BRIEFING NOTE

THE ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS | Russia and Eurasia Programme

PROSPECTS FOR THE RUSSIAN FEDERATION PROJECT
REP BN 04/03
August 2004

Putin and the 'Oligarchs': A Two-Sided Commitment Problem

Dr William Tompson
Associate Fellow, Russia and Eurasia Programme, Chatham House

In Russia, in contrast to America, the government machine has always been much stronger than any individual or any company or any set of companies.

—Mikhail Khodorkovskii, 2001[1]

Vladimir Putin's primary objective on assuming power was to re-establish the authority of the Russian state, which had been severely weakened from the late 1980s on, and, in particular, to strengthen the presidency vis-à-vis the other major institutions and actors in the political system.[2] This meant redefining the Kremlin's relations with the Federal Assembly, the regional elite and, above all, the so-called 'oligarchs', the handful of spectacularly wealthy tycoons who had shot to prominence under Boris Yeltsin and who seemed to have dominated Russian politics from the mid-1990s on.[3] The Federal Assembly was the softest target. The State Duma had always been relatively weak and the 1999 elections had produced a chamber that was ready to follow the president's lead. It proved an eager partner when Putin set out to emasculate the Assembly's upper house, the Federation Council (SF), by replacing the elected regional bosses who sat *ex officio* in the SF with appointed senators. The new SF was even less likely than the old to act as a serious counterweight to the executive.[4] The restructuring of the SF, in turn, was part of a wide-ranging drive to bring the regional bosses to heel. The results of this campaign were mixed, at best, but there is little doubt that they

1 Los Angeles Times, 26 December 2001.
2 Archie Brown, 'Vladimir Putin and the Reaffirmation of Central State Power', Post-Soviet Affairs 17:1 (January–March 2001); Thomas F. Remington, 'Russia and the "Strong State" Ideal', East European Constitutional Review 9:1/2 (Winter/Spring 2000); and Martin Nicholson, 'Putin's Russia: Slowing the Pendulum without Stopping the Clock', International Affairs 77:4 (October 2001).
3 On Putin's relations with the regional elite and the Federal Assembly, see the chapters by Melvin and Merritt in this volume; see also Thomas F. Remington, 'Putin and the Duma', Post-Soviet Affairs 17:4 (October–December 2001); Matthew Hyde, 'Putin's Federal Reforms and their Implications for Presidential Power in Russia', Europe-Asia Studies 53:5 (July 2001); and Gordon M. Hahn, 'The Impact of Putin's Federative Reforms on Democratization in Russia', Post-Soviet Affairs 19:3 (July–September 2003).
4 For an examination of the re-constituted SF, see Thomas F. Remington, 'Majorities without Mandates: The Russian Federation Council since 2000', Europe-Asia Studies 55:5 (July 2003).

succeeded in strengthening central authority at the expense of the subjects of the federation.[5]

Tackling the oligarchs was an altogether more difficult business.[6] Having promised prior to his election that the oligarchs would ‘cease to exist as a class’ and that he (and, by implication, the state) would adopt a position of ‘equidistance’ from all of them, Putin sought, in the interests of stability, to tame them rather than to exterminate them, redefining and institutionalising their relationship with the state. This chapter seeks to understand how Putin went about pursuing these ends and to emphasise, in particular, that the redefinition of business-state relations on which he embarked was an on-going process, rather than the once-for-all negotiation of a new *modus vivendi*, as the oligarchs themselves, and many other observers, believed.[7] The central argument of the chapter is that no such stable accommodation between Putin and the oligarchs was possible, for at least two reasons. First, both sides had strong incentives to defect from any agreement that was reached. Secondly, neither side could make a credible commitment to any bargain anyway: even if they had *wished* to abide by its terms, they would have been unable to convince each other of their good faith. Of the two, the president faced the more acute commitment problem, one which actually grew more pronounced as he consolidated power. This commitment problem reflects an underlying institutional problem: the lack of effective constraints on the coercive capacities of the Russian state.

The oligarchs: Yeltsin’s legacy to Putin

Before proceeding with the argument, it is necessary to consider briefly who the oligarchs were. The term itself, though widely used, is something of a misnomer, in at least two respects. First, it greatly exaggerates the extent to which the tycoons so labelled represent power independent of, and dominating, the state. In fact, the oligarchs’ fortunes were amassed thanks chiefly to the patronage of state institutions and officials and they have always needed to remain in the state’s good graces. It is for this reason that they have worked so assiduously to colonise state structures. Oligarchs who fall out of favour with the Kremlin can soon find themselves out of business, or at least out of the country, as the careers of men like Vladimir Vinogradov, Aleksandr Smolenskii, Vladimir Gusinskii and Boris Berezovskii attest. Secondly, the term ‘oligarch’ implies something like an ‘oligarchy’, a small ruling clique. In fact, Russia’s tycoons have never been good at cooperating with each other and have tended only to unite when faced with a common, immediate threat, as when they banded together to assist Yeltsin’s re-election effort in 1996.[8] This is a critical point, as Putin rapidly demonstrated how easily the state could play on the oligarchs’ rivalries and mutual enmities.

Nevertheless, there is no doubt that the oligarchs were a force to be reckoned with. The privatisation contests of the 1990s had left Russia with an extraordinarily concentrated structure of ownership, one that, indeed, grew even more concentrated during Putin’s first years in office. By the end of 2001, it was estimated that 85% of the value of Russia’s 64 largest privately owned companies,

5 Hyde, Op cit. and Hahn, Op cit. See also Daniel Treisman, ‘Russia Restored?’ Foreign Affairs 81:6 (November December 2002); and also William Tompson, ‘Russia: Putin’s Power Plays’, The World Today, 56:7 (July 2000).
6 Lee S. Wolosky, ‘Putin’s Plutocrat Problem’, Foreign Affairs 79:2 (March–April 2000).
7 The author of this chapter, it should be noted, was among those who initially—and mistakenly—believed that Putin had negotiated a lasting settlement with the oligarchs in 2000.
8 The oligarchs’ contribution to Yeltsin’s victory has generally been exaggerated, not least by the oligarchs themselves. The money they committed to his campaign was dwarfed by the state funds that were diverted to this end.

with aggregate sales of $109bn in 2000, was controlled by just eight shareholder groups.[9] Another major study found that, in 2002, Russia's ten largest business groupings accounted for 38.7% of industrial output and 31% of exports, suggesting levels of ownership concentration in excess of those found in Western Europe, the United States or even South Korea with its famous *chaebols*.[10] The individuals who controlled these groupings largely corresponded to conventional perceptions of who the 'oligarchs' were: Roman Abramovich, Vladimir Potanin, Mikhail Khodorkovskii, Vagit Alekperov and others.[11] During the Yelstin era, the oligarchs constructed lobbying networks that reached into virtually every state institution, from the Kremlin, the Duma and the federal ministries down to regional and local bureaucracies. It was this penetration of state structures at all levels that enabled the oligarchs to thwart the adoption—or at least the implementation—of unwelcome policy initiatives and that prompted many observers to speak of their privatisation of the state.

First steps: the oligarchs under pressure

Despite his determination to assert his authority over Russia's financial-industrial magnates, the newly elected Putin recognised that he must proceed with caution. A frontal assault on the oligarchs as a group would have led to falling tax revenues and rising capital flight, putting at risk both the economic recovery that was getting under way and Putin's own consolidation of power. Nevertheless, the new president moved rapidly to signal that the terms of the relationship between big business and the Kremlin had changed. This implied, in the first instance, giving the oligarchs a demonstration of the state's power and of their own vulnerability. In the spring and summer of 2000, therefore, the country's most prominent businessmen found themselves, one by one, under official pressure. The first target was media tycoon Vladimir Gusinskii, who had backed Putin's opponents in the elections of 1999/2000. He and his companies were subjected to a series of criminal investigations that were conducted with little regard for due process. Next in line was Boris Berezovskii, who had actively aided Putin's rise and helped engineer the Kremlin's Duma election victory in 1999. Yet Gusinskii and Berezovskii were not alone. Potanin faced a renewed attempt by state prosecutors to overturn the privatisation of the metals giant Norilsk Nickel. Four subsidiaries of the Tyumen Oil Company (TNK), controlled by the Alfa-Renova consortium, were raided by investigators in conjunction with allegations of illegal privatisation deals. For a time, the state even appeared to withdraw its support from Chubais, who looked set to lose his position on the EES board.

These developments did not, however, mark the onset of a campaign of annihilation against the oligarchs. Instead, in case after case, Putin intervened as their protector. Gusinskii was released from police custody after Putin criticised his detention. Then Putin met with Potanin to discuss the future of Norilsk Nickel. Shortly thereafter, federal prosecutors took the Norilsk case over from the Moscow city prosecutors and settled it without litigation. The president publicly signalled his support for Chubais, who was duly re-elected to the EES board. A private meeting

9 Peter Boone and Denis Rodionov, 'Rent Seeking in Russia and the CIS' (Paper presented at the tenth anniversary meeting of the EBRD, London, December 2001).

10 Fond perspektivnykh issledovanii i initsiativ, Krupnyi rossiiskii biznes – 2003 (Moscow, 2004); see also Vedomosti, 14 January 2004. The groupings included: Menatep, Lukoil, Alfa-Renova, Base Element, Surgutneftegaz, AvtoVAZ, Interros, AFK Sistema, Severstal' and MDM.

11 The list also corresponds closely to the Russians named in the February 2004 Forbes magazine list of the world's billionaires; see Forbes, 15 March 2004. To them one might add the heads of at least two state-controlled companies: Anatolii Chubais, the CEO of the electricity monopoly RAO EES, and, until his removal in May 2001, Rem Vyakhirev, the long-serving CEO of the gas monopoly OAO Gazprom.

with Putin helped Lukoil chief Vagit Alekperov silence rumours that he was about to be arrested. In each case, the lesson for the tycoons involved was much the same: they were vulnerable, but the president was in a position to protect them. The corollary, of course, was that his protection might be withdrawn. On 1 July 2000, even as this 'catch-and-release' campaign was unfolding, Prime Minister Mikhail Kasyanov declared that there would be no drive to overturn past privatisation deals. This appeared to give the business elite what it most desired: the assurance that its ownership of assets acquired in the chaotic and corrupt privatisation processes of the 1990s was secure. However, Kasyanov added an important caveat: some deals, which had involved legal violations, might yet be overturned.[12]

Kasyanov's statement appeared to reflect Putin's own approach, reassuring the elite that the new administration could and would respect big business—if the businessmen behaved themselves. Investors and other observers were quick to place just such a construction on Putin's remarks at his meeting with twenty-one of the country's top businessmen on 28 July, which marked the culmination of the 'oligarch-whacking' campaign. The meeting took place against the backdrop of the renewed investigation into Potanin's acquisition of Norilsk Nickel, an investigation which, because of its focus on privatisation abuses, was far more threatening to the wider elite than the attacks on Gusinskii. Putin assured the businessmen that there would be no 'political campaign' to 'redistribute property' or to overturn the privatisations of the 1990s.[13] The oligarchs, rattled by the events of the previous weeks, were all too ready to accept any reassurance Putin might offer and to trade political restraint for confirmation of their property rights. Thus was born the belief, which soon hardened into a conviction, that Putin and the oligarchs had struck a deal. This tacit understanding was never formalised in any way, and it is not clear from contemporary reports of the meeting exactly what, if anything, either side really promised the other. Nevertheless, the bargain supposedly struck at the July meeting soon became something akin to a foundational political myth. It was seen as the cornerstone on which business–state relations were to be constructed under Putin. Journalists believed in it; investors believed in it; and, critically, the oligarchs themselves believed in it.[14]

Not all of the oligarchs, however, were welcome in the new dispensation. The campaigns against Gusinskii and Berezovskii continued. Politically motivated civil and criminal suits were used to deprive them of key assets within Russia and, in due course, both went into exile in order to avoid criminal charges in Russia. These attacks aroused concerns about freedom of the press and about the evident politicisation of the police, the courts and the security organs, but they did not provoke any larger confrontation between the Kremlin and the oligarchs. After a half-hearted attempt to intervene on Gusinskii's behalf in the summer of 2000,[15] the other tycoons chose discretion over valour and left the two men to their fate. In any case, the rest of the commercial elite apparently did not feel threatened by the campaigns against Berezovskii and Gusinskii, who were, in important respects, different from the rest. Both had accumulated extensive media holdings, which they had used to advance their own political agendas and which the Kremlin now wished to control. Moreover, their political activities had long been more visible and more extensive than those of their rivals. If most of the oligarchs appeared to engage in high politics

12 Vremya novostei, 2 July 2000.
13 Reuters, 29 July 2000.
14 On the immediate reaction to the July meeting, see the Jamestown Foundation's Russia's Week 5:30 (2 August 2000). See also later comments by oligarch Petr Aven and Russian Union of Industrialists and Entrepreneurs Vice-President Igor' Jurgens in The Washington Post, 14 December 2002. See also Moscow Times, 4 July 2003; and Aleksei Makarkin, Op cit. 'Kreml': Novaya bor'ba klanov', Politcom.ru, 8 September 2003.
15 For details of the letter addressed to Putin by Gusinskii's fellow oligarchs, see Reuters, 14 June 2000.

in order to protect and advance their business interests, Berezovskii and Gusinskii often gave the impression that their businesses were instruments for advancing their political agendas. Gusinskii's role in opposing the Kremlin during the 1999/2000 electoral cycle also set him apart, as, ironically enough, did Berezovskii's support. Putin had no interest in appearing beholden to the ambitious and unpopular Berezovskii. In short, Gusinskii was punished for opposing Putin, Berezovskii for having aided him.

For a time, the rest of the business elite appeared to have drawn the 'appropriate' conclusions from the destruction of Gusinskii and Berezovskii. While they did not by any means withdraw from politics, the major tycoons adopted a lower political profile and accepted many of the constraints imposed on them by the new administration. Access to Putin himself was increasingly restricted and was institutionalised via quarterly meetings between the president and the presidium of the Russian Union of Industrialists and Entrepreneurs (RSPP), which consequently came to enjoy a quasi-official status as the 'oligarchs' trade union'.

To be sure, there was more to Putin's strategy for managing relations with big business than merely making examples of Berezovskii and Gusinskii. While throwing his weight behind a range of broadly liberal economic reforms that Russian business welcomed,[16] Putin tightened his hold over key industrial and financial assets such as the gas monopoly Gazprom, the oil transport monopoly Transneft and the state savings bank, Sberbank. This was aimed at least partly at shoring up his position vis-à-vis big business. State control over the pipeline infrastructure remained the government's best lever when it comes to managing the powerful oil barons and the authorities emphatically rejected the idea of allowing private pipelines to be built. Putin's reluctance to restructure the gas monopoly Gazprom also appeared to reflect, at least in part, the requirements of his 'oligarch-management' strategy. Gazprom's managers appear to have persuaded Putin—not without some foundation—that any radical restructuring of the gas industry could leave Russia with a sector which not only resembled the oil industry in structure but one which was also dominated by the same players.[17] For Putin, handing control of the gas sector over to the oil barons might have been too high a price to pay for a more efficient industry. Putin's WTO accession ambitions were important here, too. While WTO membership would benefit some oligarchs and threaten others, it would represent an important external constraint on all of them.

The bargain under strain

Putin's initial bargain with the oligarchs seemed to be a clear and fairly pragmatic exchange of political restraint for secure property rights. For a time, this appeared to form the basis for a mutually acceptable *modus vivendi* between the new president and big business. This reflected the fact that much of Putin's early agenda was reasonably congenial to most of the tycoons. The oligarchs, after all, had an interest in Putin's state-building project. Having acquired vast fortunes under Yeltsin largely as a result of their success in exploiting the state's weakness, they had much to gain

16 These included some easing of the tax burden, the relaxation of currency controls and measures to ease licensing requirements and curb bureaucrats' power to interfere in the affairs of private business; see William Tompson, 'Putin's Challenge: The Politics of Structural Reform in Russia', Europe-Asia Studies 54:6 (September 2002); and idem, 'The Russian economy under Vladimir Putin', in Cameron Ross (ed.), Russian Politics under Putin (Basingstoke: Palgrave, 2004).
17 Gazprom management has made this point quite explicitly; see OAO Gazprom, 'Zamechaniya po materialam Minekonomrazvitiya Rossii o restrukturizatsii OAO "Gazprom"' (Mimeo: Moscow, 19 September 2003). See also Christopher Granville, 'Gas, Electricity and Political Will', Russia: Strategy & Politics (Moscow: UFG, 27 January 2003), pp. 4–9.

from Puin's drive to rebuild the state. Anxious to consolidate their positions, the more forward-thinking tycoons recognised that only an effective state could protect their new property rights and provide an environment in which they could develop their businesses and enjoy their newly acquired wealth.

At the same time, the business elite broadly welcomed many of the reform initiatives that Putin adopted under the influence of reformist ministers and advisors. A great deal of the new legislation was aimed at 'civilising' Russia's business environment, largely by improving the protection of property rights in general and raising standards of corporate governance in particular. Moreover, the aim of such efforts in many cases was not so much the protection of property rights *per se* as the protection of the 'particular conflation of ownership and control' that had emerged in Russian companies in the Yeltsin era.[18] This was entirely consonant with the shift in elite interests and priorities described above: the new reform legislation was being used not only to bring order and stability to Russian business but also to entrench the positions of those who had prevailed in the scramble for assets after 1992. For Russia's new rich, state-building and structural reform were intended to consolidate the victories they had won in the 1990s.

This concern with consolidation was evident in the behaviour of some of the leading oligarchs. As their confidence in the security of their property rights grew, they shifted from asset-stripping and predation towards investing and developing their assets. Although capital flight continued on a large scale, the marginal propensity of wealthy Russians to invest in the country rose markedly, and 2003 witnessed net private capital *in*-flows for the first time in the post-Soviet period.[19] While standards of corporate governance remained generally very low, a number of Russia's 'blue-chips' made tremendous strides in this area. Khodorkovskii's Yukos oil company, notorious for its abuse of minority shareholders in the 1990s, led the way and soon came to be seen by many observers as Russia's best-governed company. At the same time, the owners of Yukos, Sibneft and other major companies began to create more transparent structures of ownership. These structures were still parked safely offshore, suggesting that the oligarchs' growing confidence in Russian institutions still had its limits. Group Menatep, which controlled Yukos, was based in Gibraltar, while Millhouse Capital, established as a vehicle for Abramovich's industrial holdings, was registered in the United Kingdom.[20] Even so, companies like Millhouse represented a much more transparent set of structures than had been seen before. They reflected, *inter alia*, the owners' desire to make their holdings as legally secure as possible—secure not only from the state or rival business clans but also from their own partners and allies, for such structures often formalised shares in previously somewhat informal partnerships.[21] And while legal and political manoeuvring scarcely disappeared, the theatre for contesting control of stakes in major corporations shifted increasingly to the financial arena.[22] In short, an important

18 On the 2002 bankruptcy law, for example, see David M. Woodruff, 'The End of "Primitive Capitalist Accumulation"? The New Bankruptcy Law and the Political Assertiveness of Russian Big Business', (Washington DC: PONARS Policy Memo No. 274, October 2002), p. 1.
19 See the central bank data at at http://www.cbr.ru/statistics/credit_statistics/print.asp?file=bal_of_payments_est.htm.
20 At the time, Abramovich's assets included, among other things, some 88% of the oil company Sibneft and 50% of Russian Aluminium.
21 A. Radygin, 'Delo "Yukos": popytka interpretatsii', Rossiiskaya ekonomika : tendentsii i perspektivy (July 2003), pp. 36–38.
22 See Roland Nash, 'Hostile Liquidity', Renaissance Capital Morning Monitor, 17 April 2003.

part of the commercial elite was becoming more and more 'rule-conscious',[23] if not yet entirely rule-obeying.

Reform, legalisation and consolidation did not by any means constitute the whole story of Putin's first term. In a detailed analysis of the evolution of Russia's major business groupings after 1998, Barnes shows that the struggle for property continued largely unabated into the Putin era.[24] In many cases, the desirability of the assets being contested stemmed not from their current or future profitability but from their political utility or their 'strategic' importance vis-à-vis rival groupings.[25] The few major privatisations that took place still triggered the mobilisation of lobby resources on a large scale, and the outcomes still tended to be determined in advance, on political grounds.[26] There were other continuities with the 1990s. While resort to physical force in commercial conflicts was perhaps less common than in the Yeltsin years, it was still employed with disturbing frequency, especially when the stakes were high. Increasingly, this involved the use of law-enforcement agencies and other state bodies as the servants of private interests—a disturbing reminder of the extent to which private interests continue to penetrate state institutions at all levels.[27] Indeed, for several months in 2002, the then state-owned oil company Slavneft had two rival chief executives, each backed by both armed force and conflicting court orders.[28]

In short, the oligarchs had done more to lower their political profiles than actually to curb their political activities; to some, it appeared that nothing had really changed.[29] In so far as they were successful at all, Barnes argues, Putin's efforts to curb the oligarchs' political involvements led them to concentrate their efforts at regional level.[30] Nor did the state really honour the informal understanding supposedly reached between Putin and big business in July 2000. As Barnes observes, the state under Putin did sometimes manage to act independently of big business, but it did not necessarily act differently.[31] The Kremlin used its influence over the prosecutors, the police and the courts to punish men who crossed it, like Berezovskii, Gusinskii or Sibur boss Yakov Goldovskii. Like the oligarchs, it was particularly fond of manipulating the defects of the 1998 bankruptcy law, though the authorities frequently decried the abuse of this law by private litigants.[32] Such

---

23 I am grateful to Hodson Thornber of Renaissance Capital for this phrase, which nicely captures the transitional stage between lawlessness and real respect for law in which many Russian businesses operated during the early Putin era.
24 Andrew Barnes, 'Russia's New Business Groups and State Power', Post-Soviet Affairs 19:2 (2003), pp. 154–86.
25 Barnes, Op cit., pp. 156–61. See also the discussion of 'chaebolisation' in Tompson, 'The Russian Economy under Vladimir Putin'.
26 This certainly appears to have been the case with respect to the major oil-sector privatisations (e.g. Onaco, a further stake in TNK, Slavneft, and the Eastern Oil Company).
27 For descriptions of hostile take-overs involving the use of state institutions in the service of private business, see Vadim Volkov, 'The Selective Use of State Capacity in Russia's Economy: Property Disputes and Enterprise Takeovers after 2000', (Washington DC: PONARS Policy Memo No. 273, October 2002). For an all-too-typical example, see Agros's attempt to secure control over the Smolmyaso meat processing plant and the Tagansk Meat Combine (TAMP); Vedomosti, 25 March 2003; Moscow Times, 27 March 2003.
28 'Oligarchs Battle Openly for Slavneft', Oxford Analytica East Europe Daily Brief, 21 June 2002, II.
29 For Treisman (Op cit.), the main difference was that the oligarchs ceased to 'brag about their influence' or 'try to manipulate politics in a public way'; see also Peter Baker, 'Oligarchs' Power Unfettered under Putin', The Washington Post, 14 December 2002, p. A18.
30 Barnes, pp. 178–80; Treisman, Op cit., also observes the increasing tendency of the oligarchs to invest in political power at regional level.
31 Barnes, Op cit., p. 177.
32 See William Tompson, 'Reforming Russian Bankruptcy Law', International Company and Commercial Law Review 14:4 (April 2003). See also Kommersant", 6 August 2003, on the bankruptcy of the Korshunov Mineral Enrichment Combine.

behaviour encouraged the tycoons to do likewise, not to mention the regional elites, who were often more aggressive in their interventions than the federal centre.

The point is not, as Barnes seems to suggest, that the 'consolidationist' interpretation of the Putin era must be rejected in favour of one emphasising continuity with the 1990s. Rather, it is that both processes proceeded in parallel. Indeed, the consolidation drive by the dominant tycoons of the 1990s helped to ensure that the struggle for property continued. This is because the process of ownership consolidation described above threatened the interests of two elite groups: those who still wished to contest ownership of the assets that the 'consolidationists' were trying to secure and—less obviously, but perhaps more importantly—the bureaucrats, police officials, prosecutors and others whose cooperation, support and protection (not to mention turning of blind eyes) were needed by the new owners as long as the legitimacy of their property rights remained in question.[33] If the new owners had really succeeded in securing their property rights—in law and in fact—then some of the most lucrative rents available to the police and security agencies would have dried up, while business groups that had done less well out of the asset contests of previous years would have found it ever harder to reverse past defeats. It is significant that representatives of these two groups were prominent in the campaign launched against Yukos in 2003: while the prosecutors and security organs took the lead, companies like Rosneft, which previously lost asset-control contests and other commercial conflicts with Yukos and which had close ties to the security services, also appear to have been involved in the attacks.[34]

By 2003, moreover, there was mounting evidence of renewed tension between the Kremlin and the oligarchs. This was partly driven by splits over policy. The oligarchs' lobbying had stalled a number of pieces of structural reform legislation in the Federal Assembly, while securing substantial revision of other government bills. It soon came to appear that structural reform could progress only when the government and the oligarchs had reached agreement, as in the cases of electricity restructuring and tax reform. Where big business objected (*e.g.* oil-sector taxation), government initiatives stalled. If the Kremlin objected (*e.g.* gas-sector reform), nothing happened. The fiercest battles centred on proposals to increase taxation of the natural resources sector.

Factional conflicts contributed to tensions between business and the Kremlin. Almost four years after Putin's rise to power, both economic policy-making and the most important state and private companies remained overwhelmingly in the hands of holdovers from the Yeltsin era.[35] Putin's first term had seen the rise of a rival faction, the so-called '*chekisty*', a political grouping with its roots in the security services and related structures, led by officials in the presidential administration. While the *chekisty* and other representatives of the military and security services (the *siloviki*) had increasingly colonised large parts of the state,[36] their economic influence was extremely limited. Many observers believed that it was only a matter of time

33 Radygin, p. 38.

34 On the involvement of Rosneft, Mezhprombank and other companies with close ties to the Kremlin in the early stages of the Yukos campaign, see Yulia Latynina., 'The Chekist "Chelseafication" of the Oligarchy', Moscow Times, 9 July 2003; Sergei Markov, 'The Yukos Affair and Putin's Second Term', Moscow Times, 29 July 2003; Valeria Korchagina, 'A Whiz at Black PR Stirs up a Storm', Moscow Times, 5 August 2003; and Anatoly Medetsky, 'Dissecting the Siloviki's Pyramid of Power', Moscow Times, 24 December 2003. See also Gleb Pavlovskii, 'On the Negative Consequences of the "Summer Opposition" of the Minority Opposed to the Course of the President of the RF' Novaya gazeta, 11 September 2003; and Aleksei Makarkin, Op cit.

35 See Treisman, p. ??: 'Two-and-a-half years later, the "Family" is as strong as ever.'

36 Olga Kryshtanovskaya and Stephen White, 'Putin's Militocracy', Post-Soviet Affairs 19:4 (October–December 2003). See also the chapter by Huskey in this volume and Medetsky, Op cit.

before they made a bid to wrest control of the commanding heights of the economy from the oligarchs and the remaining Yeltsinites. The great surprise of 2003 was not the fact of the *chekist* offensive but its timing; it had generally been expected that any assault would have to wait until Putin was safely re-elected.

The 'Yukos affair'

The 'Yukos affair', which erupted in mid-2003, must be seen in this context. The arrest in early July of one of the oil company's core shareholders marked the beginning of a protracted and wide-ranging legal and political campaign directed against Yukos and its owners by the Kremlin. Many of the charges involved were probably true, but there was no doubt that Yukos was the victim of politically motivated and highly selective law enforcement. Charges pertaining to alleged privatisation abuses could have been directed against hundreds of Russian companies, while charges of tax evasion could have been brought not only against most businesses but probably also against most Russian citizens who earned anything more than subsistence wages in the 1990s. Moreover, the simultaneous eruption of so many criminal cases and investigations—many of them eight or nine years old—made it hard to conclude that the attacks were anything but political.

This is not the place for a detailed consideration of the chronology of the Yukos affair, or even for a consideration of the factors that might have accounted for the selection of Yukos's owners as targets of the Kremlin's wrath. There was no shortage of the latter. Khodorkovskii had clashed with both the Kremlin and a number of companies linked to it. Alone among the oligarchs, he had allowed himself publicly to contradict the president, doing so on at least one occasion to Putin's face. The scale of Khodorkovskii's wealth and the openness of his political ambitions set him apart from his fellow oligarchs, while his plans to sell a stake in the newly merged Yukos–Sibneft to a US oil major threatened to create a company too large and too influential in Washington for the Kremlin to be able to manage it easily. In all likelihood, each of these factors, and others besides, played a role in the decision to destroy Khodorkovskii. Yet the real significance of the affair far transcended the specific complaints against the tycoon. Initially, perhaps, the aim of the assault on Yukos was to discipline Khodorkovskii or to destroy him as a political force, but as the campaign unfolded, it became clear that Khodrkovskii's destruction was a means to a larger end—the re-definition of the Kremlin's relationship with big business.

As in the summer of 2000, the campaign was directed at a target audience as well as a specific victim, and, once again, the target audience consisted of the remaining oligarchs. The Yukos campaign was largely intended to remind the oligarchs that they remained vulnerable—and also to scare off foreign investors, whose acquisition of large stakes in 'oligarchic' companies would make those companies harder to subject to political pressure or bureaucratic rent-seeking. The other oligarchs were reminded of their own vulnerability by a series of warning shots fired across their bows while the assault on Yukos was unfolding. A number of oil companies were threatened with licence withdrawals by the Ministry of Natural Resources (MPR), while a number of state institutions raised questions about Sibneft's tax affairs and about the finances of Chukotka, where Abramovich was governor. Attempts were made to revive investigations into the restructuring of Norilsk Nickel and the privatisation of Sibneft. Alfa Group came under pressure from the communications ministry which became involved in a complex battle with Alfa's Vimpelcom mobile phone company. Vimpelcom's travails demonstrated anew what could happen to a company when facing a federal minister with an interest in one of its rivals.[37] None of these cases developed into anything like the assault on Khodorkovskii, but they served to remind the other tycoons that they could be next.

As in 2000, the president and other leading officials were at pains to stress that there would be no political campaign to reopen past privatisations and that property rights were secure, but, as in 2000, such promises were always qualified enough to keep the issue open. Indeed, at the height of the campaign against Yukos, Putin went further than he had ever gone before, declaring, 'I keep hearing here and there that the laws were complicated and that it was not possible to observe them. Yes, the laws were complex and knotty, but it was quite possible to respect them. If five, seven or ten people broke the law, that doesn't mean others did the same.' He went on to insist that 'those who were involved in deliberate fraud' should not now enjoy more favourable conditions than those who obeyed the law. 'The latter may not have earned as much money, but for now they sleep soundly.'[38] Less than a week later, the Federal Assembly's Accounts Chamber announced that in 2004 it would 'analyse the results of the privatisations of the last ten years'.[39]

As the conflict escalated, an anxious business community began to appeal to the president for a new 'social contract', implicitly acknowledging that the unwritten pact of July 2000 was a dead letter.[40] Putin publicly rejected such proposals but then outlined the basic elements of a revised business–state contract in a series of public statements in November–December 2003. In particular, he defined a set of 'priority tasks' with which he expected Russian big business to assist the state.[41] The government followed his lead, as Kasyanov and other ministers began to outline an increasingly demanding agenda concerning the 'social responsibility' of big business. There was little doubt that those who failed to honour their social responsibilities would suffer the consequences. Before considering the prospects for this new deal, however, it is necessary to see why the old one failed.

The contract that never was

The bargain Putin was supposed to have struck with the oligarchs in 2000 was never likely to last. It was both unwritten and unequal, a combination which made it highly probable that the president would be tempted to extend and reinterpret it to suit his needs. Putin's control over the security organs and his broad public support ensured, from the outset, that he would prevail in any showdown with the business elite. While open conflict with the oligarchs as a class would have been extremely costly and perhaps economically destabilising, the coercive resources at Putin's disposal would have made it difficult for the oligarchs to resist him, especially as his power was far more legitimate than their wealth. As the Gusinskii and Berezovskii cases soon demonstrated, it was relatively easy to isolate individual tycoons and to discipline, or even destroy, them one at a time. Moreover, Putin had actually promised the oligarchs remarkably little in the summer of 2000: for all the importance attached to the meeting of 28 July, the president did not say or do anything that actually committed himself or the government to refrain from prosecuting fraud, tax evasion

37 Communications Minister Leonid Reiman was among the founders of Vimpelcom's St Petersburg-based rival, Telekominvest.
38 Moscow Times, 24 December 2003.
39 Moscow Times, 30 December 2003; see also the Audit Chamber's web site at http://www.ach.gov.ru/.
40 On the increasingly urgent, pleading tone of big business's appeals to the president, see Lola Kuchina, 'RSPP v poiske kontrakta' Politcom.ru, 16 October 2003; and Kommersant", 23 October 2003.
41 Vladimir Putin, 'Vystuplenie na zasedanii pravleniya Torgovo-promyshlennoi palaty Rossii', 23 December 2003 (http://president.kremlin.ru/appears/2003/12/23.shtml).

or any other economic crimes—including violations of privatisation legislation.[42] The readiness of the business elite to take the president's words at rather more than face value was born at least in part of wishful thinking: they applied the most reassuring interpretation possible to Putin's words because they wished so badly to be reassured.

Inequality of power, coupled with the absence of any third party capable of upholding the deal, meant that Putin could not credibly commit to uphold his side of the bargain even if he genuinely wished to honour it. There was no effective means by which he could bind himself *ex ante* and so assure other actors that he could not later renege on the deal. It was, moreover, clear that as Putin consolidated his position, this inequality of power would increase. This further reduced his ability to make a credible commitment. Understanding this, the business elite could hardly be expected to make a whole-hearted commitment to the bargain either.[43] In any case, the tacit nature of the deal meant that no one knew precisely what was permitted and what was not. Violations might well be—and, in due course, were—defined both unilaterally and retrospectively.

In any case, the incentives for Putin to violate the deal were enormous. The overriding motivation to do so was his own determination to concentrate ever more power in his own hands. Throughout his first term, Putin conducted a protracted campaign to strengthen the 'vertical of power', extending the authority of the presidency at the expense of other state institutions, while simultaneously extending state control over the media and the party system. Sooner or later this drive for supreme power was bound to bring him into conflict with the most important centres of power outside the state—the oligarchs' business empires. Moreover, as noted above, many of the president's closest associates were never very happy with his accommodation with the oligarchs and hoped, indeed, to extend their own control over the economy. Finally, Putin could hardly be expected to ignore the fact that the oligarchs themselves were never very faithful to the terms of the deal. On a number of issues, their lobbying clout in the Federal Assembly, the regions and even the upper reaches of the federal executive was sufficient to inflict defeats upon the government.

In many ways, the tycoons' position was the mirror image of the president's. Like him, they faced powerful incentives to defect and they, too, would have found it difficult to stick to the terms of the deal even if they had wished to do so. Above all, this was simply because there was no clear-cut line between business and politics for them to observe. Government policies often impinged directly on their business interests, as did decisions taken on a daily basis by lower-level officials. The stakes were simply too great for the oligarchs to give up politics. They might lower their profiles and curb their more blatant interference in the political process, but, as the owners of Russia's biggest companies, they could hardly be expected to adopt a passive political stance.

Furthermore, all the business clans had invested heavily in the resources needed to play the political game by the old rules. Their representatives occupied key posts in the government, the Duma and even the Kremlin itself, and they had built up close ties to important political figures at federal and regional levels. These investments could not easily be written off, not least because politicians and officials

42 One of the few observers to recognise this at the time was the Jamestown Foundation's Harry Kopp; see Russia's Week 5:30 (2 August 2000).
43 For an assessment of this problem in respect of attempts to negotiate a new 'social contract' between the state and business in late 2003, see Scott Gelbach, 'Business-State Contract Lacks Credibility', Moscow Times, 6 August 2003. For an excellent analysis of this type of commitment problem, albeit in an entirely different context, see James Fearon 'Ethnic War as a Commitment Problem' (Paper presented at the Annual Meeting of the American Political Science Association, New York, 1994).

who enjoyed the oligarchs' patronage would be unlikely to welcome its withdrawal. Rent-seeking state officials—many of whom were far less eager than Putin to reverse the Yeltsin-era 'privatisation of the state'—made it dangerous for the major business groupings to cease to play the political game by the old rules. Private 'capture' of state institutions and political-bureaucratic rent-seeking were to some extent two sides of the same coin. In theory, one might distinguish between 'offensive' and 'defensive' corruption—between the aggressive suborning *of* officials and racketeering *by* officials. In reality, the two were closely intertwined. This merely aggravated Putin's commitment problem: even if he were prepared to respect the tycoons' property rights in return for their non-interference in policy-making, he could not enforce such a commitment on the state's own servants. Despite attempts to institutionalise new forms of state–business interaction, therefore, Russia's commercial elite continued to rely more on personal networks and informal relationships in dealing with the state than on formal rules and institutions.[44] The oligarchs' financing of political parties must be seen at least partially in this light. Party financing, of course, represented an attempt to promote policies favourable to their commercial interests, but it was also, arguably, a form of protection money paid to the major parties in the Duma.[45]

The tycoons also faced a collective action problem. Those who ceased to lobby, bribe and manipulate state institutions would risk losing out to rivals who continued to do so. Withdrawal from the oligarchic political game resembled a form of disarmament: if it were to work, then all the tycoons needed to make the shift together. Yet Russia's oligarchs have never shown much capacity for sustained collective action. Commercial rivalry and lack of mutual trust have made it easy for the Kremlin to divide and rule the oligarchs, as has the tycoons' awareness of their own vulnerability to pressure from the state. Virtually any significant business in Russia has reason to fear close scrutiny of its tax affairs, its origins or its relations with officialdom. Indeed, criminal investigations are hardly necessary. Many of the most lucrative activities in Russia rest on licensing regimes—resource extraction, telecommunications and banking, to name but three. In such cases, mere bureaucratic discretion can represent a deadly threat. Faced with an official campaign against a fellow tycoon, the safest (and most lucrative) course is willing cooperation, in the hope of acquiring some of the victim's assets. The Kremlin's use of such divide-and-rule tactics tends, in turn, to reinforce the oligarchs' reliance on personal ties and particularistic lobbying—however much Putin himself may abhor such behaviour.

The lessons of the Yukos affair

As of this writing (February 2004), the battle surrounding Yukos and its core shareholders is still under way, with new indictments and charges appearing from week to week. It is not clear what the fate of either Yukos or its owners will be. However, it is possible even at this stage to draw a number of tentative conclusions about the significance of the Yukos affair for relations between Russia's leading businessmen and the state. The course of the conflict to date has highlighted a number of well known problems with Russia's economic and legal-political institutions, none of which will be remedied quickly, regardless of how the Yukos case is resolved. First, the rule of law remains weak. Recent judicial reforms notwithstanding, the courts are largely subservient to the executive, especially the prosecutors, while the security services, the prosecutors and the police remain highly

44 On this issue, see Andrei Ryabov, 'Budushchee Rossiiskoi vlasti', Vedomosti, 30 October 2003.
45 I am grateful to Yulia Latynina for drawing my attention to this point.

politicised. Provisions of the new Code of Criminal Procedure have been blithely ignored, with prosecutors and police resorting to measures that are clearly illegal and that were unusual even in Soviet times.[46] Secondly, the Kremlin's taming of the media in 2000–02 has largely been successful. State control over many media organs and self-censorship on the part of others has meant that criticism of the anti-Yukos campaign has generally been muted, apart from a handful of internet, print and radio outlets. Thirdly, there are no other strong state or private institutions prepared to challenge the federal executive. Fourthly, property rights in Russia remain insecure, and the Yeltsin-era privatisation settlement remains open to further, possibly substantial, revision.

The president and leading members of the government continue to declare that there will be no large-scale re-examination of the results of privatisation.[47] And, of course, investors and businessmen continue to take comfort from such declarations, assuring themselves and one another that they can trust Putin to keep his word.[48] In fact, they have little choice but to trust the president: in the absence of stronger institutions capable of constraining the coercive capacities of the Russian state, there is nothing else on which to rely. However, few things could have demonstrated the fragility of the 1990s property settlement more convincingly than the fact that, after four years in power, Putin was still making reassuring statements about privatisation—and that the business community continued to attach such importance to his every pronouncement on the subject. The backdrop against which statements confirming the privatisation settlement were delivered was one of repeated *de facto* revisions to it, beginning with Gusinskii and ending with Khodorkovskii.

Of course, the president appears to mean what he says, and with good reason: any hint of a serious campaign to revisit the privatisations of the 1990s could be profoundly destabilising. Yet this did not preclude any number of 'one-off' actions against particular targets during Putin's first term. In each case, the essential strategy was to isolate the victim and emphasise those of his characteristics that made him an exceptional case. By emphasising the peculiar sins of a Berezovskii, Gusinskii, Goldovskii or Khodorkovskii, the authorities were able to attack their chosen targets while reassuring the other tycoons—and, for that matter, the wider business community—that they had nothing to fear. At least, they had nothing to fear as long as they did not attempt to intervene. This approach proved relatively successful thanks in large measure to the fact that the targets of the Kremlin's wrath were not especially sympathetic victims, having secured their wealth and influence by rather unsavoury means. The oligarchs had little love for one another anyway. Above all, however, Putin found it relatively easy to reassure the business community about the 'exceptional' nature of each successive campaign because, as noted above, the oligarchs and other investors were so eager to be reassured.

This reassurance, however, was always carefully qualified. At no point did Putin offer an unconditional amnesty for past violations. On the contrary, while repeatedly promising that there would be no witch hunts or political campaigns, he continued to leave open the possibility that past violations would be prosecuted. Some owners were, of course, more vulnerable than others. Putin's reference to 'five or seven'

---

46 Examples include searching the offices of defendants' lawyers and summoning defence attorneys for questioning in connection with the cases they are defending.
47 Reuters, 28 July 2000; Moscow Times, 3 November 2003; Politcom.ru, 4 November 2003; United Financial Group, Russia Morning Comment, 17 November 2003.
48 See, for examples, Al Breach, 'The Post-Oligarch Era Begins' (Moscow: Brunswick UBS, 13 November 2003); United Financial Group, Russia Morning Comment, 28 October 2003 and 3 November 2003; Moscow Times, 3 November 2003.

people was generally taken as a thinly veiled reference to the notorious loans-for-shares auctions of 1995–97. However, the loans-for-shares deals were unique only in their transparency: the state was asset-stripped in broad daylight and the sums involved were widely publicised. There is no reason to believe that the insiders who privatised companies like Lukoil and Surgutneftegaz (not to mention Gazprom) actually paid any more than the loans-for-shares tycoons; in some cases, they appear to have paid considerably less.[49] Revelations about the sums the state actually received for such assets would be sufficient to throw their owners onto the defensive. Even those who paid reasonable prices for their holdings would not welcome too much scrutiny. Metals tycoon Oleg Deripaska boasted that, having paid $3bn for his companies, he had nothing to worry about, but even he might not welcome an inquiry into how he obtained $3bn in the first place. Thus, all the tycoons remained, to varying degrees, vulnerable to any close examination of the sources of their wealth.

After Yukos: forward into the past?

The Yukos affair gave Putin an opportunity to revise substantially the terms of his relationship with big business. Far from being the state's master, Russian private capital was to be its servant. Putin made it clear that the state expected big business to share the burden of tackling Russia's social problems and that the resource-extraction industries, in particular, would be required to bear a heavier tax burden than hitherto. The oligarchs, for their part, were at pains to demonstrate their loyalty to the Kremlin and their acceptance of the president's new line.[50] Lukoil declared with pride that it had actually abandoned many of its legal tax optimisation schemes and was paying more tax than was strictly necessary.[51] Where they had previously competed to maximise after-tax profits and market capitalisation, oil companies were suddenly competing for official favour once again, at pains to proclaim their readiness to pay more taxes and to support all manner of social initiatives. Surgutneftegaz was well positioned for this competition. A highly secretive company (it had not even released international standards accounts since 2001) that was renowned for treating minority shareholders with contempt if not hostility, Surgut was a decidedly state-oriented company. It did not pay dividends to shareholders, but it paid the second-highest effective rate of profit tax in the oil industry.[52] It was rewarded for its loyalty. In late 2003, the company paid the Ministry of Natural Resources just $66m for a licence that had been removed from Yukos, which had previously bid $500m for it.[53] BP-TNK, clearly recognising the need to adapt to the new circumstances, announced plans to move its core holding company on-shore and to maintain its profit-centre in Russia.[54]

The oligarchs' apparent docility is hardly surprising. In the absence of any serious political force capable of challenging Putin, big business had little choice but to accept the new 'social contract' between business and the state—indeed, they seemed to accept it without waiting for the terms to be fully spelled out. Yet the new bargain was no more reliable than the old. For the tycoons, the problem remained

49 For a discussion of the loans-for-shares sales in the broader context of 'insider privatisation' in Russia, see William Tompson, 'Privatisation in Russia: Scope, Methods and Impact' (mimeo: University of London, October 2002), available at http://www.bbk.ac.uk/polsoc/download/bill_tompson/.
50 See, for example, the elite's reactions to Putin's mid-November address to the Congress of the Russian Union of Industrialists and Entrepreneurs; Moscow Times, 17 November 2003.
51 Vremya novostei, 14 January 2004.
52 William Browder, 'Making the Case for Putin', Moscow Times, 21 January 2004.
53 Moscow Times, 15 December 2003.
54 Vedomosti, 28 January 2004.

the inability of the state to make a credible commitment. Indeed, the relative weakness of the oligarchs that the Yukos case exposed actually made it even harder for the state to commit to the terms of any implicit or explicit deal with the business elite; the case had highlighted just how great the imbalance of power had become.[55] In part, of course, this imbalance was conjunctural and reflected Putin's unchallenged dominance of the political scene as his first term drew to a close. However, there was also a structural aspect to the problem: the weakness of 'coercion-constraining institutions', which are an essential element of any system of secure property rights.

Secure property rights require a strong state, capable of protecting owners' rights and of providing impartial rule adjudication and enforcement. However, the strength of the state can itself pose the most serious threat of all to property rights, for those who exercise the state's monopoly of violence may be tempted to expropriate owners. A strong property rights regime thus needs a strong state but also strong institutions capable of constraining that state.[56] Russia still lacks such institutions. The absence of coercion-constraining institutions and the inability of the state to commit itself to rule-governed behaviour were highlighted by the fact that several of the criminal charges against Yukos shareholders involved matters that had previously been settled in legal agreements between Yukos and the state. On many of the counts, Yukos had compensated the state in agreed settlements for 'ethical and reputational' reasons, while maintaining that its actions were legal. The subsequent indictments showed that the state felt no obligation to uphold such settlements.[57] The prosecutors might have sought to overturn such agreements by alleging that they had been obtained by bribery or other improper means, but no such charges were brought against Yukos owners or the officials involved.[58]

In fact, Putin's attitude to property rights—or, at any rate, to the oligarchs' property rights—appears to owe more to Russian history than to the theories of his liberal advisors. Consciously or not, what the president offered the oligarchs was essentially conditional tenure. In the 16th century, the autocracy, facing new and potent military threats from the West, nationalised land in Russia and allocated it to cavalrymen on conditional tenure in order to solve its military manpower problem, thereby laying the foundation of the 'service state' in early modern Russia.[59] Putin's project is far less radical, but the parallel is nevertheless worth exploring. Putin's aim on coming to power was to restore Russia's economic fortunes and thereby establish the basis for her recovery as a great power. His embrace of the market was instrumental; the president was not a convinced liberal on principle but a nationalist who had been persuaded that market reform offered the only viable strategy for making Russia wealthy and powerful again. Privatisation, on this view, was meant to serve this larger purpose by putting assets in the hands of owners who could use and develop them more efficiently than the state. In short, property was the gift of the state but it was not an unconditional gift. If the new owners failed to play the role

---

55 Gelbach, op cit.

56 Avner Greif, 'The Emergence of Institutions to Protect Property Rights', in Claude Menard and Mary M. Shirley (eds), Handbook on New Institutional Economics (London: Kluwer, forthcoming).

57 Such, indeed, was the case with respect to the Apatit privatisation, which was the first case launched against Yukos's owners. See Peter Clatemen, 'Summary and Analysis of Report on Criminal Case #18/41-03', Johnson's Russia List, 11 December 2003 (http://www.cdi.org/russia/johnson/7462-9.cfm). See also the Moscow Times, 28 January 2004.

58 At the end of February 2003, prosecutors finally opened a case against the head of the Federal Property Fund in connection with the Apatit settlement, but they had yet to raise any charges of corruption—only that he had acted ultra vires in concluding the deal. It remains to see whether this action will be extended to other officials involved in property deals with the oligarchs. Vedomosti, 1 March 2004.

59 Marshall T. Poe, The Russian Moment in World History (Princeton and Oxford: Princeton University Press, 2003), p. 55.

scripted for them under this scenario, then they would have to be disciplined. Economically, this implies an insecurity of property rights that is likely to undermine performance, but politically, it undoubtedly has a certain logic. Russia's capitalist class was created by the state and endowed with control over many of the state's most valuable resources. It is therefore expected to serve ends defined by the state and to accept that its exercise of certain rights—particularly the right to alienate assets—must be coordinated with the state.[60]

None of this should be taken to imply that the era of liberal economic reforms has ended. On the contrary, a second Putin administration may well see a redoubling of economic reform efforts. The appointment of a strongly reformist cabinet would be the easiest way for Putin to reassure both the international community and investors that he remains committed to market reforms and that the Yukos case is not a harbinger of *étatiste* policies to come. Moreover, if Putin is prepared to throw his weight behind a renewed reform push in th name of 'non-oligarchic capitalism', then the greater concentration of power in the Kremlin could make reforms easier to pursue. This would not, however, rapidly remedy the institutional defects discussed above, and it would be a mistake to believe that the appointment of a more reformist cabinet, together with a more market-friendly PR campaign on the part of the Kremlin, would preclude further cases like the one against Khodorkovskii. On the contrary, the logic of conditional tenure implies that, from time to time, the sovereign will seek to remind his servants of his rights over them.

Putin appears to see no contradiction between this essentially qualified affirmation of property rights and the pursuit of market reforms, but others are not so sanguine. Former Deputy Prime Minister Yevgenii Yasin summed up the conflicting signals emanating from the Kremlin and the government as follows: 'We, those in power, want business to prosper. There won't be any de-privatisation; everything will be fine. But when we want to attack someone, we will do so. We will crush anyone. You must realise that and be afraid.'[61] In other words, Putin wants dynamic capitalist development without having to deal with the political power of a dynamic capitalist class. On the face of it, this would appear to leave the president trapped 'between his need for economic growth and his need for political control'.[62] In his first term, a combination of skill and good luck enabled him to square the circle and pursue both with a fair degree of success. In the longer term, however, Putin or his successor will have to resolve this contradiction one way or the other.

60 Asked about the possible sale of a large stake in Yukos to a western oil major, Putin replied, 'As regards purchasing part of the Yukos company, again this is a corporate matter, but once again we are talking about a possible major deal here, and I think it would be the right thing to do to have preliminary consultations with the Russian government.'New York Times, 4 October 2003.
61 Moscow Times, 28 October 2003.
62 Robert Cottrell, 'Putin's Trap', New York Review of Books 50:19 (4 December 2003).

Chatham House
10 St James's Square
London, SW1Y 4LE
United Kingdom
www.chathamhouse.org.uk

Contact: James Nixey, Russia and Eurasia Programme, jnixey@chathamhouse.org.uk