory for themselves. Berezovsky and Gusinsky controlled media empires and revelled in playing the political game until they were forced into exile. Then in

[19] Christian Caryl, "Twilight of the oligarchs," *Newsweek International*, 5 February 2001.
[20] Aleksandr Tsipko, "The Family takes control of domestic politics," *Prism*, Jamestown Foundation, vol. 7, no. 9, 30 September 2001.
[21] Natalya Astrakhanova, "Natural clan selection," *Ekspert*, no. 46, December 2001.
[22] Natalya Byanova and Andrei Litvinov, "Russian pogrom against the oligarchs," *Gazeta*, 24 December 2003.

spring 2003 Mikhail Khodorkovsky, the founder of the Yukos oil company and the richest man in Russia, started signalling his interest in a political career. In Putin's quarterly meeting with businessmen in February 2003 Khodorkovsky reportedly railed against corruption and quizzed Putin about a deal in which state-owned Rosneft oil company was buying the smaller Severnaya Neft for $600 million, a price that he contended was excessive. Later that month rumors began circulating that Khodorkovsky intended to run for the presidency in 2008 – if not in 2004. Yukos was active in buying the loyalty of Duma deputies, and did not hesitate to use its leverage to block legislation that it disliked, such as higher oil excise taxes and revisions to the law on production sharing. In the run up to the December 2003 State Duma election, Khodorkovsky was pouring money into parties across the political spectrum. (As was Berezovsky, from his London exile.) Yukos-linked analysts were floating the idea of introducing a parliamentary system of government, in which the government would be answerable to the State Duma (presumably oligarch controlled) rather than to the president. [23]

The oligarchs' envy of the Kremlin's political power was matched by the bureaucrats' envy of their wealth and arrogance. Many state officials, especially those in the security services, resented the erosion of their own privileges and prestige since the collapse of the Soviet Union, while the oligarchs grew fabulously rich. They felt it was time to even out the distribution of benefits from the transition to capitalism. Putin was one of them in terms of his career and probably his mentality, and was seen as their standard-bearer.

Third, there is the international dimension. The Russian political economy was not a closed system. It was very open to international influences and opportunities. Both Putin and his oligarch rivals sought international support as part of their strategy to acquire and consolidate power. This made the balance of forces between Putin and the oligarchs inherently unstable.

The oligarchs had an exit strategy: they could always cash out and live on the French Riviera. Some of them also considered an exit-and-return strategy: the West could offer both political legitimation and practical support. The latter strategy was exemplified by Berezovsky and subsequently Khodorkovsky.

In 2002-03 Khodorkovsky tried to strengthen his position by adopting international accounting standards and adding Westerners to the Yukos board, with a view to offering a large stake in the

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[23] "Oligarkhi-zagovorshchiki," *Stolichnaya vechenyaya gazeta*, 29 May 2003; Sovet po natsional'noi strategii, "V Rossii gotovitsya oligarkhicheskii perevorot," www.utro.ru, 26 May 2003.

company to a Western oil major.[24] (ExxonMobil was reportedly interested.) This would enable him to cash out some of his share holdings, valued at their peak at $15 billion. To increase Yukos's attractiveness he tried to develop new export possibilities, outside the state-owned Transneft pipeline system. He sought permission to build a new export pipeline to Murmansk, and symbolically shipped a tanker of crude from there to Houston. He also pursued an agreement with China to finance a $3 billion pipeline to carry oil from Angarsk in Siberia to Daqing in China. In addition he mounted an aggressive international PR campaign, funding international charities, and getting himself appointed to worthy foundation boards, such as that of the International Crisis Group. He thought that these steps would make it too risky for Putin to take him down. But he miscalculated.

Prosecutors started arresting top Yukos executives in July 2003, presumably with Putin's approval. At first the arrests focused on the 1994 privatization of a fertilizer company, Apatit – in which Yukos had actually reached an out-of-court settlement the previous year. Then the investigations widened, to accusations that Yukos fraudently hid its earnings through a network of offshore shell companies, enabling it to illegally evaded taxes.[25] Khodorkovsky had the chance to quietly go into exile, but he refused to back down, instead launching a political offensive in defense of his arrested colleagues. Khodorkovsky himself was detained in October 2003, and went on trial in June 2004.

Why did the system of oligarchic rule collapse so quickly in the face of Putin's assault?[26]

First, the oligarchs failed to act collectively in their common-self defense, preferring to use their connections to try to make individual deals. "The oligarchs slept through the past four years, thinking that dealing with the Kremlin individually would cost them less than investing in civil society."[27]

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[24] Lyudmila Romanova, "O strategii Khodorkovskogo," *Mirovaya energeticheskaya politika*, 31 May 2003, pp 18-21.

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

[26] Vitalii Tret'yakov, "Vlast'. Imperativy Putina," *Literaturnaya gazeta*, 5 November 2003. See also the debate on the Kul'tura TV discussion program, extracts in "Vlast i oligarkhiya," *Rossiiskaya gazeta*, 27 November 2003.

[27] Vladimir Fedorin, "Chelovek nedeli," *Vedomosti*, 8 December 2003.

Second, they under-estimated Putin's political acumen, and his desire to break away from the political traditions established by his predecessor. In part they were lulled into a false sense of security by the fact that Putin retained the two leading officials of the Yeltsin era – chief of staff Aleksandr Voloshin and Prime Minister Mikhail Kasyanov. Their presence was seen, erroneously in retrospect, as a guarantee that the Yeltsin rules of the game would be preserved. Voloshin resigned in November 2003 after Khodorkovsky's arrest, and Putin fired Kasyanov one month before the March 2004 presidential election.

Third, the oligarchs under-estimated the political resources at Putin's disposal. As chief executive Putin had the vast resources of the Russian state at hand, a cornucopia of sticks and carrots which soon won the loyalty of virtually all the regional bosses and business leaders. Putin also enjoyed huge popular legitimacy, having been directly elected in March 2000, and again in March 2004, and enjoying approval ratings above 70% in every intervening month. Both the oligarchs and Putin claimed to speak for the interests of Russia and the Russian people. But Putin was elected, and the oligarchs were not. Putin was popular, and the oligarchs were not.

Putin was also welcomed by international leaders and quickly became a prominent figure on the international diplomatic stage, a factor that bolstered his domestic authority and limited the effectiveness of the campaigns by Berezovsky and Khodorkovsky to discredit Putin internationally.[28] Finally, Putin was boosted by the fact that the Russian economy finally turned around in 1999, and enjoyed five years of 7% per annum growth, in part fueled by rising world oil prices. This eased the pressure of social protest and gave the state extra resources to buy off regional leaders.

The new rules of the game

"I am absolutely convinced that the much talked about equal distance between various business representatives and the authorities has been achieved in our country in the past few years. Today, those who disagree with this position, as they used to say, 'are no longer with us.'"[29]

"I keep hearing here and there that the laws were complicated and that it was impossible to observe them. Yes, the laws were complex and knotty, but it was quite possible to respect them. If five or seven people broke the laws it does not mean that everyone did."[30]

[28] Here Putin was only partly successful. For example, British courts refused Russian requests to extradite Berezovsky.

[29] Gazeta.ru, 20 June 2003.

Vladimir Putin

Back in 2000, observers imagined that the relationship of Putin to the oligarchs would be that of primus inter pares, something akin to King Arthur and the Knights of the Round Table. However, that kind of horizontal bargaining between equals has been replaced by a vertical hierarchy of power. Aleksei Zudin argues that Putin set out from the beginning to fundamentally weaken the oligarchs and turn them into a subordinate group, an instrument of state rule.[31]

Zudin's arggumment is persuasive, but not entirely so. Sergei Peregudov in contrast sees more of a balance, an "iron triangle" of a bureaucratic elite, the presidential apparatus and business corporations.[32] Zudin glosses over the oligarchs' grip on the State Duma, a problem not solved until the December 2003 election. He does not cite the many cases where government policy conformed closely to oligarch interests, such as the tax loopholes, or the blockage of production sharing legislation. He cites only one example of an oligarch policy proposal being defeated – the ambitous bank reform plan prepared by an RSPP commission headed by Aleksandr Mamut in the summer of 2001.

As Roland Nash succintly explains:

"In general, successful policy was either that which was mutually beneficial to both [the Kremlin and the oligarchs] (tax reform, land reform, pension reform), or that in which the other side had little interest (reform of the Federation Council, centralizing regional influence, improving corporate governance). Anything that either side actively didn't want to see passed was mostly blocked. The Kremlin prevented the expansion of a privately funded oil pipeline network, the break-up of Gazprom and some of the oligarchs' wilder notions for utility sector restructuring. Big business successfully lobbied against increased effective taxes on the oil sector, Gref's plans for pension reform (the final adopted legislation was a compromise version) and the original version of banking reform."[33]

Institutional channels

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[30] Startseva, *op. cit*.

[31] Aleksei Zudin, "Neokorporatizm v Rossii?," *Pro et Contra*, vol. 6. no. 4, 2001.

[32] Peregudov 2002, *op. cit*.

[33] Roland Nash, chief strategist, Renaissance Capital, "Who needs politics anyway?," Prime Tass 17 December 2003.

What, then, will be the role of business in the state capitalist system which Putin has fashioned? It is not only that oligarchs must now be loyal to the Kremlin and stay out of politics. They must conduct their business in more transparent way, following Russian laws and paying Russian taxes. They are also expected to play an active role in helping the Kremlin to realize its political, economic and social agenda – at home and abroad. In the words of Economic Development and Trade Minister German Gref (the leading liberal in Putin's government), "With great wealth comes great responsibility"[34] Putin told the Chamber of Commerce and Industry that "Business cannot and must not avoid resolving social problems." The chamber in turn released a statement calling on all businesses "to fully share with the government the responsibility for the social and economic situation in Russia."[35] Finance Minister Aleksandr Kudrin – another liberal – said explained the "normal rules" for business as honest payment of taxes, charitable giving, and "support for the political forces that care about the development of the country and promote its democratic values."[36]

This "social responsibility" ranges from contributing funds to the Kremlin's pet projects, such as paying for the renovation of St. Petersburg in preparation for its 300th anniversary, through to investing in energy infrastructure in politically sensitive regions such as Armenia and Georgia. While companies are more than willing to boast about the former, they are understandably reticent about discussing the political context of the latter, which are typically portrayed as purely business decisions.

The Kremlin has tried, in a rather half-hearted way, to put the state's new relationship with the business community on a more institutionally sound footing. The first vehicle for this relationship was regular face-to-face meetings between the president and leading executives. On 28 July 2000 Putin met with 21 leading businessmen in the Kremlin, mostly from energy companies.[37] In contrast to previous meetings between Yeltsin and business leaders, this time it seemed to be the president laying down terms to the oligarchs, rather than the other way around. Putin cautioned

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

[35] Alla Startseva, "Putin threatens to revisit sell-offs," *Moscow Times*, 24 December 2003.

[36] Rossiya TV, 25 April 2004.

[37] Inessa Slavutinskaya, "Liberalissimo," *Profil*, 7 August 2000.

the oligarchs to stay out of politics and pledged to maintain an “equidistance” from them as president, not favoring one over the other.[38]

A sense that the Kremlin was not listening to the business community led to calls from Oleg Kisilev (Impeksbank) for of an “oligarch trade union” in September 2000. In response in November 2000 Putin selected the Russian Union of Industrialists and Entrepreneurs (RSPP) as the designated interlocutor. “Putin issued a ‘royal command’ for all Russian business leaders to unite in the RSPP and to submit all complaints via this body, collectively, after working out a common opinion.”[39]

The RSPP was a rather staid, decade-old organization representing traditional state-owned factories and headed by a Gorbachev-era functionary, Arkadii Volskii.[40] The RSPP had been critical of the liberal reforms and forged a strong link with the labor unions. In 1993 Gaidar created the Association of Private and Privatized Enterprises as a balance to the “Red directors” who had taken refuge in the RSPP. But in 2001,The RSPP now found itself taken over by the brash new oligarchs. As none of the new billionaire members could agree on one of their number to head the organization, they left Volskii in charge. Alarmed by the oligarch influx, some of the traditional RSPP members, such as the League of Defense of Defense Enterprises headed by Anatolii Dololaptev, threatened to quit the organization. The RSPP remains deeply split between neoliberals and neo-statists, which inhibits their ability to give clear advice to government development plans.[41]

At the same time, the Kremlin decided to spread its bets, lest the RSPP become too influential or independent minded. They promoted the influence of rival groups that would provide some checks on the RSPP’s role. Delovaya Rossiya was a group of business deputies that was formed in the Duma elected in December 1999 by Igor Lisinenko, head of the Maiski chai company. The Kremlin persuaded Lisinenko to break his ties with the RSPP and work directly with (and for) the

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[38] Boris Vishnevsky et al, “Equidistance in different directions,” *Obshchaya gazeta*, 7-13 June 2001.

[39] Aleksei Bogaturov , “The Kasyanov cabinet is finishing its game,” *Rodnaya gazeta*, 27 June 2003; Aleksei Yefimov, “The oligarchs come crawling on their knees,” *Nezavisimaya gazeta*, 23 October 2003.

[40] They included Kakha Benukidze, Oleg Deripaska, Aleksander Mamut, Vladimir Potanin, Mikhail Fridman, Mikhail Khodorkovsky, and Anatoly Chubais. Aleksei Germanovich, “Tycoons will repent,” *Vedomosti*, 14 February 2001.

[41] Peregudov, 2004.

Kremlin. Its founding congress in October 2001 came one month after the creation of another body, the United Entrepreneurs' Organizations of Russia (OPORA). This body was created by the Kremlin to reach out to small and medium enterprises, a group that RSPP had tended to ignore. Opora was organized with branches in each of the new federal okrugs – without the participation of RSPP. Then in December 2001 former prime minister Yevgenii Primakov was appointed head of the Chamber of Commerce and Industry (TPP), a moribund organization with roots in the Soviet era, but one that could now be activated as a tame business lobby to do the Kremlin's bidding.[42]

The utility of the new arrangements was illustrated by the Kremlin's handling of the controversy regarding TV6, a TV company with a team of journalists led by Yevgennii Kisilev that had fled NTV, formerly owned by Gusinsky. In March 2002 Volskii's RSPP and Primakov's TPP dutifully joined a consortium to bid for the broadcasting license of TV6. The bid failed, but TV6 was shut down anyway.

The regular meetings between Putin and the businessmen continued to take place two or three times a year, but they were usually low-key affairs discussing issues like trade policy and customs reform.[43] Even these modest gatherings ground to a halt in the wake of the Yukos affair.

The business community was paralyzed by the Yukos affair. At first, the wave of arrests of Yukos executives triggered mild some protests from their business colleagues. But after Khodorkovsky was arrested, and Putin spoke out against "speculation and hysteria" surrounding the affair, the business community fell silent.[44] At a meeting with 800 Russian business leaders on 14 November 2003, Putin said that the Yukos case was an isolated example, but at the same time, he warned that Russian businesses "must develop a system of new social guarantees for the population in line with the new demands of the time."[45]

Respected economist Yevgenii Yasin described the state of business-state relations in the wake of the Yukos affair as "like a traffic accident, when the two drivers stand around thinking about what they need to do." [46]

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42 *Izvestiya*, 11 December 2001.

43 Almira Kozhakhmetova, "Obedient oligarchs go to the Kremlin," *Novye izvestiya*, 1 June 2001.

44 "Stability? What stability?", *The Economist*, 31 October 2003.

45 Interfax, 14 November 2003.

46 Cited in Yelena Korop, "The new government will move along the old course, *Izvestiya*, 13 May 2004.

United Russia organized a round table with business leaders on the theme "Repentance" in May 2004. But almost nobody showed up, except Igor Yurgens, deputy head of the RSPP, who said "The terms will be more strict for business. I don't think another business leader will risk playing politics."[47] Business leaders were fearful that Putin would give in to pressure from the nationalists in the Duma and the security bloc (siloviki) in his own administration, and embark on wholesale renationalization of the industries privatized in the 1990s. Igor Bunin argues that this threat remains "a sword of Damocles hanging over business."[48]

The assault on Yukos also impacted the broader realm of Russian civil society, since business groups had been an important source of funding for independent political and civic organizations.[49] Khodorkovsky and Berezovsky had been funding hundreds of civic groups, and these ties would now bring these groups unwelcome attention from the authorities seeking to root out the political networks of these renegade oligarchs.

One should not exaggerate the significance of these institutional channels for the collective representation of business interests. Most business lobbying, under Putin as under Yeltsin, takes the form of direct approaches to government officials by business groups, either individually or by industrial sector. They lobby for tax breaks, for protective tariffs, and for government contracts. Their efforts ebb and flow depending on national and international trading conditions. Thus the steel industry, dominated by the Big four companies (Novolipetsk, Severstal, Magnitka, and Evrrasholding) were lobbying for state protection in 2001, but by 2004 they were born-again free traders.[50]

The role of parliament[51]

One important vehicle for business to exert leverage over the government apparatus is (or was) the Federal Assembly. While Yeltsin had tended to ignore the State Duma, relying heavily on rule by decree, Putin's agenda has included an ambitious program to overhaul Russia's legislation and

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[47] Polina Siluyanova, "Neobkhodimo peregruzit' matritsu," *Gazeta,* 14 May 2004.

[48] Cited in Siluyanova, *ibid.*

[49] Valerii Tsygankov, "Den' grazhdanslogo noposlushaniya," *Nezavisimaya gazeta,* 28 October 2003.

[50] Dmitrii Butrin, "Gosplan ekonomicheskogo rosta," Gazeta.ru 26 April 2004.

[51] Many thanks to Thomas Remington for helpful advice on this section.

introduce major structural reforms in the legal system, local government and public administration. Hence for Putin establishing control over the legislature was an important goal.

In the elections of 1995 and especially in 1999, many businessmen spent hefty sums to try to win a seat in the Duma. Their motives were often more individual than political. A Duma deputy is immune from prosecution unless the body votes to strip him of this privilege. Also a Duma seat would bring contacts useful for spreading their business beyond their home region. It also came with certain costs: the risks of public scrutiny and political competition, and the need to at least formally withdraw from business activities.[52] Business-connected deputies were so influential in the Duma, and in the Federation Council, where they held more than half the seats, that they were effectively substituting themselves for the role conventionally played by political parties.

Leading corporations like Yukos and Gazprom were also the most politically active. Yukos director Leonid Nevzlin was selected as a Federation Council member from Mordova, while Vladimir Dubov, a major Yukos shareholder, entered the Duma in 1999 on the Fatherland/All Russia ticket and became chair of its tax committee. Gazprom supported an estimated 130 candidates in the 1999 elections.[53] Yukos seemed to get a good return on its political investments. For example, over Kremlin objections the Duma left in the tax code a profit tax exemption for investment agreements between companies and regional governments. Mordova, Chukotka and Kalmykiya signed such agreements with Yukos and other companies, saving them $1.5 billion a year.[54]

In the 2003 election roughly 20 percent of the candidates were directly linked to business corporations, even including the Communist nominees (24% of whose candidates were thus identified).[55] In August 2003 *Fortune* quoted Khodorkovsky as saying “I’m going to try to buy a democratic future for my country ... And I have enough money and energy to do that.”[56]

The Yukos affair, closely followed by the victory of the pro-Putin United Russia in the December 2003 Duma elections, radically changed this state of affairs. United Russia stunned observers by pulling off a sweeping victory. They won 37.6% of the popular vote in the party-list race that fills

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[52] Pavel Zhavoronkov , “The price of the problem,” pravda.ru, 10 September 2003.

[53] Sergei Kolmakov, “The role of financial-industrial groups in Russian political parties,” *Russia Watch*, no. 9, January 2003 JFK School, Harvard University.

[54] Vadim Visloguzov, “Deputat barrelya, *Kommersant-Vlast*, 12 December 2003.

[55] Francesca Mereu, “Business will have big voice in Duma,” *Moscow Times*, 13 November 2003.

[56] Janet Guyon, “The game goes on,” *Fortune*, 24 November 2003.

half the 450-seat chamber, giving them 120 seats, plus another 126 seats in single-mandate races. After the election 60 independents who won in single-seat races joined United Russia, raising their numbers to 304 – above the two-third majority required to change the constitution. In the name of "consolidating society," Putin managed to put the oligarchs in their place and drive the left and right opposition parties out of their niche in the parliament: 54% of the Duma incumbents who ran again lost their seats.[57]

After the election United Russia moved decisively to consolidate its grip on the legislature. Previously, Duma committees and leadership posts had been shared between the various parties. Now, they all fell under the control of United Russia, signaling as Thomas Remington points out a shift from a proportional to majoritarian legislature.

The failure of the two right-wing parties, Yabloko and Union of Right Forces, to clear the 5% threshold and win seats in the party-list contest was a particularly heavy blow to oligarch interests. Between them they won only seven seats in the single mandate races, down from a total of 49 seats in the outgoing legislature. Those two parties had included the most intelligent and experienced advocates of liberal reforms, and had the closest ties to business lobbies. After December 2003 Russia's businessmen suddenly found themselves shut out from both the Kremlin and the Duma, constituting what Peregudov jokingly describes as the "new lishentsy" (people deprived of political rights, a term from the 1930s).[58]

State corporations

It is important to remember that not all Russian industry is owned by private businessmen. Alongside the private oligarchs there are also state oligarchs, individuals who manage state-owned companies, such as Rem Vyakhirev at Gazprom. The managers of state-owned firms grew personally wealthy through various ways. They could channel sales through middle-man companies controlled by their relatives. They were legally allowed to buy 2-5% of the shares in their companies at nominal prices, and could acquire even more through semi-legal means. Even some of the Russians on the *Forbes* list of billionaires (Viktor Chernomyrdin, Rem Vyakhirev) made that money in companies like Gazprom in which the state was still the controlling shareholder.

[57] Vladimir Rudakov, "No politics, no competition," *Profil*, 22 December 2003.
[58] Sergei Peregudov, "Delovaya elita kak novye lishentsy," *Nezavisimaya gazeta*, 20 January 2004.

As of 2004 the state still held a 100% stake in some 100 companies, including the oil company Rosneft, the oil pipeline monopoly Transneft, the aircraft maker Sukhoi and the Russian Railways Corporation. It holds shares in some 4,000 other companies, including a majority stake in the savings bank Sberbank (62%), Aeroflot (51%) the electricity giant Unified Energy Systems (51%), and the natural gas monopoly Gazprom (38%).[59] The state does not act as a very active stake-holder, typically leaving the top management of these companies free to run them as they saw fit. Many state officials, such as government ministers and even Kremlin staffers, sit on the boards of these companies. It gives them an extra source of income and career opportunities once they leave government service.

This means that many Russian business corporations occupy a grey area – they are not fully independent of the state, but not fully part of it either. Decision-making is opaque and hidden from public view, brokered in face-to-face meetings between the leaders of state corporations and top government officials. The government will put its foot down over publically-visible and politically sensitive decisions, such as the annual announcement of price increases for the electricity, gas and railway monopolies. But more detailed discussions about which trading companies to use to buy and sell company products are presumably made by the corporate executives themselves.

Putin slowly but steadily moved to ensure that the leading state corporations were headed by people loyal to him. In May 2001 he ousted the long-standing head of Gazprom, Rem Vyakhirev, and replaced him with a young and trusted economist from Putin's home-town of St. Petersburg, Aleksei Miller. Gazprom's $15 billion exports make it Russia's largest cash earner. Later in 2001 Putin removed the head of Russian Railways, Nikolai Aksenov, who was dogged with accusations of corruption. He also removed Viktor Gerashchenko, head of the Central Bank, in March 2002 and replaced him with Sergei Ignatiev, who was serving as deputy finance minister. Russia's largest company, Unified Electricity System (UES), has been headed since 1998 by Anatolii Chubais, another Petersburger whom Putin apparently trusts, and who has been left in place to oversee its privatization.

Oligarchs in regions

[59] Natalya Alyakrinskaya and Dmitry Dokuchev, "State = board of directors," *Moscow Times*, 9 June 2004.

Space does not permit a full discussion of the role of business groups in Russia's 89 regions. Suffice it to note that Russia's 89 regions vary greatly in the degree of economic and political pluralism they enjoy. Some regions have a concentration of political and economic power in a tight circle, others, a minority, have a divided elite and political contestation.

In the early 1990s the typical pattern was for local business leaders to collude with regional leaders against the Moscow center. The pattern grew more complex as the decade wore on. One saw the emergence of business groups operating across several regions, and getting actively involved in governors' elections. Increasingly, these business groups started to serve in cooperation with Moscow, supporting state moves to spread market relations to the backward and subsidized regions – for example, when negotiating over regional energy debts with governors.[60] "The Moscow-based businesses, which are now taking over the major regional economic resources (and supplanting the local economic elites) are in fact assisting in the re-establishment of Kremlin control over the regions."[61]

In 1996 Gazprom ran candidates in 10 governor's races but only one won, in Yamalo-Nenets. In some small and sparsely populated regions, individual oligarchs got themselves elected governor and effectively took over the region. The relevant examples are Roman Abramovich (Sibneft) in Chukotka, Yukos' Boris Zolotarev in Evenkiya, and Khazret Sovmen, the owner of a goldmine and president of Adygea. Alexaner Khloponin , the former director of Norilsk Nickel, became governor of Krasnoyarsk after the death of Aleksandr Lebed. Nine of the current governors, or 10%, are former business executives. It was more common for a corporation to become a close supporter of an incumbent, such as Lukoil backing Yurii Trutnev in Perm. (In 2004 he was appointed federal minister of natural resources.). Regional leaders would also appoint representatives of powerful businesses to their teams. For example, Samara Governor Konstantin Titov made a Yukos first vice president his deputy governor, while Irkutsk Governor Boris Govorin included representatives from both Russian Aluminum and Alfa Group on his staff. [62] Local businessmen usually established a strong foothold in regional legislatures, accounting for

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

[61] Andrew Yorke, "Putin and the oligarchs: More cooperation than conflict so far," EastWest Institute *Russian Regional Report*, vol. 7, no. 5, 6 February 2002.

[62] Tsentr politicheskikh tekhnologii, *Politika v regionakh: gubernatory i gruppy vliyaniya*, Moscow, 2002, at politcom.ru

60-70% of the deputies.[63] But only in a few regions such as Petersburg and Voronezh do local parliaments have much power.

All the organized groups in Russian political life were to a degree energized by the additional resources generated by the post-1998 economic growth post-1998. But overall, the federal center was capturing more of the revenue stream from energy exports, and growing more powerful. It is possible that as business leaders are marginalized from political power at federal level, they may be able to consolidate their positions at regional level.[64]

Conclusion

Economic and political power in Putin's Russia is not distributed horizontally and constrained by the rule of law, as in the civil society model. Rather, it is structured vertically, with a chain of command leading to President Putin. The pattern of interactions between business and the state is not bargaining in a market-like environment of multiple and changing buyers and sellers. Rather, it is a patrimonial system where favors are distributed in reward for loyalty. In Putin's Russia, as Lilia Shevtsova puts it, "not only democracy but capitalism itself is managed by the Kremlin."[65]

This new hierachical model is more flexible (and more unstable) than the old Communist Party model. It is authoritarian, not totalitarian, and it is compatible with a market economy and a fairly high degree of civic freedom. But it is not clear to what extent this state capitalism can allow the development of a civil society in the Western sense of the term, or create the conditions for the emergence of civil society in some future crisis.

Clearly, the building of civil society in Russia cannot be isolated from the processes of globalization that preceded, accompanied and followed the Soviet collapse. International factors both strengthened and weakened the role of business as an element in Russia's weakly emerging civil society. The rise of the oligarchs as a class was driven by domestic developments, the opening of a vacuum of power within which entrepreneurial individuals with political connections were able to create new business empires. However most of their wealth came from the export of Russian resources overseas – and their ability to hide their profits in offshore banks, far from the Russian tax authorities.

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[63] Olga Kryshtanovskaya, "Putin's people," *Vedomosti*, 30 June 2003.

[64] Oksana Gaman-Golutvina, "Regional'nye elity v Rossii," *Polis*, no. 2, 30 April 2004.

[65] Cited in *Financial Times*, 24 December 2003.

Mikhail Khodorkovsky sought to even further strengthen this international dimension, by turning Yukos into a globally recognized (and foreign-owned) corporation. It was his Icarus-like desire which triggered the crackdown by Putin, shattering the illusions, and the realities, of oligarchic capitalism in Russia.