

THE POLITICS OF RUSSIA'S FINANCIAL-INDUSTRIAL GROUPS

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Abstract: With the collapse of the Soviet Union, the subsequent privatization of state industries and the Soviet banking system led to the creation of numerous financial-industrial groups (FIGs). Initially limited in the scope of their operations, FIGs have expanded their holdings and political influence dramatically over the past five years. A small number of FIGs have created vast empires centered around investment banks and various industries, and control a significant portion of the Russian economy. Led by the so-called "oligarchs," these organizations have exercised considerable political influence, especially following the re-election of Boris Yeltsin in 1996.

Keywords: *Soviet Union, privatization, financial industrial groups, Russian oligarchs*

Özet: Sovyetler Birliği'nin parçalanması ile, bunu takip eden, kamu sanayii ve Sovyet bankacılık sisteminin özelleştirilmesi, bir çok finansal sanayi grubunun oluşmasına öncülük etmiştir (FIGs). Başlangıçta sınırlı bir yapılanma gösteren FIG'ler, geçen beş yıl içinde sahip oldukları holdingleri genişletme yoluyla büyüyerek, siyasal güçlerini arttırmışlardır. Az sayıdaki FIG'ler yatırım bankaları etrafında büyük imparatorluklar oluşturarak ve çeşitli kollardaki sanayileri aracılığı ile Rusya ekonomisinin büyük bir bölümünü kontrolleri altına almışlardır. "Oligarch"lar olarak anılan grup tarafından yönetilen bu organizasyonlar, özellikle Boris Yeltsin'in 1996'da tekrar seçimini takiben oldukça büyük bir siyasi güç uygulama fırsatı bulmuşlardır.

Anahtar kelimeler: *Sovyetler Birliği, özelleştirme, finansal sanayi grupları, Rusya*

Rising out of the murky mists of the Soviet, and subsequent Russian, privatization programs, the Financial-Industrial Groups (FIGs) have become the centers for elite control and domination of the Russian economy, Russian society, and Russian politics. Originally privatized industrial or banking concerns, FIGs have grown to encompass both industry and banking, and in the process developed networks of interest representation that include politicians, media outlets, and private security forces (Jensen, 1998a: 4). Privatization programs began in 1987 under the aegis of Mikhail Gorbachev and, at the time, primarily benefited members of the *nomenklatura* elite who held positions in the ministries or concerns that were to be privatized, or who had "insider" information or access to the planned privatizations due to their positions. As Olga Kryshtanovskaya has noted in a comprehensive study of elites, areas where the elite benefited through "preferential privatization" included the divestiture of state assets (in the form of ministries and government industries), state banks, the distribution system, and profitable enterprises. This "privatization of the state by the state" was conducted by government officials using their authority to privatize state structures under their control. This privatization took place in several areas, notably the privatization of ministries, the banking system, and state enterprises. According to Kryshtanovskaya, a typical example of what occurred in privatization of the ministries was that a minister would retire or become a consultant to the former ministry, while a deputy minister became president of the new concern. Acquiring the legal status of a shareholding company, the leadership of the ministry became the shareholders of the newly privatized organization, as well as state enterprises that were under the jurisdiction of the former ministry. The leadership at the head of the ministry was in effect not only privatizing the concern, but privatizing it for themselves (Kryshtanovskaya, 1995: 15).

Another step in the *nomenklatura* domination of the privatization program came in the privatization of the banking system in 1988-1989. While the rigid and unitary banking system was abolished, the banks themselves remained untouched, with personnel, offices, equipment, and even the director often remaining the same. Sometimes the names of banks were changed, other times, not even that was done (ibid: 15). Most banks under the Soviet regime were connected to a specific industry (housing, constructing, military, etc.) and never really worked with currency, instead being used as depositories linking Gosplan, the military-industrial complex, and other industries. At the time, the only banks to possess capital were those associated with the Communist Party of the Soviet Union Central Committee (CPSUCC), the KGB, and Komsomol, all organizations that dealt with foreign organizations and possessed hard currency. As a result, these particular banks were able to invest the hard currencies and with the support of political backers after the collapse of the Soviet Union, they were able to grow into some of the largest banks in Russia today (Coulloudon, 1998: 538). Finally, privatization of profitable enterprises benefited the *nomenklatura* when a number of larger industrial enterprises became shareholding companies, again with much of the *nomenklatura* leadership intact after privatization. The privatization of companies in this category typified the process of privatization in general, as the conditions under which the transactions occurred were of a dubious nature due to the lack of formal legislation guiding the transfer of state property. Kamaz and Avtovaz, two automobile factories

that were to play an important role in the creation of the financial-industrial groups, were examples of this form of privatization (Kryshtanovskaya, 1995: 16). The process of state privatization for the benefit of the *nomenklatura* essentially ended with the beginning of the official privatization program, when the public was given an opportunity to sift through the leftovers of state properties.

Financial-industrial groups grew out of the above process of "state privatization of the state." Those elites who were in the right place at the right time were able to take advantage of their insider's knowledge of the privatization process, thus laying the groundwork for the growth of the FIGs. Assistance from organizations such as Komsomol and the Communist Party, in the form of Coordinating Council of Youth Centers for Scientific and Technical Creativity (TsNTTM), provided seed money for a number of these well-placed young entrepreneurs who quickly moved into banking and management of state funds. In the years since FIGs first appeared organizationally, they have developed into a complex network of individuals and associations, the so-called "clans." FIGs generally fall into two categories, those based on industry and those with origins in the banking sector (with government FIGs as a smaller third category). Industry-led FIGs were formed at the time of Russia's transition from communism to enable new enterprise owners (generally the former managers) to maintain control over the firms and reduce the risks of doing business during the unsteady period of transition. The bank-led FIGs were formed when Russia's largest banks began to acquire shares in newly privatized businesses (Johnson, 1997: 333). These core enterprises are surrounded by commercial interests or industrial holdings (and very often both). Defending this central part of the organization are "media outlets, extensive private security forces, and corporate intelligence and espionage offices" (Hoffman, 1997: A22). At the head of the each FIG there is usually a single leader, or several individuals, derogatorily known as "oligarchs" or "tycoons." Nearly all of the FIG tycoons have served the government in some capacity or another, and all retain some sort of relationship with, and the patronage of, political allies (ibid: A22). A few of the larger FIGs are more important than the rest, not necessarily due to the nature of their operations, but because of their privileged origins in the Soviet era, and their close relations with high level government employees and political patrons (Jensen, 1998a: 4). All of the major FIGs have links to both the administration and the legislature, although ideological divisions mean relatively little to their leadership (Graham, 1995: 26). The number of officially registered FIGs is under 100 (see below), but they control a vast array of financial and industrial concerns, essentially maintaining a stranglehold on the Russian economy. The holdings are so vast, and often acquired so secretly, that the true extent of the FIGs' power is unknown.

FINANCIAL EMPIRES

At the center of the development of the FIGs, was reform of the financial sector that occurred under Gorbachev. While not a requirement for a strong FIG, most of the financial-industrial groups have banks anchoring their financial empires. Those that do not have banks as their core asset, have at least a small banking system to generate capital. Whether or not the FIG originated in the industrial sector or the banking sector is irrelevant - the finance side of their interests is important if they are

to continue to acquire assets and remain competitive in the cutthroat market that is Russian capitalism. In addition to collecting banks and banking groups, other components of the financial side of the FIGs include trading companies, investment companies, and finance corporations. Since the privatization of the banking system in the late 1980s, the financial sector has divided into three subcategories, consisting of banks that earned money from the state, businessmen who owe their wealth to personal or family acquaintances, and self-made businessmen who used the window of opportunity created during privatization to set up cooperatives after the party leadership gave the go-ahead for privatization to occur (Coulloudon, 1998: 538-540). Individuals from each of these three subcategories have become very successful, very wealthy, and very powerful, and have found themselves at the head of the most powerful FIGs. Financial actors from the first subcategory have been briefly discussed above. These were banks that dealt with government agencies which had hard currency reserves. After privatization, many of these banks become wealthy due to their possession of hard currency and their ability, with political sponsorship of organizations such as Komsomol and the CPSU, to invest these funds at considerable profit. Most of the financial actors in this category were members of the banking consortium in 1995 that created the loans-for-shares program, which dramatically increased the wealth, power, and influence of the primary FIGs.

Financial actors who fall into the second subcategory, personal or family connections, benefited from these connections because family ties allowed them access to opportunities that were not available to others, primarily through patrons who were members of the *nomenklatura* and who assisted these young entrepreneurs in getting started. Many found positions in the late Soviet period in Komsomol organizations or as low level CPSU functionaries, for example in the TsNTTM, and remained influential after the collapse of the USSR. One example, although not one of the major FIG leaders, is Sergei Kirienko, the young petroleum expert and former oil executive who became Prime Minister for a short time in 1998 (ibid: 539-540). Moving on to expand their empires, these actors created some of the largest and most powerful FIGs, including Alfa, Inkombank, and SBS-Agro (Jensen, 1998a: 6). Actors in the third subcategory also benefited from state assistance, but not normally before they were already established in their primary occupations. These individuals used creative windows of opportunity, for example by starting businesses at the factories where they were employed. According to one scholar, while they may have been successful in setting up business empires, they were quite often excluded by the banking interests from strategic enterprises. Boris Berezovsky, founder and former chairman of Logo-VAZ, was one such entrepreneur who was able to tap into the resource of businesses in the first subcategory by maintaining good contacts with their leaders (Coulloudon, 1998: 540).

MEDIA EMPIRES

One component of the financial-industrial groups that has proven important is the media arm that each clan possesses. As a way for the leadership of the FIGs to promote their own agenda, to attack other organizations, and to support their government cronies, the media branch of these clans have been effective and well used. Observers of the phenomenon cite the FIG need for media outlets to assure

"important financial and political dividends outside the media market (Fossato, 1997: 1). The example best used to describe FIG interests in the power of the media is the 1996 Russian presidential campaign. Trailing badly in the polls, the Yeltsin campaign's effective use of the media, in conjunction with other methods of influence, allowed him to emerge as the victor. In the process, he had gained the support of media heads such as Igor Malashenko, the president of NTV, who feared a return to communism and restrictions on press freedom. Yeltsin's electoral victory also sparked the interest of the FIG leadership in controlling a greater proportion of the media than they may have prior to the campaign (Belin, 1997: 1). Each of the major clans from both the public and private sectors has holdings in most media areas (television, newspapers, radio, and magazines). In the new market system of the Russian Federation, business is very closely tied to politics. Control by the FIGs over powerful media outlets has been needed in order to gain political influence and guarantee access to the decision making process (Fossato, 1997: 1).

The top contender in the media market is the FIG led by Vladimir Gusinsky, a former theater director who is rumored to have benefited from operating a bank that handled hard currency for the communist party. His Media Most flagship possession is NTV, the primary competitor of Russian Public Television (ORT), which is run by popular media figure Malashenko (Jensen, 1998b: A1). The next contender in the media market is the Moscow City FIG, headed by Mayor Yuri Luzhkov (*The Economist*, 1999: 32). Taking notice of the federal government and its practices, Luzhkov has given his FIG a strong media arm, one that remains loyal even in the difficult times that Russia is currently facing. The Moscow City government has interests in four regional television networks and six daily papers, including the influential *Moskovsky Komsomolets* and *Komsomolskaya Pravda* (Fossato and Kachkaeva, 1997: 1-2). The Russian Federation government owns one television network in its entirety, and has a fifty-one percent share in the nationwide station ORT. The government also counts among its assets three radio stations, two newspapers (including *Rossiyskaya Gazeta*), a monthly magazine, and the Itar-Tass news agency (ibid: 1-2). Other privately held FIGs, such as Logo-VAZ, Uneximbank, SBS-Agro, and Menatap Bank have taken what remains of the media pie and divided it amongst themselves. Logo-VAZ, for example, owns the popular daily *Nezavisimaya Gazeta*, and has an eight percent interest in ORT (although it heads a bank consortium that controls thirty-eight percent of ORT stock, indirectly making Logo-VAZ the second largest shareholder after the federal government) (ibid: 1). The competing FIGs have taken the importance of obtaining interests in media organizations to extreme levels. In mid 1997, during a battle by two FIGs over control of the daily newspaper *Izvestiya*, a staff foreign correspondent flew to Moscow to sell his relatively small share of the paper. After negotiating a deal with LUKoil, the journalist was approached by representatives of the competing Uneximbank, and offered four times the amount LUKoil was paying. The journalist accepted the offer and Uneximbank gained a controlling interest in the paper (Fossato, 1997: 1).

In the fight to control the media that has been carried out by the FIGs one important aspect has been lost. According to one scholar, the assumption that was inherited

from the Soviet era - controlling the method of sending the message to control how the message is received – does not appear to be correct (Belin, 1997: 1). Exposés that are often seen in the press are dismissed as part of the battle of the FIG oligarchs over narrow financial interests. Media coverage of scandalous events that would lead to resignations or official inquiries in many Western countries are virtually ignored, as evidence shows few "heads have rolled" due to the publication of compromising information. There is also little evidence to suggest that President Yeltsin has let the media influence his decisions. He has consistently ignored negative articles regarding members of his administration, although such articles may have eventually led to these individuals becoming politically assailable (ibid: 1-2). Despite this evidence that casts doubt on the efficacy of the media to promote FIG interests, associations with or, more desirable, ownership of media outlets still remains an interest of the FIG tycoons and their organizations.

FIGs AND POLITICS

The FIGs first came to prominence just prior to the 1996 presidential elections. In a now famous and notorious report, Thomas E. Graham, a senior political officer at the US embassy in Moscow who contributed a piece to the Russian newspaper, *Nezavisimaya Gazeta*, warned of a new elite in Russia. He wrote that this new elite was one "whose power is based not on popular support but on its control of the political and economic institutions of the state" (Graham, 1995: 26). One of the earliest references on the topic of FIGs and their associated networks (dating to the fall of 1995), and perhaps the origin of the term "clans," Graham's article stirred up much interest in this underexposed world of power politics and economic influence. According to the article, rivalries between these competing clans replaced the rivalry that had existed between the legislative and executive branches during the first two years after the collapse of communism. Graham stated that the elite clans, linked to financial and industrial concerns, had found political homes in the executive branch, with each organization grouped around a powerful political figure, and ties to the media and the security apparatus (ibid: 26). In 1995, Graham noted that there were five or so major clans, mostly centered around high-level political figures that included Victor Chernomyrdin (at the time Prime Minister), Alexander Korzhakov (Yeltsin's confidante and head of the presidential bodyguard), and Sergei Filatov and Anatoly Chubais, economic reformers who for a time headed the Yeltsin administration. According to Graham, the Chernomyrdin clan was focused on the energy sector, the Korzhakov clan (which also included First Deputy Prime Minister, Oleg Soskovets) on the military-industrial complex, and the Filatov-Chubais clan in the economic sector, notably with links to the state property committee and international financial institutions. Other prominent clans included representation from the agricultural sector and their associated concerns, and local clans such as that headed by Moscow mayor, Yuri Luzhkov, which tapped the financial and industrial potential of the capital city (ibid: 27).

In the several years since the Graham report, the investigation and documentation of FIGs has been conducted with much greater detail and understanding into the nature of FIGs and their clans. The findings have been eye opening, to say the least. According to one report, by May of 1998, there were more than eighty registered

financial-industrial groups that encompassed at least 1,000 industrial enterprises and 100 banks. This same report also indicated that there are currently thousands more *de facto* FIGs that primarily represent small and medium-size businesses and their in-house banks (Jensen, 1998a: 4). Most of these FIGs follow in the steps of the first financial-industrial groups, after linking banking and industrial enterprises, they cultivate the favor of political figures. For the smaller holdings, their influence may not rise above the regional political level, but the larger organizations nearly always find some willing representation at the federal level. The lists of politicians who have been influenced by FIGs and their leaders starts at the top with Boris Yeltsin. A number of the heads of the financial-industrial groups - the oligarchs - have held high level political offices in the Yeltsin administration (see below - "The Tycoons") or been advisers to his administration. From Deputy Prime Minister to Security Council member to Minister of Foreign Economic Relations, the FIG leadership has had unprecedented access to policy makers and policy making. Political influence extends beyond holding office. In 1996, a group of the most powerful FIGs bankrolled Yeltsin's re-election campaign, grossly outspending any opposition and ensuring their access to the halls of power. Through their control of media outlets, the FIG leadership can essentially control the access to information that is available to Russians. By using their influence with the extensive media holdings under them, FIG leaders have great capabilities to set the political agenda by focusing on issues that are important to them. Again, a case in point is the 1996 presidential elections, where many of Yeltsin's opponents were frozen out of the popular press.

THE TYCOONS

While financial institutions may be the heart of the FIGs, no financial-industrial group would be of any great importance without the dynamic leadership of the talented, maybe even ruthless, individuals who are the heads of these organizations - the so-called oligarchs or tycoons. While there are dozens of oligarchs at the head of the many FIGs, and many with strong political connections, very few achieve power and influence that grants access to the highest echelons of Russian government. The "best and the brightest of a young generation who saw that phenomenal profits could be made from the chaos of the Soviet breakup," these tycoons have become "the most conspicuous advertisement for the success - and excess - of Russia's switch to market capitalism" (Hoffman, 1997: A22). These oligarchs thrived in an environment where there was a problematic relationship between the nascent capitalist system and the institutions of government. By introducing capitalism as an economic system without establishing the rules of the game (or not preventing the circumvention of those rules that existed) the Russian government allowed the oligarchs to play fast and free with the Russian market (Balbed, 1996: 1). Nearly universally despised by the Russian public because of their wealth, power, and influence, the oligarchs command attention at the highest level of government, and until recently often influenced government policy and personnel decisions. Comparisons to the Nineteenth Century "robber barons" of the United States are inevitable - J.P. Morgan, John Rockefeller, Leland Stanford and others - men who created great personal wealth, at the expense of the poor and suffering masses (Powell, 1997: 33; Hoffman, 1997: A22). Their Russian counterparts negative image notwithstanding, early into

Yeltsin's second term as president, some saw the tycoons as possibly Russia's best hope for economic improvement - not because of some altruistic purpose on the part of the oligarchs, but simply to protect their own economic interests (Powell, 1997: 31). This is not to say that the oligarchs work together to coordinate policies beneficial to their small circle. Far from it - while several of oligarchs may come together on a common issue, once the matter has been solved, any close association is terminated (Johnson, 1997: 359). The one shared understanding that they all possess, however, is the importance of having allies in the government. It is in their interests to have a competent government (which is good for business in general), but one that is also weak enough for them to influence (which is even better for their own businesses) (*The Economist*, 1998: 57). As mentioned above, most of the top oligarchs have developed a close relationship with members of the federal government. Some have even been employed by the government themselves. These insiders work to assure that the interests of the tycoons are being protected. Due to their government connections, the tycoons have been able to "shield themselves from domestic and international competition" (Balbed, 1996: 1). When threatened by political forces beyond their control, the oligarchs act, as demonstrated by their pooling of resources, both financial and political, to greatly assist in the re-election effort of Boris Yeltsin in December of 1996.

The oligarchs, as a group, share some common characteristics. Many of these tycoons were former members of the *nomenklatura*, not always of the top level within the old Soviet elite system, but often from the middle level elites, and particularly regional elites. They have tended to be well educated, ambitious, and reform-oriented during the days of *glasnost* and *perestroika*. However, outside of these broad similarities there is little in common among these entrepreneurs. There is no shared occupational background of the leadership of FIGs, although a history in the finance sector, especially banking, is more common than not (Coulloudon, 1998: 544). Vladimir Gusinsky, the head of Most Bank, had a career as a provincial theater director before gradually moving into business. His empire, anchored by Most Bank, includes NTV, Russia's third largest network, a radio station, the news magazine *Itogi*, and one of Russia's most widely circulated daily newspapers, *Segodnya* (Quinn-Judge, 1997: 67). Vladimir Potanin, considered the junior member of the oligarchs, got his start in the Soviet Foreign Trade Ministry. His base of power is one of the largest financial institutions in the Russian Federation, Uneximbank, which was founded on the ruins of the Soviet era-foreign trade system. His media empire is centered on the well-respected daily, *Izvestiya* (ibid: 68). Potanin's influence has also extended to government, where, for a time, he occupied the post of deputy prime minister (Powell, 1997: 31). The president and chairman of the board for the Alfa Group, Pyotr Aven, was a Minister of Foreign Economic Relations during the first Yeltsin government. Mikhail Khodorkovsky, the head of the now defunct Menatep, worked as a Komsomol organizer during the Soviet era. At the age of twenty-four, he started up Menatep as a trading company, and later created a bank under the same name. His fortune has been made in trading foreign currency, sugar, grain, and oil. At one time he was also the chief economic advisor to the Russian Prime Minister (Klebnikov and Shook, 1997: 161). A politically active oligarch, Khodorkovsky has thrown the support of Menatep behind such figures as Anatoly

Chubais and former Prime Minister Victor Chernomyrdin, although political conservatives such as Alexander Korzhakov and Oleg Soskovets have benefited as well (Jensen, 1998b: C2). One of the first FIGs was founded under the commercial activities program of Komsomol and headed by Vladimir Vinogradov, who at the time was an economist working for Promstroybank. Vinogradov developed very close relations with the Soviet Finance Ministry and counted the noted economist Leonid Abalkin as an early patron (ibid: D1). Rem Viakhirev, chairman of Gazprom, the former Ministry of Gas, worked his way up the ladder of the old ministry, starting in 1970. When the ministry was reorganized in 1989, he became deputy chairman under the leadership of Victor Chernomyrdin. Upon Chernomyrdin's appointment as Prime Minister in 1992, Viakhirev moved into the top position. Accused of rigging the 1994 privatization of Gazprom, Viakhirev still managed to control six percent of the issued stock, becoming the largest individual stockholder in the company. Despite Chernomyrdin's rapid fall from grace last year, Viakhirev remains influential as the head of the oil and gas giant (Klebnikov and Shook, 1997: 161).

BORIS BEREZOVSKY

Of all the heads of FIGs, none is more (in)famous than Boris Berezovsky, chairman of Logo-VAZ, Russia's first capitalist car dealership. Unlike most of the other oligarchs, Berezovsky isn't a banker by trade. Before the collapse of communism, few Russians had ever heard of him, but that quickly changed as the relatively young tycoon rapidly built up his financial and industrial empire, becoming the defining symbol of the Yeltsin era (Coleman, 1997: 37). Beginning his career as a systems analyst and an academic specializing in the theory of computerized management systems, Berezovsky was able to turn a quick profit in business after obtaining a controlling interest in Russia's largest automobile manufacturing plant, VAZ, by selling export bound cars on the domestic market (ibid: 39; Bohlen, 1999: 1; Quinn-Judge, 1997: 67)¹. From selling cars, Berezovsky has steadily, and stealthily, expanded his business interests to include oil, television, the press, and banking. As of October of 1998, Berezovsky, through his FIG, Logo-VAZ, headed the banking consortium that was the main private shareholder of Russian Public Television (ORT), the only nationwide network. Through Logo-VAZ, he also holds the greatest number of shares in TV 6, a network whose primary focus has been on entertainment television. Berezovsky has controlling interest in Radio NSN, an entertainment magazine ("Matador"), and, again through Logo-VAZ, the newspaper *Nezavisimaya Gazeta* (Fossato and Kachkaeva, 1998: 1-3). Add to this control over Aeroflot and holdings in Obedinonny Bank and the Siberian Oil Company (Sibneft), and it becomes evident why *Forbes* magazine ranked him ninety-seventh out of the 200 richest people in 1997, estimating his net worth at around three billion dollars (Quinn-Judge, 1997: 67). In addition to his own known assets (in 1996 he reported a \$500,000 salary, yet managed to donate over \$3 million to charity), it is suspected that he controls numerous other business concerns behind the scenes, both legal and illegal (Jensen, 1998b: E2).

Along with his expanding web of control over banking, industry, and the media, Berezovsky has also found a place for himself as a political insider in the Yeltsin

administration, with the likes of Victor Chernomyrdin and Vladimir Potanin. As the leader of the "Big Seven," the tycoons who bankrolled Yeltsin's 1996 election, Berezovsky curried great political favor. As a reward for his role in the president's campaign, not to mention financing the publication of Yeltsin's memoirs, Berezovsky was appointed deputy secretary of the Russian Security Council immediately following the elections. His focus was on implementing the peace settlement in Chechnya, which he did with notable success. It was also rumored, however, that Chechnya was where he had business interests (ibid: E2; Coleman, 1997: 38). After promises to give up his business activities upon assuming his Security Council position were renege, Berezovsky was dismissed from the Council in November of 1997. Berezovsky's leave of absence from government was short lived - he returned in early 1998 as the executive secretary of the Commonwealth of Independent States. Although a largely ceremonial position, it has allowed him access and the opportunity to influence political leaders in the non-Russian CIS states (Quinn-Judge, 1999: 32).

Berezovsky's success seems to stem mainly from the fact that he is not a banker, but rather a financier and operator who "buys influence, directly or indirectly, through politicians, bureaucrats, and the media." One analyst commented that his approach has always been simple – rather than buy the company, Berezovsky simply buys the management (Bohlen, 1999: 1). But the real keys to Berezovsky's power and impunity (he once boasted that he, along with six other oligarchs, controlled over half the Russian economy) rest on the relationship he has developed with the Yeltsin family, especially the president's daughter, Tatiana Diachenko, and the vast financial empire he has created (Quinn-Judge, 1999: 32; Klebnikov and Shook, 1997: 160). However, his access to the halls of power, along with his unimaginable wealth and influence in the business world, has come at a price. In 1994, Berezovsky narrowly escaped an assassination attempt that took the life of his chauffeur. Three suspects in the bombing were later killed, but no links were found to Berezovsky. Since then, there have been no other attempts on his life. Other cases have surfaced examining Berezovsky's association with the Russian mafia, such as the 1995 death of a well-known talk-show host. Again, no connections were established (Coleman, 1997: 39). In December of 1996, an article appeared in *Forbes*, asserting that Berezovsky had achieved his vast empire and made his political connections due to his close connections to organized crime (*Forbes*, 1996: 90-97). While Berezovsky filed a libel suit against the magazine, the article highlighted much that was suspicious about the tycoon's rise to power. The article implied that Berezovsky may have had a hand in the gangland-style murder of the first chairman of ORT, shortly after which the oligarch consolidated his control over the network. Furthermore, evidence was given to demonstrate how Berezovsky used money others had invested in various projects of his to enrich himself through the purchase of land and businesses (ibid: 94).²

Although he has had very strong links to the Yeltsin family, they are based on mutual interest, not friendship. In Russia's current political environment, these links can be very easily broken as was demonstrated early in February 1999 when two top executives of Aeroflot, under the control of Berezovsky, were abruptly dismissed

from their positions by Yeltsin's son-in-law and company president, Valeri Okulov. The same week, masked special forces troops raided offices of Aeroflot and more than twenty other businesses, clubs, and homes linked to Berezovsky (Hoffman, 1999: 1). The ailing president can seemingly protect the tycoon no longer, nor may he want to, former Prime Minister Yevgeny Primakov, whose appointment Berezovsky openly opposed, declared war on Berezovsky and the other "corrupt capitalists" (ibid: 1). Yeltsin's daughter, Diachenko, who has had a very close relationship with Berezovsky, is, according to one report, slowly being pulled out of his shadow. The same is also said of Berezovsky's relationship with other members of the Yeltsin family: Naina, Yeltsin's wife, and another daughter. The latest incident to come to light involves transcripts of taped conversations between Berezovsky and several individuals, including Diachenko. On the tapes, the oligarch is heard lobbying Diachenko for tax amnesty, trying to plant damaging information about a rival oligarch with a reporter for the evening news, and "ordering up a campaign to browbeat members of parliament" (Bohlen, 1999: 1; Fossato and Kachkaeva, 1997: 1)³. The modern-day Rasputin, as some have likened Berezovsky, appears to have worn out his welcome in Yeltsin's inner circle and lost control of his empire. In the space of a week, he lost his hold on Aeroflot, on ORT (which is currently in bankruptcy), his security organization was raided, allegedly for tapping the Yeltsin family's phones, and his political protectors were nowhere to be seen (*The Economist*, 1999: 31-32). A further blow was dealt to Berezovsky's political influence with a later announcement that Russia was supporting his dismissal as executive secretary of the CIS, an effort that was completed several weeks later. Weakened as he is it would be premature to count this particular oligarch out. He has demonstrated an uncanny ability to rise in the face of nearly any adversity, and fend off numerous other attacks, both political and physical. His successful effort to dismiss a recent arrest warrant against him is but one example. Despite his current difficulties he still may hold some cards that will allow him to play the game of Russian power politics. After all, it has been rumored that for a number of years Berezovsky has had control over, and the most intimate knowledge of, the Yeltsin family's financial dealings. While this may not be enough to save his empire, it could very well keep him out of trouble, at least until the next presidential elections.

THE END OF THE OLIGARCHS?

The above is only the most recent example of the love-hate relationship between the government and the oligarchs. In early 1997, statements by then Deputy Ministers Anatoly Chubais and Boris Nemtsov (themselves linked with certain FIGs at one time) declaring that Russia would not be run by a small number of financial institutions "signaled the start of a bitter and potentially crucial power struggle" between the government and several of the most powerful tycoons (Quinn-Judge, 1997: 66). However, the government has depended upon significant support from the oligarchs and their organizations in the past to meet at least some of its financial obligations. The most common form of support prior to 1999 was the loans-for-shares program, developed by Vladimir Potanin and his Uneximbank, under which financial institutions loaned money to the government and took shares in large enterprises as collateral on the loans (Jensen, 1998b: F3). Five other financial

institutions joined in this program, which gave unprecedented access to the oligarchs regarding privatized concerns. Potanin, for his assistance, was able to gain a majority share in Norilsk Nickel, the world's largest producer of ferrous metals (ibid: F2). The two years since the declarations of Nemtsov and the Chubais and the advent of loan programs have been a hot-and-cold running battle between the constantly changing administration leadership and the heads of the major FIGs. Prime Minister Primakov was the harshest judge of the tycoons, especially Berezovsky, and had ministries under him crackdown on the activities of the oligarchs. Some saw Primakov's actions as priming for a run for the presidency – the punishment of a group of entrepreneurs that most of Russia holds in jealousy and contempt, and which also tends to support Victor Chernomyrdin, another potential presidential candidate. Others saw the most recent attack against FIG interests as an attempt by the government to get a handle on the economy, to demonstrate to the Russia people that efforts are being made to stem economic disintegration. The downturn in the Russian economy has made the tycoons and their organizations vulnerable to these types of political attacks, and their response to the continued economic crisis has made them more unpopular than ever (Powell, 1997: 31; Quinn-Judge, 1997: 68)⁴. With their economic power weakening (banks such as SBS-Agro have been in virtual bankruptcy for months) the oligarchs find that their political status is on the wane, as they seeks political protection, which is getting harder to find, from their economic ills (Fossato and Kachkaeva, 1997: 1).

Whatever the reason may be for the crackdown on the oligarchs and their clans, it is clear that while they may have been a factor of stabilization early in their formation, the FIGs have outlived their usefulness as a tool of stability in the waning days of the Yeltsin presidency. Any unity that was shown in the past among the oligarchs has been tossed out as the events of the last year led to the beginning of a new struggle - the fight for the next president of Russia. The infighting among these powerful organizations throwing their support behind a variety of potential candidates has demonstrated that the real question for the future presidency of Russia is not so much who will succeed Yeltsin, but rather whose "creature he w[ill] be" (*The Economist*, 1998: 57)⁵. A report in *The Economist* stated that if the tycoons were advancing not merely their business, but also their political interests in an ever more frantic fashion as the 2000 presidential elections approached, the prospects were worrying (ibid: 57). Infighting among the group of individuals who holds so much of the wealth of Russia in their hands cannot bode well for the vast majority of Russians who have no voice or access to the decision makers within the Russian government. Far from developing from a stabilizing factor into one that has gained the confidence of the Russian people, a process expected to happen with the consolidation of the market system of the Russian Federation, the clans have had much the opposite effect on the common person, creating a sense of despair, disbelief and cynicism. The stranglehold that the oligarchs and their FIGs have on the economy does not present any reasonable solution to the dilemma. Attributing much of their loss of power and prestige to the declining economy and the appointment of Primakov as Prime Minister, the tycoons have been sent reeling by the severity of their misfortunes. Newly appointed Prime Minister Putin has as yet made no overt attempts to weaken the oligarchs and their FIGS. The balancing act that Yeltsin performed, playing one

FIG leader off of another, has ended with his declining health and reliance on others, mainly family, to make political decisions (Jensen, 1998b: B7). Most of the oligarchs whose fortunes are primarily in the financial area have been weakened to the point of extinction. Those oligarchs whose support rests on natural resources such as oil and gas still have some influence and power, although they have been subordinated to the will of government (*The Economist*, 1998: 32; Jensen, 1998c: 14). One whose power and prestige have strengthened at the expense of the other tycoons, is Yuri Luzhkov. Since August of 1998, the mayor of Moscow has "wielded unparalleled influence over the capital's business," with much of the credit going to his city's own commercial activities and his personal association with the holding company Sistema. Luzhkov's banks are doing well and his media arm remains strong as the next race for president begins to heat up, and seems likely to remain so for the foreseeable future (*The Economist*, 1998: 32). Even though the latest reports on the status of the oligarchs paint dire portraits of their survival, they still maintain significant leverage. Despite economic decline and political attacks, and a plethora of predictions of their demise, the tycoons and their organizations continue to dominate the young capitalist system of Russia, controlling much of the access to the market. And while their influence on the policy-making figures within Russia's government has been curtailed, the oligarchs still command a presence on the political scene, most notably with the State Duma. As the election for this body approaches (in December of 1999), the heads of the FIGs may well find their voices are heard once again. A further indication of their influence, the collapse of the economy has accelerated the formation of other oligarchic structures. In St. Petersburg, Yekaterinberg, and Nizhnii Novgorod, local governments have taken over banking interests to ensure access to revenue, and oblasts are quickly becoming partners with industrial concerns in return for debt relief. So while the original "Big Seven" may be falling apart, there are numerous organizations, many patterned after that of Yuri Luzhkov, waiting to take their place at the table of influence. (Jensen, 1998c: 15).

NOTATION

- 1 Incongruous as it may seem, Berezovsky holds a Ph.D. in applied mathematics and worked at the Russian Academy of Sciences before his move into the business world. In 1991, Berezovsky bought export bound cars, such as the Lada, which sell at a lower price, and sold them on the domestic market for a substantial profit. His loophole was a tax exemption on cars that had been first exported and then returned to Russia for resale. Berezovsky's cars, however, never left the country. It has been suspected, but not proven, that a foreign associate with false paperwork was able to assist him in accomplishing this. See Coleman, p. 39. See also Celestine Bohlen, "A Russian Soap Opera: The Tycoon Tapes," in *The New York Times on the Web* February 13, 1999, at (<http://www.nytimes.com/library/world/europe>), p. 1, and Quinn-Judge, p. 67.
- 2 One example from the *Forbes* article was Berezovsky's project, the All-Russian Automobile Association. Selling \$50 million in bonds in 1993, and promising

new cars in the future, Berezovsky did not even invest the money until 1996. In the three years between the sale of the bounds and the investment of the money, he acquired prime real estate in St. Petersburg and Moscow, a television station, a newspaper and an 80% share in Sibneft. The cars were never delivered. See *Forbes*, p. 94.

- 3 The article mentions the Russian people's fondness for soap operas, and states that the events surrounding Berezovsky, especially with regard to the tapes, are easily keeping them entertained. What is also interesting regarding the transcripts, which were published verbatim in the newspaper *Moskovsky Komsomolets*, is that this paper falls under the control of one of the government clans – that headed by Moscow mayor Yuri Luzhkov, a potential presidential candidate in the 2000 elections and a rival of Victor Chernomyrdin, whom Berezovsky supports. See Bohlen, p. 1; and Fossato and Kachkaeva, p. 1.
- 4 Potanin had already had problems in concerns he obtained control over. In 1997, after gaining the majority share in Norilsk Nickel, he was facing a strike by employees unhappy with his solutions to solving the metal factory's problem of massive inefficiency. After purchasing a majority share in the daily *Izvestiya*, Potanin had to deal with the exodus of over forty journalists, including the editor, unhappy with his gaining control of the paper. See Powell, 31; and Quinn-Judge (1997), p. 68.
- 5 In April of 1998, after Yeltsin sacked Prime Minister Chernomyrdin, who had been accused of the crime of presidential aspirations, the turmoil over the appointment of a new prime minister opened a new front in the fighting among the tycoons and their FIGs - the next presidential elections. With the office of the prime minister seen as a stepping stone to the presidency, the selection of the next prime minister was of great importance to the oligarchs, who were busy maneuvering for influence within the new administration. See *The Economist* (1999), p. 57.

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