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# Liberal Insiders and Economic Reform in Russia

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## INTRODUCTION

Can radical economic reform be carried out in Russia without a substantial change in the political order? Any answer to that rather large question can only be speculative, and it will reflect wishes as much as evidence. What we offer in this paper is a clarification of one element of a possible answer: the role that economic liberals in or close to the political establishment may be able to play in radical reform. We do this by looking at the careers of a few such insiders, and at some selected episodes in those careers, and then assessing the roles they are playing now and might play in the next few years.

We begin by setting out what we mean by radical economic reform. Then we offer evidence – some of it only hearsay evidence – of the ways in which the present political order blocks such reform. We go on to consider, first, the plausibility of a halfway house arrangement combining free markets with some degree of authoritarian rule and, second, a scenario of gradual but eventually radical change, put forward in 2011 by the doyen of Russian liberal economists, Yevgenii Yasin. Then we examine some of the past and present activities of Anatolii Chubais, Aleksei Kudrin and Igor Shuvalov. Our conclusions are tentative: we suggest that what we would consider salvation by liberal insiders, while possible, does not look likely in present circumstances in Russia.

## DOES RUSSIA REALLY NEED MORE ECONOMIC REFORM?

The following three propositions about the Russian economy are accepted by most observers and by many, though perhaps not the most powerful, Russian policy-makers:

- Russia is capable of a trend rate of growth somewhat above the recent growth rate of 4% a year, even though external conditions make acceleration difficult if not impossible in the short term.
- The institutions, practices and conditions that allowed Russian GDP to increase at about 7% a year between 1999 and 2007 do not allow a return to that rate ('the old growth model no longer works' is the way it is often put).
- To achieve a long-run trend rate of growth above 4% a year, Russia needs more efficient institutions. Commonly mentioned under this heading are the establishment of the rule of law, entailing an independent judiciary, protection of property rights and, as a result, the famous 'level playing field' for firms. All of this entails a reduction in corrupt practices.

The last of these propositions may not, even as rhetoric, be reflected in what is said by President Vladimir Putin and those close to him. It was, however, implied in a number of public statements by his predecessor, Dmitrii Medvedev, including in his one-hit-wonder blog post, 'Go, Russia!' of September 2009.<sup>1</sup> It is also stated with something approaching clarity in the government-commissioned expert report on revising the national strategy to 2020. This calls for an end to, among other things, 'the inequality of rights among market participants,' barriers to market entry for new companies, and corruption.<sup>2</sup>

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<sup>1</sup> 'Rossiya, vpered!' ('Go, Russia!'), 10 September 2009, <http://news.kremlin.ru/news/5413>.

<sup>2</sup> 'Promezhutochnyi doklad o rezul'tatakh ekspertnoi raboty...' ['Interim report on the results of expert work'], *Kommersant*, 19 August 2011, <http://kommersant.ru/content/pics/doc/doc1753934.pdf>.

It is this change in institutions that we have in mind when we refer to ‘radical economic reform’. It differs from the Washington Consensus reforms in that it is directly about the institutions necessary for a well-functioning market economy: in particular, the institutions required for a rule of law to prevail. The Washington Consensus policy agenda of liberalization, stabilization and privatization had institutional implications: if it was implemented, private banks, stock exchanges and currency exchanges were more or less guaranteed to come into existence. But open and competitive markets for goods and services were not an automatic outcome; indeed, they do not prevail across most sectors in many long-established market economies, such as Greece or Italy. And the reformers of the 1990s, such as the late Yegor Gaidar and Anatolii Chubais, either took the rule of law for granted or assumed that liberalization and privatization would create a constituency that would exert irresistible pressures for its establishment. The fragility of that assumption was pinpointed towards the end of the Yeltsin era by Joel Hellman.<sup>3</sup>

Pekka Sutela has observed that ‘Russia is not a textbook market economy but it is in many respects a normal country in the statistically descriptive sense of the word’.<sup>4</sup> In other words, most of the world’s population lives in countries where the rule of law and the protection of property rights are weak, where corruption is widespread and where political connections at least partly block the freedoms of market entry and exit. But it is also true that where there is a weak rule of law the opportunities for a predatory, rent-seeking elite to maintain itself at the expense of the rest of society are great. And Russia may be ‘statistically normal’ in this respect in the world as a whole, but it is some way below par for an upper-middle-income economy.

Table 1 shows some of the relevant international comparisons of the condition of Russian economic institutions.

<b>Table 1: Some international rankings and measures of the Russian business environment, 2008–13</b>		
Ease of Doing Business, out of 185 countries assessed, 2013	112th	<i>For comparison:</i> China 91st; Brazil 130th; Latvia 25th; Turkey 71st
Ease of Doing Business, out of 49 upper-middle-income countries, 2013	40th	<i>For comparison:</i> Malaysia 1st; Latvia 3rd; Chile 5th; Iran 46th; Venezuela 49th
Product market regulation score, 2008 (higher indicates more state interference and less competition)	3.094	<i>For comparison:</i> OECD average 1.340; Greece 2.374
Estimate of governance indicator: rule of law 2011 (range from -2.5 [worst] to +2.5 [best])	-0.78	<i>For comparison:</i> South Africa +0.10; Turkey +0.08; Ukraine -0.86
<p><i>Sources:</i> rows 1 and 2: World Bank, <a href="http://www.doingbusiness.org">www.doingbusiness.org</a>; row 3: OECD, <a href="http://www.oecd.org/economy/pmr">www.oecd.org/economy/pmr</a>; row 4: World Bank, <a href="http://www.govindicators.org">www.govindicators.org</a>.  <i>Note:</i> The OECD Product Market Regulation score is made up of indicators measuring the extent of state control of business enterprises; legal and administrative barriers to entrepreneurship; and barriers to international trade and investment, across the whole economy.</p>		

<sup>3</sup> Joel S. Hellman, ‘Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,’ *World Politics*, Vol. 50, (1998), pp. 203–34.

<sup>4</sup> Pekka Sutela, *The Political Economy of Putin’s Russia*, (Abingdon: Routledge, 2012), p.1.

What these scores and indicators reflect, in the economic life of Russia, is widespread extraction of bribes from companies and individuals, with corrupt officials and businesses closely associated with them as the beneficiaries; and the use by established firms of political connections, whether at national, regional or local level, to keep out or damage rivals by getting officials to deny operating licences or deploy tax demands and environmental and safety regulations to harm those rivals.

This harm can and often does extend to arresting businessmen on false charges and stealing their assets. Two headings of the criminal code are often used for these purposes: section 22 'Crimes in the sphere of economic entrepreneurship' and article 159 'On swindling'. No doubt some people are arrested for what, in better-regulated societies, would still be regarded as crimes. But the numbers reportedly arrested under these two headings in recent times – about 50,000 a year – imply that something else is going on.<sup>5</sup>

In many of these cases what is going on is *reiderstvo* – literally 'raiding', but in Russian usage signifying illicit asset-grabbing. Delovaya Rossiya (Business Russia), an association mainly of medium-sized businesses, has set up a so-called Social Procedural Centre, Business against Corruption, which receives appeals from business people who consider themselves to have been ill-treated by corrupt officials, examines them and, if satisfied there is a case to answer, seeks to defend the victim and obtain redress. Routinely, complaints about corrupt police or court action are reviewed by the officials against whom they are directed, and get nowhere. Delovaya Rossiya is trying to change that.

However, the numbers it takes on are small, and the centre has a supervisory council that includes representatives of 65 government ministries and agencies; its independence is therefore open to question.<sup>6</sup> Moreover, Boris Titov, the head of Delovaya Rossiya and of the anti-corruption centre, is an old hand who knows the rules of the Putinist game: he was an early member of Putin's All-Russia Popular Front.<sup>7</sup> His appointment in June 2012 as an ombudsman for business could be a step in the right direction. However, one of his earliest statements in that capacity was a disavowal of any immediate plan to call for the release of Mikhail Khodorkovskii. That provoked some sceptical comments.<sup>8</sup>

The question is whether a clean-up of the business environment is compatible with the maintenance of the Putinist political order. It is doubtful that it can be.

## WHY SHOULD THE RULE OF LAW BE A THREAT TO THE POLITICAL ELITE?

That some parts of Russian society are interested in a better business environment is obvious. In particular, it makes sense for business people to try to defend themselves against *reiderstvo*. Even here, however, there is one rather important proviso: those who have strong relations with the relevant politicians and law-enforcement agencies may have more to gain from the status quo than from any change. Indeed, they may well feel threatened by the possibility that police and prosecutors who uphold the law

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5 Yulia Yakovleva, "'Delovaya Rossiya' predlagayet perepisat' stat'yu o moshenichestve' ["'Delovaya Rossiya' proposes a revision of the article on swindling"], *RBK Daily*, 11 March 2012.

6 'Nablyudatel'nyi sovet TsOP BPK pristupil k rabote' ['Supervisory Council of the Social Procedural Centre, Business against Corruption, has begun work'], 5 April 2012, <http://www.nocorruption.biz/?p=484>; 'Zasedaniye Obshchestvennogo Soveta Tsentra...' ['Meeting of the Public Council of the Centre'], 28 April 2012, <http://www.nocorruption.biz/?p=672>.

7 Aleksandr Ivakhnik, 'Razgovor po melocham', [Conversation about trivia], *politcom.ru*, 25 May 2012.

8 For example Filipp Sterkin, 'Zachem nuzhen biznes-ombudsmen?' ['What's the point of a business ombudsman?'], *Vedomosti*, 25 June 2012.

might investigate their activities. Still, the business people who are in this privileged position now are probably a minority within the business community.

By the same token, at least a part of the political elite is likely to see and value the benefits of a better-functioning economy. A substantial improvement in property rights and the rule of law would strengthen incentives to invest long-term in Russia. At present Russia saves more than it invests and the private sector has been a net exporter of capital in every year of the state's post-Soviet existence except 2006 and 2007.<sup>9</sup> More competition would improve efficiency.

What interests of the elite are opposed to this general improvement? Sadly, there are quite a number.

First, those holding senior posts in the government and Presidential Administration will be concerned about the toiling masses of officials lower down the hierarchy. Some will be honest. Some will lack opportunity. But a great many of those lower-level officials will be appalled at the prospect of having to live on their salaries. These will include judges, police officers and prosecutors, many of whom will stand to lose rent-extraction opportunities. And in a patron-client system, these lower-level officials are the clients of higher officials or of politically well-connected business people. The patrons are in general more powerful than their clients; still they could hardly regard with equanimity any acute discontent in the lower ranks.

Second, the control of those lower ranks from above requires that both officials and business people be in a state of 'suspended punishment', always vulnerable to accusations of criminal behaviour whenever those in power choose to bring such accusations.<sup>10</sup> This is made possible by a weak rule of law: ambiguities in the criminal code combined with enforcement of that code being at the discretion of the authorities, not of independent and impartial courts. The present system requires, it might be said, precisely what Medvedev referred to as 'legal nihilism'.<sup>11</sup>

Third, what about those at or close to the apex of power themselves? Many of them will have engaged in financially or otherwise improper behaviour on the way up. Even if they have not, there could be questions for them to answer. It is rumoured that there is a special dispensation for officials of deputy-minister level or above. They are expected not to take bribes. Instead there are informal arrangements under which they are looked after financially by a government-friendly tycoon. This is, in the nature of things, not easy to document, but some circumstantial evidence will be referred to later.<sup>12</sup> The practice, if it really is in general use, may not constitute an infringement of the law. All the same, this and other activities would be reasons for the leaders themselves to fear the emergence of independent courts and impartial law enforcement, and all the more so if a strong rule of law were supported by unmuzzled mass media.

There are, in other words, grounds for supposing that those at the summit of the present political system would have compelling reasons to prefer the continuation of the present social, political and legal order, resting on a weak rule of law. As patriots,

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9 For details see Philip Hanson, 'The Russian Economy and its Prospects,' in Philip Hanson, James Nixey, Lilia Shevtsova and Andrew Wood, *Putin Again. Implications for Russia and the West* (London: Chatham House, 2012), p. 26, [www.chathamhouse.org/publications/papers/view/182351](http://www.chathamhouse.org/publications/papers/view/182351).

10 For the institutional logic of 'suspended punishment' see Alena V. Ledeneva, *How Russia Really Works* (Ithaca, NY: Cornell University Press, 2006), p. 13.

11 Clifford Gaddy and Barry W. Ickes, 'Putin's Protection Racket,' paper presented at the Annual Convention of the Association for Slavic, East European, and Eurasian Studies, Washington, DC, November 2011. Gaddy and Ickes argue that the business elite is kept in order primarily by a narrowly controlled monitoring of its financial transactions. However, if this system is so effective, it is hard to understand why the charges brought against Khodorkovskii were so flimsy. (Perhaps, as an anonymous reviewer has suggested, the flimsiness was itself a message: 'We can use any old excuse to lock you up if we want to.')

12 Do arrangements in Britain and the United States differ fundamentally, except in timing? (Joining company boards after leaving government office, for example.)

they have grounds for deploring the status quo; as self-interested individuals, they have reasons to cling to it. This makes radical economic reform without radical political change extremely difficult.

## IS THERE A HALFWAY HOUSE?

We must consider, however, whether some sort of intermediate social order might be created, in which the regime could be preserved at the same time as economic institutions were significantly improved. Vladimir Mau, a close associate of Yegor Gaidar and currently rector of the Russian Academy of the National Economy and member of the Presidential Council of Economic Advisers, has put the notion of limited institutional reform rather clearly. In his words,

Without political institutions, the whole idea of Moscow becoming an international financial center is senseless. When I say political institutions, I have in mind transparency, predictability and stability. This is what Singapore achieved, and that is what allowed it to develop into an international financial center.<sup>13</sup>

This list of characteristics does not include open and competitive elections or the words 'independent judiciary'. The reference to Singapore suggests that a de facto one-party state with some constraints on individual liberty might not be incompatible with 'transparency, predictability and stability.' Mau is pointing to some attributes of a well-functioning social order that Russia lacks, and that it would need before Moscow could become a significant international financial centre; and those attributes do not by themselves constitute a liberal political order.

So is there a set of institutions that an 'economic liberal' might consider sufficient to secure well-functioning, competitive markets, but that would fall short of the institutional order that would satisfy a 'political liberal'? Perhaps an independent and impartial judiciary, or even independence and impartiality confined to commercial courts, would fit the bill, even in the absence of open political competition and free media?

Our operating assumption will be that a liberal economic order along these lines, stopping short of a politically liberal order, is in principle a possibility. It follows that some, perhaps most, Russian economic liberals may limit their ambitions for their country, at any rate for the foreseeable future, to this sort of halfway house. We will not assume that all advocates of private enterprise and free markets in Russia are necessarily also political liberals, at any rate in an active sense.

Does it also follow that the present political elite could happily contemplate living in this halfway house? We think not. The prospect may be less odious to them than that of a fully-fledged liberal order, both economic and political. But corruption and asset-grabbing are so integral a part of the political elite's mode of operating that the prospect simply of a rule of law being upheld in the commercial courts would be deeply unwelcome. We shall proceed on the basis that even a narrowly defined economic liberalism would be stoutly resisted.

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13 Alexander Winning, 'Q&A: Economic Expert Mau Thrives in Crises,' *The Moscow Times*, 15 November 2012.

## RADICAL ECONOMIC REFORM BY POLITICALLY GRADUAL MEANS?

Might fundamental economic reform nonetheless be introduced in stages without too much conflict? In November 2011 Yevgenii Yasin sketched a sequence of events in which Russian society might move step by step and peacefully from the present attempt at 'modernization from above' to what he considered the only feasible strategy of 'modernization from below,' the latter requiring rapid political reform and 'the return of civil liberties'.<sup>14</sup>

Yasin first explains why, in his view, top-down modernization cannot succeed in Russia. It could, he suggests, work in a backward society with a population initially mostly engaged in agriculture and where there are open markets in the outside world for the cheap and simple manufactures that it can begin to produce. Russia now does not fit that description. Attempts at top-down modernization in Russia as it now is create only 'a triangle of mistrust' between society, state and business. For the country to modernize, there needs to be a rapid development of democratic institutions, from the rule of law to political competition. Only that will establish the trust necessary for further development. This political change might come about through a split in the present political elite, but Yasin regards this as risky. If it failed, people would conclude that Russia was simply unsuited to democracy.

How, then, might it be achieved? There has to be, says Yasin, a group of politicians among those in power who are seriously pursuing a liberal agenda. That group has to increase its influence and declare its objectives. The independence of sub-national governments (regions, municipalities and rural districts) must be raised at the expense of the federal government. Part of this process would be the universal popular election of mayors (and, by implication, of regional governors, too – a change nominally allowed since Yasin's article appeared). The rule of law will be in place when independent courts can and do judge the *siloviki* (the leading statist political figures with a background in or strong connections to the security services).

Yasin also outlined reforms in housing, healthcare, education and the pension system, but these seem to us not to be part of the process of political change. For that, Yasin's main requirements seem to be a group of liberals in positions of power who (somehow) increase their influence, together with a loosening of the federal order away from what is now de facto a unitary, rather than a federal, state. Such developments might occur – indeed, the experience of 'colour revolutions' in other post-Soviet states suggests that a split within the ruling elite is a necessary, though not sufficient, precondition for radical change – but Yasin does not address the question of how strong resistance to them would be overcome.

It is Yasin's notion of a group of liberal insiders that we want to examine more closely.

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14 'Yevgenii Yasin: Modernizatsiya bez shokovoi terapii', ['Yevgenii Yasin: Modernization without shock therapy'], *Vedomosti*, 14 October 2011. Yasin is the research director of the Higher School of Economics in Moscow. In late Soviet times he worked at the USSR Academy of Sciences' Central Economics-Mathematical Institute, where he was less visible to the wider world than such Soviet-era reformers as Nikolai Petrakov. After the collapse of the Soviet system, Yasin became widely known as the mentor of many of the 'young reformers,' as an intellectual source of major reforms and, in the mid-1990s, as minister for the economy. He has been an outspoken critic of authoritarianism under Putin, and has consistently argued for a liberal economic and political order.

## WHO ARE THE LIBERAL INSIDERS?

Pekka Sutela argues that

Reformers like Chubais and Gaidar were ready to serve Putin like they had served Yeltsin, arguing that the 1990s had been about preventing a communist return, while the 2000s were about securing basic social stability as the revolutionary cycle was coming to an end, hopefully preparing for a new phase of reforms.<sup>15</sup>

This assessment is plausible for many of the liberal insiders but, oddly enough, does not fit Anatolii Chubais and Yegor Gaidar very well.

Gaidar, who was acting prime minister under Boris Yeltsin in the early 1990s, did not return to a role in government under Putin. He served as a Union of Right Forces deputy in parliament from 1999 to 2003, in other words, as a member of the opposition; and mostly he led what is now known as the Institute of Economic Policy, researching and writing extensively.

Chubais, having served under Yeltsin as first deputy prime minister and as head of the Presidential Administration, served under Putin not in government but in state companies: as head from 1998 to 2008 of the electricity concern United Energy Systems (UES), whose monopoly in generating he broke up, and then since 2008 as boss of the nanotechnology company Rosnanotekh. Thus in the Putin era Chubais has been a high-level state manager rather than a policy-maker.

Still, Sutela's characterization of the position of liberal insiders as a category is fair. They are people who hold or have very recently held influential posts in the hierarchy, and who have made their preference for more privatization and freer markets clear. Several of them have also called publicly for the rule of law and an open and democratic polity. They no doubt have mixed motives for what they have chosen to do or not to do; our prime concern is with their policy positions.

There are many such liberals in and around the Russian state. The Presidential Council of Economic Advisers includes Elvira Nabiullina, Ksenia Yudaeva, Yevgenii Gavrilentov, German Gref, Yevsei Gurvich and Vladimir Mau. All of them have advocated minimal state intervention in the economy. Some have even gone further, calling for the rule of law as a necessary condition of well-functioning markets.

Of liberal insiders who are currently active we have selected three: Chubais, Aleksei Kudrin and Igor Shuvalov. All are currently influential: Chubais as head of Rosnanotekh and as an adviser on modernization; Kudrin, with his Committee for Civil Initiatives, seeking to act as a critical but constructive source of policy advice from a liberal standpoint and also to form a bridge between the present power elite and the 'non-systemic' opposition; and Shuvalov as first deputy prime minister with oversight of economic policy. All three either hold or have held high executive office and are routinely depicted in the Russian media as economic liberals. In each case, we briefly summarize their careers and then focus on the roles they have played in one or more recent matters of policy.

What we are looking for, in these three examples, are clues to the positions and choices that liberal insiders can take: to adopt, for example, the role of the expert who serves the regime within his own sphere of competence and does not venture outside that role; to combine the role of technocrat with some voicing of fundamental concerns; or to enter into direct confrontation with the regime over those concerns.

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<sup>15</sup> Sutela, *The Political Economy of Putin's Russia*, p. 15.



## Anatolii Chubais

### *Career background*<sup>16</sup>

Anatolii Chubais was born in 1955, the son of a Soviet army officer. He studied at the Leningrad Economic Engineering Institute (LEEI), graduating in 1977. That same year, at the unusually early age of 22, he joined the Soviet Communist Party and began to teach economics at LEEI. These were the twilight years of Leonid Brezhnev's long leadership. The Soviet economy was stagnant. Economists sought a magic key that would unlock the country's economic potential but remained unable, or too afraid of the KGB, to think outside the box of Marxist doctrine.<sup>17</sup> In his informative study of the period, David Hoffman describes the night in 1979 when Chubais, then aged 24, and two colleagues debated into the small hours how the Soviet economy could be made efficient: 'The long argument that night was the moment that changed their lives,' Hoffman writes, for it was then that they realized that '[o]nly one powerful, single tool could take into account all those complex decisions: prices set by a free market'.<sup>18</sup> Chubais and his colleagues were strongly influenced by Janos Kornai's *The Economics of Shortage*, published in 1980, and by Friedrich von Hayek's 1945 article, 'The Use of Knowledge in Society'.<sup>19</sup>

As Hoffman describes him, Chubais at that time was correct and cautious, but also determined and self-assured, 'a natural leader.' Once he had made up his mind about something, he did not budge. In the 1980s, he became one of the leaders of an informal circle of market-oriented economists of which the young Kudrin was also a member. Chubais also established contact with the young Moscow-based economist, Gaidar; together, they produced a report suggesting how some of the reforms carried out in Hungary and Yugoslavia might be adapted to the Soviet system.

Meanwhile, the Soviet Union itself was rapidly changing: in 1990 Chubais' circle provided financial backing to candidates running for election to Leningrad's first freely elected city Soviet. These included the former law professor Anatolii Sobchak, who had become a standard-bearer of democratization under Mikhail Gorbachev's *perestroika*. The Leningrad Soviet appointed Chubais chairman of a special committee on economic reform; he gathered his friends and colleagues and began thinking about how to make Leningrad a model for reform, including by creating a 'free economic zone' in the city. But in June 1991 Sobchak won a direct popular election as mayor. Unenthused by Chubais' plans, he demoted him from head of the economic reform committee to the rank of simple economic adviser.

Also in June 1991, Boris Yeltsin was elected president of the Russian Soviet Republic. Gaidar called Chubais from Moscow and invited him to join the team that he was building to plan a truly radical economic reform in Russia. And then, in August 1991, an abortive coup against Gorbachev set off the events that would lead to the break-up of the USSR and the emergence of the Russian Federation as an independent state. Chubais moved to Moscow to head the Russian State Committee for the Management of State Property; his task was to oversee the privatization process. He kept this post when, in 1992, he was promoted to the post of deputy

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16 This section draws on David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: Public Affairs, 2002), chapter 4, and on various Internet sources, including Wikipedia, [http://en.wikipedia.org/wiki/Anatoly\\_Chubais](http://en.wikipedia.org/wiki/Anatoly_Chubais).

17 Another reason was the sheer difficulty of imagining the Soviet economy as anything other than state-owned. Viktor Belkin, a veteran reform-minded economist, remarked in July 1990 to one of the authors (Philip Hanson) that until very recent times nobody had even conceived the possibility of a private-enterprise Soviet economy – and indeed there never was one: only private-enterprise successor states.

18 Hoffman, *The Oligarchs*, pp. 81, 83.

19 Janos Kornai, *The Economics of Shortage* (Amsterdam: North Holland Press, 1980); Friedrich A. Hayek, 'The Use of Knowledge in Society,' *American Economic Review*, Vol. 35, No. 4, (1945) pp. 519–30.

prime minister with responsibility for economic and financial affairs; in 1994 he was again promoted, this time to the rank of first deputy prime minister.

Yeltsin dismissed Chubais from the government in January 1996, blaming the unpopularity of his reforms for the poor showing of the pro-government party in the December 1995 elections to the State Duma (lower house of the Russian parliament). 'Chubais is to blame for everything!' was a catchphrase at the time. Even so, in the spring of 1996 Chubais took over the leadership of Yeltsin's campaign for re-election to the presidency in June 1996. At the time, Yeltsin's chances looked grim and the Communist candidate, Gennadii Zyuganov, seemed set for victory. Chubais managed to turn things around and win Yeltsin a second term, thereby saving the reform process (even though further radical reforms, including of taxation and the extension of private property to agricultural land, proved impossible until Putin assumed the presidency in 2000).

Yeltsin rewarded Chubais by appointing him head of his Presidential Administration. Then as now, this was an extremely powerful post. Indeed, it made Chubais the second most powerful politician in Russia after Yeltsin, who was unwell. Chubais was effectively in charge, therefore, during Yeltsin's illness. He headed the Presidential Administration until March 1997, when Yeltsin reappointed him to the government, making him first deputy prime minister and finance minister under Prime Minister Viktor Chernomyrdin. In this new post, Chubais was responsible for reforming the pension system and improving the state's record on tax collection. But Chubais' role in the reform programme had made him a magnet for popular discontent and he was the target of a string of allegations of wrong-doing. In March 1998, he lost his post as first deputy prime minister for the second (and last) time when Yeltsin abruptly dismissed Chernomyrdin's entire cabinet. At this point, Chubais left the government for good, though he is reported to have remained close to Yeltsin personally. Questions remain, however, about the nature of Chubais' relations with the Yeltsin 'Family,' with some sources suggesting that Chubais was an active member of the group while others suggest that relations cooled. This is of more than passing importance because of the active role that the 'Family' is believed to have played in selecting Putin to be Yeltsin's successor.

In April 1998, Chubais became chairman of the board of UES, Russia's electricity monopoly. He headed it for ten years, until July 2008, during which time he demonopolized Russia's electricity industry and organized the company out of existence. Since September 2008, as noted, Chubais has been chairman and CEO of Rosnanotekh, a joint-stock company created and owned by the Russian government and aimed at creating a cutting-edge nanotechnology industry in Russia.

According to some accounts, Chubais was, as a member of the Yeltsin 'Family,' consulted over the choice of Putin as Yeltsin's successor in 1999. While Chubais did not actively oppose the idea, he is not believed to have played a decisive role, or to have been overly enthusiastic about the choice.<sup>20</sup> He is, however, believed to this day to enjoy Putin's confidence and to meet with him on a fairly regular basis.

#### *Recent role*

Chubais' record as an economic manager is remarkable. His main achievement in the Putin era is a very substantial one: the unbundling and partial privatization of the electricity industry, previously a state monopoly. The rationale was the classic one: not every segment of electricity generation, distribution and supply is a natural monopoly. In other words, it is not the case that all parts of the process achieve minimum average cost only at a scale larger than the size of the market. Generation,

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<sup>20</sup> According to many reports, the key roles were played by 'Family' members Boris Berezovsky and Aleksandr Voloshin.

in particular, can be separated from other parts of the system and split into a number of competing firms – each, typically, running a number of power stations. This should introduce efficiency-enhancing competition and make private sources of investment finance available to the industry.

Against the current of Putin's turn to statism in 2003–05, but evidently with the leader's tacit approval, Chubais drew up and pushed through such a scheme. The electricity monopoly that he headed was wound up in mid-2008, by which time private investors had taken over thermal power generating (not hydro and nuclear or the grid). They included E.on of Germany, Fortum of Finland, Enel of Italy, Russian tycoons such as Oleg Deripaska, Vladimir Potanin and Viktor Veksel'berg, and, less encouragingly, Gazprom. Competition had arrived, along with some badly-needed finance. That the industry remains a source of problems is not something for which Chubais should be blamed.<sup>21</sup>

Today Chubais is applying his talents mostly to issues of research, development and innovation in Russia. At a February 2010 meeting of Medvedev's Presidential Commission on Modernization and the Technical Development of the Economy of Russia, he set out his views in depth.<sup>22</sup>

First, Chubais described the problems. The Russian private sector had barely increased its spending on research, development and innovation (RDI), in real terms, between 1995 and 2007, while in China the private RDI effort was surging. Russia had few innovating firms. One reason was that most of Russian industry was concentrated in low-tech sectors. In comparison with leading Western countries, Russia's engineering industry was a small part of the country's manufacturing, and manufacturing, in turn, made up a smaller share of total industry (including extractive industry). There would be more RDI if Russia were able to develop new, research-intensive activities.

Chubais went on to make a case for state co-funding of both productivity-enhancing investment in Russia's established industries and of more radical innovative development in new areas, while making it clear that private firms generally performed better than state firms and that private companies' participation in such joint developments must be voluntary.

While the public record of the discussion is no doubt selective, it is nevertheless clear that Chubais was patiently educating Medvedev and other members of the commission about the realities facing Russia. Any notion that the country could rapidly move to the leading edge of global technology was dismissed. Chubais stressed the important distinction between upgrading Russian productivity by absorbing existing foreign technology and the distant prospect of Russia as a world-level innovator in its own right. That distinction had not been made clear in grand statements about 'modernization' by Medvedev.<sup>23</sup>

Chubais, as can be seen from his record, is an administrator of exceptional ability who has worked consistently within the Russian hierarchy to improve efficiency and innovation in the economy by changing organizational arrangements to allow a greater role for the market mechanism.

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21 In particular, investment plans in the industry are still bedevilled by political uncertainty and the failure to liberalize gas prices on schedule and fully to liberalize electricity prices. For more see Philip Hanson, 'Future Russian power demand in doubt', *Platts, Energy Economist*, No. 343, (May 2010), pp. 10–13; and Kseniya Dokukova, 'Liberalizatsii rynka elektroenergii ne sluchilos', ['Liberalization of the electricity market hasn't happened'], *Vedomosti*, 30 December 2011.

22 See Rosnano, [www.rosnano.ru/Post.aspx/Show/25035](http://www.rosnano.ru/Post.aspx/Show/25035), for a Powerpoint presentation by Chubais on 11 February 2010 and a record of discussion at a meeting in Tomsk.

23 Here our analysis chimes with that of Thane Gustafson, who identifies 'three competing plans for Russia's escape from oil dependence: a programme of high-tech modernization, associated with Prime Minister Medvedev; a market-reform model, championed by former finance minister, Kudrin; and Putin's preferred plan of maintaining the same strong state role as today.' Thane Gustafson, 'Putin's Petroleum Problem,' *Foreign Affairs*, November/December 2012.

In an interview in October 2012 Chubais offered his thoughts on the series of street protests earlier in the year.<sup>24</sup> He said he was neither a leader of those protests nor a supporter of the 'party of power,' United Russia; the protests were the outcome of deep social changes, and would continue. And he quoted Gaidar as arguing that a country with a per capita GDP of more than \$15,000 could not long remain authoritarian.<sup>25</sup>

## Aleksei Kudrin

### *Career background*<sup>26</sup>

Aleksei Kudrin belongs to the group of so-called St Petersburg economists – liberal reformers who worked with Putin in the city's government in the 1990s and who have remained close to him ever since.<sup>27</sup> Putin clearly trusts Kudrin, who is widely reported to be the only member of the political leadership who calls Putin by the familiar *ty* in public.

Born into a military family in 1960, Kudrin studied economics at Leningrad State University, and then undertook postgraduate studies at the Institute of Economics in Moscow. He worked as a researcher at the Institute of Socio-Economics in Leningrad until, in 1990, he became deputy chair of the Committee on Economic Reform in the Leningrad city government. That committee was headed by Chubais, with whom Kudrin had become acquainted during his time in academia, so it seems likely that it was Chubais who invited him onto his team.

When toward the end of 1991 Chubais left Leningrad to join Gaidar's team in Moscow, Kudrin was heading the Main Finance Directorate of the Leningrad city government. Putin, who had been working since early 1990 as Sobchak's adviser on international affairs, in 1991 became chairman of the Committee for External Relations of the St Petersburg Mayor's Office, with responsibility for promoting international relations and foreign investments. He and Kudrin have been close ever since. Both men rose to the rank of first deputy mayor, and both lost their posts following Sobchak's defeat in the June 1996 mayoral election.

Kudrin was at that point invited by his former patron, Chubais, to move to Moscow. Chubais had recently been appointed head of Yeltsin's Presidential Administration, and Kudrin became his deputy, working in the Main Control Directorate of the Presidential Property Management Department. Putin moved to Moscow at about the same time, and also took on a post in the Presidential Administration. Whereas Chubais is reported initially to have opposed Putin's appointment, Kudrin supported it and helped Putin to settle in Moscow by putting him up in his apartment.<sup>28</sup>

When Yeltsin appointed Chubais as finance minister in March 1997, the latter arranged for Kudrin to become his first deputy finance minister. Kudrin remained in the government after Chubais finally left it in 1998. In May 2000 Putin, who had just been elected president, appointed him as finance minister with the rank of deputy prime minister. With overall charge of macro-economic policy, Kudrin was one of the key figures driving the government's economic programme throughout the Putin and

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24 'Plan po nano', ['The plan for nano'], interview with Anatolii Chubais, *Itogi*, 29 October 2012, [www.itogi.ru/russia/2012/44/183529.html](http://www.itogi.ru/russia/2012/44/183529.html).

25 The IMF estimates Russia's 2012 per capita GDP in current dollars at \$13,765 at the exchange rate and \$17,698 at purchasing power parity. IMF World Economic Outlook database, October 2012

26 This section draws on various Internet sources, including Wikipedia, [http://en.wikipedia.org/wiki/Alexei\\_Kudrin](http://en.wikipedia.org/wiki/Alexei_Kudrin).

27 Also among those with whom Putin worked during his St Petersburg years were Igor Sechin, Dmitrii Medvedev, German Gref, Dmitrii Kozak, Sergei Naryshkin and Viktor Ivanov.

28 Alena V. Ledeneva, *Can Russia Modernise? Sistema, Power Networks and Informal Governance* (Cambridge: Cambridge University Press, 2013), p. 77.

Medvedev presidencies. He is credited with having balanced the influence of conservative hardliners with his financial prudence, including through his creation of the Stabilization Fund. But his policies aroused strong opposition, and in November 2007 one of his deputies, Sergei Storchak, was arrested on fraud charges in what was generally interpreted as an attempt by the hardline *siloviki* to pressure Kudrin to support a greater role for the state in the economy.<sup>29</sup> Storchak was kept in detention for nearly a year and charges against him were not finally dropped until 2011.

With Putin's support, Kudrin's policies prevailed. They proved their worth. The Russian economy was the hardest hit of any G20 country by the 2008–09 global financial crisis, but the reserves Kudrin had built up helped it to cope well.

In 2011, Kudrin stood down as chairman of Russian banking giant VTB and of diamond monopoly Alrosa, becoming the fifth member of Prime Minister Putin's cabinet to comply with President Medvedev's orders that ministers should leave the boards of state-owned companies. Kudrin quit all his government posts in September 2011, apparently taken by surprise by Medvedev's announcement that he and Putin would be swapping their presidential and prime ministerial roles in 2012. After Kudrin had publicly stated that he would not serve in a Medvedev-led government, Medvedev demanded his immediate resignation. Kudrin complied, even though Putin responded by stating that he remained part of his team. In the coming months, as Moscow was shaken by large public protests against alleged electoral fraud, Kudrin tried but failed to mediate between the Kremlin and the protest movement.

#### *Recent role*

When Kudrin resigned as minister of finance in September 2011, Chubais called his departure from office a serious loss to the country, saying that 'there are no other professionals of this calibre in Russia capable of working in the current political reality.'<sup>30</sup> Kudrin himself said that his resignation, apparently prompted by personal unwillingness to serve under Medvedev as prime minister, was a considered act; he had also been unhappy with recent government decisions on the budget.<sup>31</sup>

In fact, Kudrin had been unhappy with fiscal decisions on a number of occasions. As finance minister, he had played the role of the classic club treasurer who hates to see any money spent and instead seeks stubbornly to build up reserves. The Reserve Fund and Fund of National Prosperity, built up before 2008, allowed a comparatively large stimulus package to be deployed in the crisis of 2008-09 without Russia's acquiring a national debt of any significance (in mid-2012 it was about 11% of GDP). He lost some battles, including over a surge of public spending ahead of the 2007-08 electoral cycle, but his prudent fiscal stance prevailed over quite a long period. Had Putin not, most of the time, approved of that stance, it is unlikely that Kudrin would have got his way as much as he did.

Kudrin also showed a readiness to speak out against excessive or improper state intervention in the economy. In mid-2005 he said publicly that the Yukos affair was

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29 Tatyana Stanovaya, 'Inter-clan warfare is contagious', [politcom.ru](http://politcom.ru), 21 November 2007 (translation by BBC Monitoring).

30 'Ukhod Kudrina iz pravitel'stva...', ['Kudrin's departure from the government...'], *RIA Novosti*, 27 September 2011, <http://ria.ru/economy/20110927/444881438.html>.

31 At least to an outsider, Kudrin's refusal to work 'under' Medvedev as prime minister looks odd. Hitherto Putin, whether as president or as prime minister, had been Kudrin's real boss. That was not going to change simply because Putin and Medvedev were about to swap formal responsibilities. Unconfirmed but widespread rumours hold that Putin had at some point promised Kudrin that, after his return to the presidency, he would nominate him as his prime minister. According to these reports Kudrin, who was out of the country when the announcement was made, was shocked and angry when he learned that Putin and Medvedev would be swapping places. 'Putin nazval zamenu Kudrinu', ['Putin has announced a replacement for Kudrin'], *Interfax*, 27 September 2011, <http://interfax.ru/politics/txt.asp?id=209669&sw=%EA%F3%E4%F0%E8%ED&bd=27&bm=9&by=2011&ed=27&em=9&ey=2011&secid=0&mp=2&p=1>.

damaging for trust in the Russian economy.<sup>32</sup> Then, in February 2011, Kudrin caused a sensation when he told an economic forum in Krasnoyarsk that Russia's upcoming parliamentary and presidential elections had to be 'fair and honest.' 'Only that will give the mandate of trust that is essential for economic reforms,' he warned. 'If a lack of trust emerges, we shall be unable to fulfil our tasks properly.'<sup>33</sup>

After his resignation Kudrin established himself as an independent, constructive policy critic, and set out his views on a sensible budgetary policy.<sup>34</sup> He noted that increased spending had over the years left the Russian federal budget requiring a higher and higher average annual Urals oil price if it was to break even: from \$57.5 per barrel in 2007 to (his calculation) \$117.2 in the budget planned for 2012. Policy should aim at a budget that balanced at an oil price of \$90/barrel in 2015. The budget should be protected against a fall in the oil price by setting a cap on the size of the deficit that would result if there were no oil and gas revenues, and automatically cutting spending if that ceiling was about to be breached.<sup>35</sup>

Since then, Kudrin has broadened his subject-matter and extended his activities. In an interview in March 2012 he stressed that the big problem for Russian economic policy was that the country lacked effective, working institutions. That was why the economy was subjected to 'manual control' (meaning, roughly, direct administrative intervention from above).<sup>36</sup>

On 5 April 2012 Kudrin announced the formation of his Committee for Civil Initiatives. It would be composed of a non-party group of experts who would draw up and advocate particular policies and legislation. Members included people identified with politically and economically liberal ideas such as Yevgenii Gontmakher, Leonid Gozman, Mikhail Dmitriev, Nikita Belykh and Yevgenii Yasin.<sup>37</sup> The announcement on Kudrin's website said, among other things, that the recent elections showed that citizens wanted to have a real influence on the state of affairs in Russia. Society had outgrown the power system, and the country should cease to be a place where the interests of power-holders 'seeking personal gain from an obsolete political system and a monopolized natural resource sector' prevailed over those of citizens. The announcement also said that the committee would openly oppose actions of the authorities that it judged to be wrong, would promote open public debate, and would offer expert assessments of alternative policies. Some observers concluded that Kudrin was projecting himself both as a potential replacement for Medvedev as prime minister, and as a candidate potentially acceptable not only to the Putin elite but also to the 'non-systemic' opposition.

At the first conference organized by his committee, Kudrin declared that there were 'insufficient forces' both in parliament and 'in society' to carry out reforms.<sup>38</sup> It seems that the assessment of 'society' was not meant to imply that there was no point in the committee's work; rather, stimulating these reformist 'forces' (*sily*) would be part of its remit. The conference was attended by 200 representatives from 56 regions and there was much talk of advising and helping liberal candidates in local and regional

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32 'Kudin Tells Businesses to Pay Taxes', *The Moscow Times*, 2 June 2005.

33 'Russia Needs Fair Polls to Back Reforms: Kudrin', *Reuters*, 18 February 2011, <http://www.reuters.com/article/2011/02/18/us-russia-reform-kudrin-idUSTRE71H1HP20110218>.

34 Aleksei Kudrin, 'Bortom k volne', ['Riding the wave'], *Kommersant*, 15 October 2011.

35 Guidelines closely similar to these were subsequently adopted. Sergei Smirnov, 'Rossiya vernetsya k byudzhethnomu pravilu', ['Russia will return to the budget rule'], *Vedomosti*, 23 March 2012.

36 Anna Nikolaeva, 'My vse ponyali, chto delo ne v den'gakh, a v effektivnosti institutov', ['We all understood that the problem was not about money but about the effectiveness of institutions'], *Moskovskie novosti*, 1 March 2012. In this interview Kudrin also said that he respected Putin 'as a stern and severe leader,' having implied that he did not agree with at least some of Putin's policies.

37 'Kudin sozdat komitet, kotoryi budet otkryto...', ['Kudin will set up a committee that will openly...'], *RIA Novosti*, 5 April 2012, <http://ria.ru/politics/20120405/618742743.html>; see also 'Statement about the creation of the Committee for Civil Initiatives', Kudrin's website, 5 April 2012, <http://akudrin.ru/news/zayavlenie-o-sozdanii-komiteta-grazhdanskikh-initsiativ.html>.

38 Interfax, 'Kudin polagayet, chto v Gosdume nedostatochno sil dlya reform', ['Kudin suggests that the State Duma lacks sufficient forces for reforms'], *Vedomosti*, 26 June 2012.

elections. Kudrin made it clear that his committee was not a party, but would not rule out its alignment with a party at some point in the future.<sup>39</sup> The implication was that the right kind of party had yet to emerge.

Since then the committee, and Kudrin personally, have issued regular public statements, often sharply critical of existing arrangements. For example, one statement declared the October 2012 local and regional elections to have been unsatisfactory and called for transparency, freedom in election campaigns and an end to the 'filters' that excluded 'undesirable' candidates.<sup>40</sup> And, at a press conference in December 2012, Kudrin urged the Russian authorities not to overreact to the passage of the Magnitsky Act in the US. Efforts by Russia's leaders 'to create a myth' about foreign financing of the protest movement, he went on to warn, were 'far from reality' and could, by fanning international tensions, harm Russia's economic development.<sup>41</sup>

At the same time it is noticeable that, while Kudrin has been ready to criticize government decisions and the way in which the political system works, he has always been careful not to criticize Putin personally. In an interview in November 2012, he was at pains to say that he saw no grounds to fear a revolution in Russia – it might take 20 or even 30 years, he said, but evolutionary change was on the cards.<sup>42</sup> At a press conference in December 2012, Putin confirmed that he did indeed meet Kudrin from time to time and listen to what he had to say, because he was 'an important expert'. Putin went on to make a distinction between 'experts' and 'politicians': it was the latter who took the decisions.<sup>43</sup>

## Igor Shuvalov

### *Career background*<sup>44</sup>

Igor Shuvalov has enjoyed a meteoric rise to the top of the Russian leadership. Born in 1967, he served two years in the Soviet army and then studied law at Moscow State University, graduating in 1992. While at university, he completed a six-month internship in the US. He worked briefly in the legal department of the Russian foreign ministry before joining the law firm ALM-Consulting. ALM was named for its founder, the well-connected billionaire businessman Aleksandr Mamut. (One of those who bankrolled Yeltsin's 1996 re-election campaign, Mamut is perhaps best known in the West for his 2011 purchase of the British book chain Waterstone's.)

In 1997, Mamut was reportedly instrumental in getting Shuvalov appointed to the Russian Federal Property Fund – a government department once run by Chubais. Within a year, Shuvalov had assumed its leadership. He was also promoted to the rank of deputy minister and acquired a new and even more influential patron – Aleksandr Voloshin, then head of the Presidential Administration and a key member of the Yeltsin 'Family.' In May 2000, following Putin's election as president, Shuvalov was appointed head of the government administration, with the rank of minister, in the government headed by Mikhail Kasyanov.

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39 Aleksandr Ivakhnik, 'Kudrin khochet koordinirovat' grazhdanskuyu aktivnost', [Kudrin wants to coordinate civil activity], politcom.ru, 27 June 2012.

40 'Zayavleniye Komiteta grazhdanskikh initsiativ...', [Statement by the Committee for Civil Initiatives...], Committee for Civil Initiatives, 17 October 2012, <http://komitetgi.ru/news/news/251/>.

41 Irina Filatova, 'Kudrin Lashes Out at Medvedev's Cabinet,' *The Moscow Times*, 19 December 2012.

42 'Aleksandr Kudrin v efire...', [Aleksandr Kudrin on the air...], Kudrin's website, 20 November 2012, <http://akudrin.ru/news/aleksey-kudrin-v-efire-finam-fm-s-yuriem-pronko.html>.

43 'Vladimir Putin: "Vy sadomazokhist, chto li?"', [Vladimir Putin: "Are you a sadomasochist, or what?"] *Kommersant*, 20 December 2012.

44 This section draws on various sources, including BBC Monitoring, 'Profile: Russian "Everyday" Prime Minister Igor Shuvalov,' 22 June 2008, and Wikipedia, [http://en.wikipedia.org/wiki/Igor\\_Shuvalov](http://en.wikipedia.org/wiki/Igor_Shuvalov).

Well-educated and smartly dressed, Shuvalov is seen as friendly to Russian big business. In office, he gained a reputation as a strict task-master who insisted on firm discipline. But he was also seen as an excellent organizer, reliable and trustworthy, and as a result gained increasing influence within the government. According to one report, Prime Minister Kasyanov suspected Shuvalov of angling for his post. In May 2003, Kasyanov accordingly had him moved out of the government and into the Kremlin as an aide to President Putin. Shuvalov flourished there, too: he was appointed deputy head of the Presidential Administration and, in 2005, became the presidential representative to the G8. He also oversaw Russia's efforts to join the World Trade Organization.<sup>45</sup>

In May 2008, following Medvedev's election as president, Shuvalov was named one of two first deputy prime ministers in the cabinet headed by Prime Minister Putin. He was identified at that time as the key government minister, taking charge in Putin's (reportedly frequent) absences, thereby earning the nickname 'the everyday prime minister.' After Putin was elected to his third presidential term in May 2012, Shuvalov was re-appointed first deputy prime minister in Prime Minister Medvedev's cabinet; this time, he was the sole first deputy prime minister and his significance was considered to have increased still further.

According to one well-informed Russian observer, Putin in 2012 had 'his own two-party system, the conservationists [*sic*] and the progressives, and both parties were run by Igor Ivanovich.' This refers to the fact that both Shuvalov and Sechin are named Igor Ivanovich. (Putin reportedly distinguishes between them by referring to his long-term associate Sechin as 'the real Igor Ivanovich,' a nickname that has stuck.) But it is not clear whether Shuvalov nurtures higher political ambitions. In 2011, when the Kremlin was looking to create a right-wing (controlled) alternative to the ruling United Russia party, he and Kudrin were separately approached with a view to taking on the leadership of the small, pro-business Right Cause party. Both refused. In the end, the party was taken on by billionaire Mikhail Prokhorov, with farcical results.<sup>46</sup>

### *Recent role*

Shuvalov currently has the highest political position of our three 'liberal insiders.' His role as first deputy prime minister includes oversight of the whole economic and financial 'block' of policies. He also has more private-sector experience than Chubais and Kudrin. Neither of these attributes, it should be added, is necessarily a good guide to his stance or importance in policy-making. Medvedev, when he was president, had the highest official position in the land but not the most influence on policy. Vladislav Surkov, formerly a deputy head of the Presidential Administration and now a deputy prime minister, also has a commercial career behind him (with Khodorkovskii's Menatep, no less) but has been an apologist for state direction of the economy. Still, Shuvalov is on any reckoning a high-ranking technocrat. The fact that he has retained his position after bearing responsibility for crisis management in 2008-09 and after revelations about his family's wealth indicates that his talents are highly rated by Putin.

Shuvalov's liberal credentials have lately been less conspicuous than his wealth. In recent times, however, he has backed fiscal prudence and called for a strengthening

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<sup>45</sup> The main negotiator was Maksim Medvedkov, a senior official of the Ministry of Economic Development. Medvedkov reported to his minister – initially German Gref, later Elvira Nabiullina. Nabiullina would have reported to Shuvalov.

<sup>46</sup> Prokhorov took over the leadership of Right Cause in June 2011. At the time, he insisted he was acting independently, but it soon became clear that the Kremlin had endorsed his leadership of the puppet party with the aim of attracting opposition votes to its liberal platform. In September 2011, after Prokhorov refused to toe the Kremlin line, he was unceremoniously kicked out of the party.



of the rights of the opposition. He has also called for a reduction in Khodorkovskii's prison sentence.<sup>47</sup>

The main story about Shuvalov in 2011-12 was about the ways in which his family's wealth had been built up. The known facts are set out by Bershidsky and by Weiss, along with a discussion of some possible interpretations of those facts.<sup>48</sup>

In 1997 Shuvalov created a family trust to manage his wealth when he quit the law firm ALM and took a state appointment. That trust includes the Bahamas-registered Sevenkey Ltd. In 2004 Sevenkey invested \$17.7 million in Gazprom and \$49.5 million in the steel company Corus. Both investments were 'assisted' by prominent tycoons, Suleiman Kerimov and Alisher Usmanov respectively. In 2005 the ring-fencing of Gazprom shares, narrowly limiting the scope for ownership by non-residents, was lifted. This decision, in which Shuvalov did not participate, led to a big rise in Gazprom share prices. In 2007 and 2008 the Shuvalov trust sold these investments, raising just under \$200 million. The beneficiary of the trust is given as Olga Shuvalova, Shuvalov's wife.<sup>49</sup> Shuvalov has said that all of this was allowed by Russian law, which is very likely true.

The documentation supporting this story was given to the press by Pavel Ivlev, a former ALM lawyer now living in the United States and wanted by the Russian authorities in connection with the Yukos case. One interpretation of this provenance is that the revelations were a plot, sanctioned by Western governments, to undermine Shuvalov's appointment to the new government in 2012. However, if that was the aim, it was not achieved as he was re-appointed. Moreover, it is hard to believe that any Western interest would have been served by his exclusion from the current government. Just to complete the story, we must add that Bershidsky also reports that Ivlev retains anti-corruption blogger Aleksei Navalny as his lawyer in Russia.

Locally legal all of this may well be. What is of interest for us is that the potential roles played by Kerimov and Usmanov fit the scheme mentioned above: the organized financial support by tycoons for senior officials.

## CONCLUSION

Three men do not make a representative sample. We therefore do not claim to have 'confirmed' or 'demonstrated' anything. Their three stories are, in the unfortunate jargon of academic discourse, merely 'suggestive.'

What does our discussion suggest?

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47 'Nizhe \$90 za barrel' prikhoditsya sokhrashchat' raskhody byudzheta', ['Below \$90 a barrel it is necessary to reduce budget spending'], *Vedomosti*, 19 June 2012; Aleksandra Samarina and Mikhail Sergeev, 'Ugroza krizisa izmenila ritoriku Kremlya', ['The threat of crisis has altered the Kremlin's rhetoric'], *Nezavisimaya gazeta*, 22 June 2012; Dmitrii Dmitrienko, 'Prokuratura soglasilas' s osvobozhdeniem Platona Lebedeva v oktyabre 2014', ['The procuracy has agreed to the release of Platon Lebedev in October 2014'], *Vedomosti*, 7 August 2012.

48 Leonid Bershidsky, 'Shuvalov Tests Russia's Corruption Laws,' Bloomberg, 4 April 2012, <http://www.bloomberg.com/news/2012-04-04/shuvalov-tests-russia>; Michael Weiss, 'The Shuvalov Affair. A Case History of a Putin Aide's Financial Controversy,' The Henry Jackson Society, November 2012, <http://henryjacksonsociety.org/2012/11/07/the-shuvalov-affair-a-case-history-of-a-putin-aides-financial-controversy/>. See also Sergei Smirnov, 'Trast Shuvalovykh svyazali so sdelkoi s aktsiyami "Gazproma"' ['They have linked the Shuvalov trust to a deal in Gazprom shares'], *Vedomosti*, 28 March 2012.

49 In his income declaration for 2011, Shuvalov gave a figure of R375 million for his family, of which all but R9.6 million was credited to his wife. That makes their dollar incomes roughly \$800,000 and \$12 million, respectively. They own seven cars between them, and own or rent properties in several countries, notably Austria and the United Kingdom. 'Khloponin zarabotal v 68 raz bol'she...', ['Khloponin earned 68 times more...'], *RIA Novosti*, 12 April 2012, <http://ria.ru/society/20120412/624618345.html>.

First, members of the present Russian political elite have powerful motives for adhering to the status quo. In that status quo, their patronage, protection or predation of many businesses damages competition in the economy and enriches them. Yes, it is possible to imagine, as both Yasin and Kudrin have done, a peaceful, piecemeal establishment of the rule of law, impartial courts and protection of property rights by a more or less gradual process of change. The key question that these visions did not address, however, is how, in such a process, the resistance to change of political and business incumbents would be overcome.

One (unlikely) possibility might be an amnesty for all wealth, akin to the informal, de facto amnesty so far observed on the privatization deals of the 1990s. High officials could retire or resign and keep their Porsches. Liberal insiders would be more likely, as beneficiaries, to favour such an arrangement. Street protesters and their leaders would find the idea considerably less attractive.

Second, of our three individual stories only Kudrin's suggests active support for radical political change. His unusual combination of personal friendship with Putin and an international reputation for macro-economic stewardship perhaps allows him to pursue a course that would be less easily open to other liberal insiders.

On balance, we suggest, salvation by liberal insiders, though possible, does not look very likely in Russia. If the present signs of both a split within the leadership<sup>50</sup> and public discontent became stronger, they would have their parts to play. But in that situation only those who had clearly separated themselves from the authorities would be well-placed to exert much influence. So far, of our three liberal insiders only Kudrin has done that.

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<sup>50</sup> Intra-governmental disagreements such as the current split over pension reform may be regarded as routine, but the publicity given to such disagreements seems more than routine, and the airing of dissent, for example by Foreign Minister Sergei Lavrov, over the ban on adoption of Russian children by Americans, verges on the disorderly.

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