

**MONEY AND WEALTH IN RUSSIA: POLITICS AND PERCEPTIONS**

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## ABSTRACT

The chapter addresses the attitudes of the Russian people toward money, wealth and the Oligarchs. It provides a historic overview of how the oligarchic economy, developed during the 1990s post-communist period, fit into the Russian cultural and political context.

## **MONEY AND WEALTH IN RUSSIA: POLITICS AND PERCEPTIONS**

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Things that I admire elsewhere, I hate here [in Russia]... I find them too dearly paid for; order, patience, calmness, elegance, respectfulness, the natural and moral relations that ought to exist between those who think and those who do, in short all that gives worth and charm to well-organized societies, all that gives meaning and purpose to political institutions, is lost... here...

Marquis de Custine, 1839

### The New Class in the Russian Society: The Oligarchs

One goal of Russia's economic reforms over the last twenty years has been to establish a new class of businessmen and owners of private property -- people who could form the foundation for a new model post-Soviet citizen. However, the experience of this post-communist economic "revolution" has turned out to be very different from the original expectations. For as people became disillusioned with Communism due to its broken promises, the words "democracy" and "reform" quickly became equally as unbearable to large sectors of the Russian public after 1991. These words ultimately became synonymous with "thievery," "gangsterism" and "oligarchy." Even more so, such disillusion was

achieved in less than 10 years -- a record revolutionary burnout that would be the envy of any anti-Bolshevik.

By 2000, the end of the Boris Yeltsin era, even the staunchest supporters of Russia's liberal economic policies started to disappointedly pose stark questions: "Why has democratic and market reform turned out to be such an arduous process? Why has Western style liberalism, embraced almost everywhere in theory, proved difficult even to approximate in practice? Why has freedom not yet been established, even though the totalitarian state has been torn down?"<sup>i</sup>

Indeed, many analysts assess the results of the past decades of the Russian transition from communism to capitalism as a nearly complete failure, and first blamed Western institutions such as the IMF and the World Bank for introducing policies to Russia that contradicted its national character and its system of values.<sup>ii</sup> They asserted that these policies later led to corruption, unjust privatization practices and faulty redistribution of assets, which in turn fostered the creation of the oligarchs, i.e. the handful of enormously wealthy tycoons who had risen to political and financial prominence under Yeltsin.

There is no denying that the blame originally attached to the international institutions proved to be too simplistic, as the Bretton Woods Institutions have been around for 50 years, and many of their projects have proved successful. In addition, corruption is part of every political economy and exists to greater and lesser degrees in every country. It is also not entirely unusual to have businesses influencing various political decisions made by governments of any given state. What is significant is the consensus that Russia's political economy has been corrupt and private-interests-driven on all levels. Statistics

presented annually by Transparency International<sup>iii</sup> has ranked Russia among the most corrupt nations in the world over each of the past twelve years. International investors complain about corruption regularly, and the 1998 financial crisis made matters much worse, inciting years of discussion as to whether Russia's developing economy was in fact a form of developing capitalism, or simply "oligarchism," a system where a narrow elite has "stolen the state, and everything else."<sup>iv</sup>

After almost a decade of euphoria in regard to Russia's democratic and capitalist future, in 1999 the US Senate held two-part hearings on corruption in Russia, later followed by various other hearings, which subjects were concerned with the deterioration of the Russian state, problems with its Democracy, Foreign Policy, etc.<sup>v</sup> Public speculations about "Who Lost Russia?" and "What Went Wrong?" then triggered debates within the IMF and World Bank, inspiring a restructuring process of both institutions; Boris Yeltsin was brought to resign and the new President, Vladimir Putin, has declared a "dictatorship of law and order"<sup>vi</sup> in his fight against Russia's lawlessness -- unjust privatization, amassed fortunes at the expense of the state, etc. His fight resulted in an almost complete reshuffling (if not replacing) of the Yeltsin cabinet, bringing on a new set of functionaries, most of whom, much like Putin himself, were the off-springs of the Soviet/Russian Security Services. It also resulted in at least three infamous cases of the oligarchs to be exiled or prosecuted -- Boris Berezovsky, Vladimir Gusinsky, and finally Mikhail Khodorkovsky, although the legality of this fight got seriously undermined by coming to resemble familiar from the Soviet past KGB strategies for punishing ideological adversaries.

Before proceeding with the argument, it is worth reiterating that Vladimir Putin's

primary objective on assuming power was to reestablish the authority of the Russian state, which had been weakened in a democratization attempt from the late 1980s on, and, in particular, to strengthen the presidency vis-à-vis the other major institutions and actors in the political system.

Although redefining the Kremlin's relations with one of the main institutions of power, the Federal Assembly, and the regional elite was important, Putin's relationship with the business elite, or the oligarchs, became his absolute priority. His concern was that the oligarchs' fortunes were amassed chiefly due to the patronage of state institutions and officials during Yeltsin's rule, which in affect led to the oligarchic corruption and "colonization" of state structures.<sup>vii</sup>

The question of corruption, and then Putin's selective crackdown, not only highlighted Russia's complicated transition from socialism to capitalism, but also the country's general problem with liberalism versus the "totalian" ideology of the Russian state. It goes beyond politics and into history and culture. According to the political philosopher Stephen Holmes, corruption is not a cause but a consequence of what he calls "*cultural legacies*, those habits acquired in the past which are difficult to shake and which purportedly obstruct the successful creation and function of democratic and market institutions. Habits die hard and mentalities change slow."<sup>viii</sup>

A number of aspects within the Russian "national character," the "cultural legacies," explain not only the shortcomings of liberal policies in Russia since 1991 or the creation of the oligarchic power and economy, but also the current disregard for democracy, which many Russians call *dermokratiya* (shitocracy). It also sheds light on "selective law" practices that president Putin employs today in his war against corruption and the oligarchs

-- punish some, elevate others.<sup>ix</sup>

Among these “legacies” are the influence of Asian culture and the values that linger from the previous systems, all of which reinforce the special role of family and friendship relationships for a Russian. The influence of these factors leaves little hope for a “faceless bureaucracy,” that would operate without regard to personal preferences and sympathies, applying the law and regulations equally to all. Until now, a complete understanding of the problems posed by cultural obstacles to a properly functioning market has not been at the heart of most discussions of Russia's economic reforms. However, the mixed results of the reform process, as well diverse assessments<sup>x</sup> by Russian actors and outside participants and analysts, suggest that the problems go much deeper than only the issue of bad policies, inefficient implementation, or even the supposedly corrupt nature of the Russian state and its people.

“What deserves careful thought is the reform-hampering role of inherited attitudes and patterns of behavior. People do more easily what they are used to doing than what they have never done... Habits and expectations, which perversely constrict freedom of choice, can be handed down from generation to generation and survive for centuries by sheer inertia.”<sup>xi</sup>

Moreover, Jeffrey Sachs, early advisor to Boris Yeltsin and Harvard economist at the time, maintains that it is not just behavioral patterns, but also geography which, although not entirely deterministic, “conditions events” and keeps “a powerful hold even in our supposedly globalized economy... Proximity to the West induced better policies...”<sup>xii</sup> throughout the post-communist region.

The epigram by de Cistine introducing this essay suggests a simple but powerful

conclusion: Russia's culture has a deep impact on any reform effort, meaning that the country is not easily susceptible to change. Why is it that the late czarist system, late Communism, and post-communism, as well as the current Putin regime, all failed to generate viable alternatives other than changes that appear destructive and malfunctioning? Why is it that replacing the old regime always results in a crippled successor regime? One possible answer here is a great paradox of "tyranny," in which a "weak state" provides too much government, depriving people of the basic liberties needed to make their own decisions.<sup>xiii</sup> Such a state is ever impotent to solve the fundamental problems facing it, remaining effective only at weakening and discrediting alternative leadership. This pattern held true during the Soviet years. It was then reproduced after 1991, when the reform team led by the English-speaking Yegor Gaidar, Boris Yeltsin's early Prime Minister, and Anatoly Chubais, on-and-off Russian Deputy Prime Minister in the 1990s, tolerated no alternative to themselves.<sup>xiv</sup>

Similarly Vladimir Putin employed it when he assumed power in the spring of 2000. Fighting the prominent businessmen from the Yeltsin era -- Berezovsky, Gusinsky or Khodorkovsky -- had become the most publicly featured manifestation of his crusade against "crony capitalism." What may have been a viable and useful policy at the start has since been discredited by Putin's "selective" approach to the oligarchs. It has shown not so much his concern for "law and order" but instead his serious bias towards those who had risen to financial prominence after the collapse of the planned economy to dominate Russian political life in the 1990s.

This point brings to the fore another seeming paradox: enduring some of the worst despots in world history, the Russian people developed an almost apocalyptic fear of



change, especially change of power. Change is never welcome in Russia for a simple reason that the following regime had to completely annihilate the previous one thus hampering the sense of stability and continuity any nation needs in order to develop forward. No wonder, the end of a regime engenders not hope but a fear of cataclysm. Thus, more than in other cultures, power in Russia is subject to inertia, which creates a favorable environment to autocratic rule. The person wielding power embodies power and for the most part is followed by the population regardless of the kind of policies he implements, often even despite these policies. For example, almost fifteen years after the fall of the Soviet Union Russia's people, with no pressure from above, discovered that their lives fare better with dictators. As a people relatively new to democracy, Russians seem to still dislike or mistrust rulers who don't look or act dictatorial enough. Russians want tsars, not peasants, with no humanity on display: Nikita Khrushchev with his energetic fists and Ukrainian shirt, Mikhail Gorbachev with a birthmark on his bold head, Boris Yeltsin with his "mujik's" drunkenness. Joseph Stalin, on the other hand, cautiously built himself an official image that concealed from the *demos* that he was in fact squat and pockmarked. Vladimir Putin, too, carefully constructs his enigma: despite countless public appearances nobody knows what lies behind his mysterious smile -- new technocrat or old spy.

The Harvard historian Richard Pipes has been warning for decades of a challenge to democratize Russia.<sup>xv</sup> People here need, want even, protection from themselves, and so crave a strong hand. This attitude marks people's continuous devotion to Stalin or explains Putin's own popularity among at least 70 percent<sup>xvi</sup> of the Russian citizens due to his claims of bringing "stability" after the turbulent and unsettling Yeltsin years. In

fact, the same kind of craving for a familiar status-quo was also the secret behind the reelection of Boris Yeltsin in 1996 when, despite poll numbers which showed his popularity at their lowest point in his presidency, the Russians nonetheless voted to reelect him despite his unpredictability, most likely reasoning, "Better the devil we know." This kind of thinking is very often something held subconsciously rather than consciously, and is part of a centuries old tradition, which only time and different (positive) experience could change. In terms of corruption, for example, is a sign of opportunistic mentality of seeking immediate gains working from the idea that tomorrow is uncertain and very likely to be worse than today. It is an attitude that runs contrary to the one which could support honest and legitimate capitalism, since the capitalist system is inherently optimistic; it assumes that tomorrow has a good chance of being better than today. This is the ethic that encourages investment; the money set aside today will be returned in the future in larger amounts. But belief in the future is not compatible with a "crisis" mentality of the Russians, since crisis here to some degree is a permanent state of affairs.

The late Russian scholar and cultural historian Yuri Lotman, in his final work, *Culture and Explosion*,<sup>xvii</sup> offers a perspective that Russian culture, unlike the cultures of the West, embodies an underlying binary logic of opposition. Without necessarily being aware of these patterns, individuals and groups conceptualize social lives in terms of sets of absolute alternatives that admit no compromise. There is no neutral ground -- either one alternative or the other must be chosen. In this choice, either one or the other must be absolutely victorious.<sup>xviii</sup> In terms of human values, Lotman gives the following sets of polar, obsolete and stark oppositions: charity versus justice; love versus the law; personal

morality (ethics) versus state law; holiness versus politics, etc. A fateful result of binary thinking, according to Lotman, is that the victor, after defeating an opponent, must always seek to annihilate the past. The past is regarded not as the foundation for organic growth, but as a source of error to be destroyed before it infects the new regime. Total destruction precedes creation; creation thus takes place in a void. Means and ends are divorced,<sup>xix</sup> as the longed-for new world can only be constructed on the ruins of the old.

Hence, there is no surprise that Stalin chose to rewrite his relationship with Vladimir Lenin, Khrushchev in turn denounced Stalin, Leonid Brezhnev did the same to Khrushchev, Gorbachev to Brezhnev, and Yeltsin to Gorbachev.

Unlike previous Russian and Soviet leaders before him, who sought to completely eliminate the predecessors, Putin decided, in the interests of stability, to tame most “remnants” of the Yeltsin rule (completely exterminating just a few), through redefining and institutionalizing their relationship with the state, but his actions fit into the same binary logic -- negation of what came before him.

Putin’s KGB zeal in fighting with the business opposition is not surprising (and not only because it fits into the Russian cultural negation pattern), he of course openly and proudly admits that he is the product of the Soviet past.<sup>xx</sup> But if we look closer at the methods and techniques employed by the committed liberal “Westernisers” before him -- Yeltsin, Yegor Gaidar, Anatoly Chubais and their business associates, the future oligarchs -- they too in their turn were compelled to act in accord with this classical script of Russian history, repeating its binary logic of opposition.

Reformers and businessmen defined a mythological West, which was understood primarily in terms of opposition to the Soviet Union. For instance, just a few years earlier

when Mikhail Gorbachev's *perestroika* amnestied nearly everyone who had been sentenced to Soviet prison for economic offenses, those amnestied considered their years in prison or labor camp as a source of pride, just as the revolutionaries in the past saw their hard labor under the tsars.

The reason for this absolutist vision, following upon Sachs's "geographical proximity" idea, derived from the fact that, for centuries, Russia was separated from the rest of the world by physical and psychological borders, with its rulers always seeing those borders as under threat. Thus the post-communist reformers and entrepreneurs, despite their liberalism, accepted the usual totalitarian formula of "we know best" when attempting to transform the old Soviet society. Communism failed because it was a bankrupt ideology. They reasoned that Russian society and economy would begin to work only by quickly adopting a viable ideology, the one that allegedly won the Cold War -- the free market model. Never mind that an imposition of such an essentially democratic change was once again done by adopting a familiar autocratic technique of "ends justifying the means." What Isaiah Berlin called "the mixture of utopian faith and brutal disregard for civilized morality,"<sup>xxi</sup> in regard to the Bolshevik policies, could also be relevant when assessing the Russian liberal reform process, which ruled more often by presidential decree rather than democratic consent.

The problem here is that the essence of democracy is to secure public support for government policies, which the Putin government managed to obtain, but the Yeltsin government consistently failed to do. One cannot auction, privatize or even simply redistribute the assets of a huge country among the citizens without wide citizen involvement, particularly when the populace were well-aware of the high (often bloody)

price paid to develop those assets.

Economic liberties, if they are to be supported by the public, can only be possible when the public and the authorities have a firm social contract with defined goals, set procedures, regulations and codes. Although the Russian, and then Soviet system, never had such a written code, it had a strict tradition of rituals and "informal formalities" which were followed by the elite and the people alike. When the traditionally accepted systems were formally destroyed in 1991, rituals were no longer functional either within the power elite or in between people and the government. The former unwritten set of rules was replaced by *bespredel* (limitless lawlessness), as Yeltsin's government overlooked the necessity to replace old autocratic rituals with the new modern regulation of "societal protocol." Thus, the separation between the state and society suppressed anything that Russia has even known before. Deprived of the familiar patterns and structures, people have become greatly confused by what formal functions and responsibilities mean for citizens, government officials and businessmen in the new "capitalist environment."<sup>xxii</sup>

Yeltsin's post-communist government failed to set up a social contract between itself and the people. Russians were unaware of the price they had to pay for liberalism and were unsure of why they had to pay it. It was unclear what kind of services the government planned to offer in exchange for citizens' responsible economic behavior. People were told that they had to pay taxes, buy expensive social services and education, and not simply receive a salary but earn it. They were told to not just collect pensions but to accumulate savings throughout their lives. Before all these services were provided for free. There was a "minor" inconvenience of the dictatorship, of course, but the trade-off was nonetheless clear. This time around, the government was asking to support the free market economy

while not giving anything in return, except witnessing the arbitrary officials, protection in the form of corruption, unpaid wages and pensions, etc.

When Vladimir Putin decides which oligarch stays and which one goes to exile or prison, his selective ruling functions very similarly to the “decree” methodology,<sup>xxiii</sup> in fact, it further reminds us of the KGB’s even more brutal methodology in dealing with the adversaries. And while the excesses of the Yeltsin era could be (and should be) seen by the liberal minded segment of the Russian population as imperfections, however serious, of the progressing capitalism and civil society, Putin’s many abuses of power, including the restructuring of the Federation Council as a wide-ranging drive to bring the regional bosses to heel in order to strengthen central authority or his selective fight for law and order,<sup>xxiv</sup> should be considered as a regression back to the Soviet past. However, as unpopular as Putin’s anti-oligarch or “vertical power” policies seem to be for the liberal democracy advocates and political analysts, the president got the support from the majority of the population, which welcomes his “regression” back to the Soviets. Because the previous leaders failed to secure support for their policies, Putin’s leadership was even more successful in forming a public perception that his actions are nothing more than just a necessary crusade against the 1990s cronyism.

Today we are thus faced with an understanding that the reformers are indeed themselves to blame for the invading “Putinism”: reform without clear democratic consent for the process of renewal placed the entire program at risk from the start because of the “democratic deficit” of *glasnost*.<sup>xxv</sup> That lack of support, indeed, proved to be the greatest boon to re-empowering the most reactionary -- i.e., Stalinist -- forces in the country, and ensuring support for Putinism as a milder, less lethal version of a “strong hand” rule. The

post-communist reformers insisted however, that the changes to be undertaken were primarily of a technical and economic nature. Connecting these reforms, and making them comprehensible within the terms of the wider culture, was deemed unnecessary.

Indeed, far more than 50 percent of the economic reform initiatives were promulgated by presidential decree and not by any vote in the Duma, where cultural and political consensus would have been necessary.<sup>xxvi</sup> The reason for such neglect of the Duma was obvious. The liberal reformers led by Gaidar and Chubais reasoned that conservative deputies would block change, so it was in the interests of the country to go around them, executing decisions single-handedly. The process of economic reform from the start therefore consisted of a “few good men” leading the way without democratic consent for their program. Later, one or two reformers sensed problems, but such insights usually arrived only after they were out of power. In his post-ministerial incarnation, for example, Sergei Kiriyenko admitted that cultural concerns should have been taken into consideration: “When the Russian people gave Yeltsin the authority to end communism, they were far away from thinking that they were supporting the end of social welfare provided by planned economy.”<sup>xxvii</sup>

This explains both the public’s and Putin’s disregard for the oligarchs, as well as the popular support for his anti-oligarchy policies as they appear as if the state is duly concerned for the public’s welfare. Since the 1990s are widely considered that unfair time when a handful of businesses (oil and other industries such as Logovaz or Aeroflot) got privatized through government concessions and connections. Associated with these industries leading Moscow banks -- Alpha, Most, Oneksim, Stolichny, and a few others -- became the core of financial political groups, each of which was tied to a leading political

figure, who advanced its interests in the Yeltsin Kremlin.

For example, in October 1996, the *Financial Times* published an interview with Boris Berezovsky, in which he was quite open about his financial and political powers: "We hired Anatoly Chubais. We invested huge sums of money [in Boris Yeltsin's 1996 presidential election campaign]. We guaranteed Yeltsin's election. Now we have the right to occupy government posts and use the fruits of our victory."<sup>xxviii</sup> Today of course, Anatoly Chubais, currently CEO at Russia's giant RAO UES utility monopoly, is a poster child for surviving the unpredictable Russian politics, while Boris Berezovsky is in exile in London, but this doesn't change the fact that at the time Berezovsky and others instead of continuing to spend money on top state officials, decided to become top state official themselves, entering the newly formed cabinet of newly re-elected Russian President Boris Yeltsin. Berezovsky, for example, became a Deputy Secretary of Russia's Security Council in 1996, while another Russian oligarch, Vladimir Potanin of Oneximbank, became Economics First Deputy Prime Minister. Both didn't hold their posts for long but allegedly long enough "in order to be able to issue themselves licenses, privileges, quotas and so on."<sup>xxix</sup>

Incidentally, when Mikhail Khodorkovsky was still close to the Kremlin corridors of power he admitted to *Nezavisimaya Gazeta*: "The most profitable business in Russia is politics. We met in our circle and drew lots to see who would get to join the government. Potanin was the first, but he was so busy looking after the interests of his Onexim. Now, other people are getting their turn."<sup>xxx</sup>

This shows that as the power and wealth of the wealthy individuals increased as a result of their access to the government's money, they began to behave like states within a



state, acquiring media outlets -- Boris Berezovsky's chain of newspapers and TV channels or Vladimir Gusinsky's Media-Most empire are the best examples here. In time, the struggle for power between the financial political groups and not concern about the welfare of the population became the principal determinant of Russian government policies, especially the voucher privatization of the early 1990s, the brainchild of Anatoly Chubais.

Let's remember how the process worked: in the last days of voucher privatization, the federal property fund put more than a hundred desirable businesses and factories on sale at once, causing a sharp drop in the value of their shares, which were scooped up by the voucher funds.

With the completion of voucher privatization, the dividing up of property began to be carried out for cash. Before hyperinflation destroyed their savings, there were many Russians who had the means to buy shares in enterprises but by the latter part of 1994, the population was divided into a handful of persons who could participate in money privatization and the vast majority who could not.

Under these circumstances, the drive to create a class of private owners in Russia led to the selling off of many of the country's remaining industrial enterprises, including the most desirable, at absurdly reduced prices.

The prices for which these enterprises were sold stunned Russian society. Russian oil companies sold tested oil wells for \$.04 per realized barrel compared to the North American price of \$7.06 per barrel. Telephone companies were sold for \$116.62 per line compared to rates of \$637 per line in North America and \$2083 per line in Hungary. The United Energy Systems power generating company was sold for \$200 million. In Central

Europe, a company with similar kilowatt production would be worth \$30 billion, and, in the United States, \$49 billion.

The Murmansk Trawler Fleet, which consisted of 100 ships, each of them less than ten years old and worth \$20 million when released, was sold for \$3 million. The government handed over the shares in a group of aluminum factories in the Urals for one billion rubles, 1,000 times less than their estimated market price of one trillion rubles. In this manner, a monopoly was created controlling 70 percent of the aluminum production of the country.

In late 1994, the Russian government, in response to pressure from the World Bank to cut inflation to one percent a month and balance the budget, ceased printing money to meet current expenses, including the payment of salaries. The situation became increasingly untenable. To meet its obligations, the government began to borrow money from commercial banks in return for shares in desirable, non-privatized industries.

In theory, the "loans for shares" program provided for competition for the blocks of shares with the winner determined by who could offer the largest credit to the government. In practice, however, the winner was the bank with the closest "informal" ties to the government, and the scheme, though it facilitated the handover of the most profitable Russian enterprises to the country's oligarchs, provided very little in badly needed revenue to the government. In 1995, for example, the total revenue from the mortgage auctions of twenty-one of Russia's most profitable enterprises was \$691.4 million and 400 billion rubles.

Once an enterprise had been "mortgaged," the proprietary bank was free to exploit it. When the government failed to pay back the bank loans, which, given the state's

revenue shortage, was always the case, it was up to the bank holding the mortgage to organize the final sale of the concerned enterprise. Not surprisingly, the enterprises, in all cases, became the property of the banks providing the original loans.

In 1995, Oneximbank won control of 38 percent of Norilsk Nickel, the giant nonferrous metals producer, which at the time was earning an estimated \$2 billion a year from exports, in exchange for a \$170 million loan to the government. Two years later, in August, 1997, it paid \$250 million to retain the stake. After its repayment of the loan was deducted, the government had received a mere \$80 million for a major share in the plant that produces 90 per cent of Russia's nickel, 90 percent of its cobalt and all of its platinum.

An affiliate of Oneximbank received 51 per cent of the Sidanko oil company for \$130 million, \$5 million more than the minimum bid. A rival bid was disqualified for being 24 minutes late. As a result, Oneximbank paid two cents a barrel for Sidanko's reserves compared to the going international rate for reserves of \$4 to \$5 a barrel.

Bank Menatep won 78 percent of Yukos, Russia's second largest oil company, with a bid of \$309.1 million, \$9 million above the minimum bid, giving it control of two per cent of the world's known oil reserves. Menatep organized the auction and rejected a bid from a consortium consisting of Alfa Bank, Inkombank and Rossiisky Kredit on procedural grounds.

Stolichny Bank and the Oil Finance Company, won 51 percent of Sibneft, Russia's seventh largest oil company with a bid of \$100.3 million, \$300,000 over the starting price. A rival bid was rejected for arriving 24 minutes late, as had happened with the sale of the shares in Sidanko.<sup>xxxii</sup>

The privatization of state enterprises was supposed to pave the way for an infusion of new investment but, it soon became clear that Russia's newly rich were not willing to invest -- at least, not so much in Russia.

Given that it is no surprise that Putin who has been establishing his image of a caring “father” of the nation (or at least its able manager) is thus often praised for firmly dealing with those “greedy” oligarchs. He is seen as the one who favors a firm dictatorship of order over the Yeltsin’s administration “shady dealings.” Reviving an old slogan from the Stalin era, “Lock 'em up, then we'll have order,” many Russians insist that clampdowns are necessary given the president's statist agenda: bring the Kremlin back to the center of politics and economy from the hands of the unruly and dishonest businesses; reduce the influence of the oligarchs; ensure the president's "vertical power," which is necessary to strengthen Russia’s sovereignty and return Great Russia’s international prestige against the “manipulations” of the West, whose loyal recruiters were first Mikhail Gorbachev and then Boris Yeltsin with his comrades-in-arms -- the elite reformers and their business associates, today colloquially known as the “Family.”

#### Russia’s Top: Privatization Russian Style

Russia has always reveled in its uniqueness, taking pride in being separated from the rest of the world by its spiritual concepts. In 1991, however, pro-Western reformers made a decision to approach Russia's economic problems in a very rational way.

When Poland was declared a success story in applying shock therapy to its economy, it was immediately decided that what worked for Poland would also work for

Russia. But Poland, as most East European countries, remained an entirely different case. It was closer to the West, it has endured fewer years under socialism and planned economics, and private property and civil society had not been destroyed. Indeed two powerful private institutions, the Catholic Church and the Solidarity trade union movement, defied and then toppled communist power.

Seemingly blinded by Poland's success in adopting western economic models, Russia's liberals refused to note the difference. Pyotr Aven, who was then the Minister of Foreign Economic Relations, now the chair of the Alfa Group, asserted in 1992, "there is no such thing as a special country or a special case. From the point of view of an economist, if economics is a science with its own laws, from this point of view all countries are [*odi-na-ko-vye*] e-q-u-a-l."<sup>xxxii</sup> Although policies were pursued in Russia over the pre-Putin 10 years as if this was the case, the results suggest otherwise. The lack of context, the failure to connect methodology for change with inherited cultural values distorted the reform process from the very beginning, ultimately reasserting the culture of the oligarchy and corruption, and then bringing the "siloviki" forces, comprised of the former members of the security services who make up Mr Putin's inner circle, to the fore to fight it. As Russian journalist Yevgenia Albats noted, "The problem is not that the state is taking control, but that the silovik culture is taking control."<sup>xxxiii</sup>

Before leaving his post as chief economist of the World Bank at the end of December of 1999, Joseph Stiglitz pointed out that "there was much discussion about the proper pacing and sequencing of reforms...but traditional economic theory has even less to say about the dynamics of transition than it has to say about equilibrium states; and yet it was issues of dynamics of transition that were central to the debate over pacing and

sequencing."<sup>xxxiv</sup> That question of sequencing should have been paramount in the mind of Russia's reformers. According to Anatoly Chubais, Russian privatization chief from 1991 to 1996, and the head of RAO UES (Russian United Energy monopoly giant), "the aim of privatization was to build capitalism in Russia. And not just that, it was to build capitalism in just a few [*udarnykh*] shock years, meeting the norms of production which the rest of the world spent hundreds of years achieving."<sup>xxxv</sup> Anders Aslund, a former Swedish diplomat and long-term Carnegie Endowment associate, currently with the Institute for International Economics, who helped design Russian economic policy from the start, was blunt in explaining the program's haste, "In Russia privatization should be implemented as quickly as possible. Russia's peculiarity is that if property would not be redistributed quickly between people, it will simply be stolen."<sup>xxxvi</sup> The idea was undoubtedly correct, but for the reasons that will be explained in greater detail in the following chapter -- in short, Russian disregard for formal laws and procedures -- speed became an encouragement for theft rather than a recipe to avoid it. Inexperienced property owners were too experienced in mistrusting the regime, which used to change or alter its mind any minute, and were stealing big to protect themselves from the unexpected.

In the book published in the late 1990s *Privatization Russian-Style*, Chubais explained the need to rush ahead regardless of opposition, and admits that in order to destroy the old system he made a choice to accept "Leninist" methods in eliminating the old regime. "From the start of our active privatization efforts we immediately knew that we had to follow the opponent's rules of the game. Most of the bureaucrats that were forced to (and still have to) work had been trained in a certain [soviet, planned economy]

tradition. If we failed to find common language with them; if we didn't use familiar levers of influence, we would not have succeeded."<sup>xxxvii</sup> Thus "democratic dictatorship," so to speak, became the means to overcome Russia's prevailing conditions, because truly democratic methods were seen as leading only to stalemate. Most Russians were unwilling to accept the pain necessary for the birth of a new economic and political system. So, instead of methodology for explanation and education, the old administrative apparatus of communism was reused for new purposes across the expanse of Russia. Special presidential representatives were sent around the country to oversee the enforcement of presidential decrees -- a policy that bore uncanny resemblance to the czar's use of personal emissaries, or to the politburo's use of commissars and representatives.

The reformers, willing to adapt the mechanisms of the state which they loathed, were unwilling to seek common ground with widespread Russian cultural beliefs, no doubt for the same reason as previously Russian or Soviet power elites made decisions in the name of the people without consulting these same people. And while "common language" with the previous nomenclature was indeed found -- overriding their authority with the larger authority, the resentment among the population in turn overrode the possibility of a positive outcome.

"Shock therapy" (macroeconomic stabilization) was considered the only way Russia would be able to restructure its deteriorating economy, but "shock" as some suggested came with too little "therapy."<sup>xxxviii</sup> In his *Notes of the President* Boris Yeltsin later explained:

Gaidar's reforms provided the macroeconomic shift, the breakdown from the old economy. It was horribly painful, without the surgical precision, but on the contrary with a somewhat rusty gnashing, when pieces and parts of the old mechanism are bloodily torn away, and change finally does happen. There had been no other economic production [in Russia] except the Stalinist one; it could hardly be adapted to the contemporary environment, so this production genetically required a complete break. As this [past economy] was created in the *avral* (all hands on the pump) way back in the 1930s, we used the same method to break it.<sup>xxxix</sup>

That was Yeltsin speaking in 1995, but from the start of the reform process in 1991-1992 there was no transparency. There were very few attempts to explain the concepts of macroeconomics, private ownership and privatization as well as the necessity of "shock therapy" to the general population. There was not even much debate about the strategies to be pursued among economists, except for those in the pro-Western liberal camp of Gaidar and Chubais.

Much has been written on the pains of the 1990s economic reform,<sup>xi</sup> but let me summarize it once again: promises of a good quality of life or Chubais's assurance that by the end of 1992 each Russian citizen would be able to receive his piece of state property, equaling in price to at least one Volga automobile, took the form of rapidly declining living standards.<sup>xli</sup> For the people "shock therapy" arrived in 1993-1994 as just that -- the government freed prices suddenly, allowing them to increase dramatically at the same time it tried to curb growth in the money supply and increases in wages. These "reforms" were instantly felt in the following way: tens of thousands of people, including



pensioners, were utterly ruined by the huge price increases. Many had to sell their personal possessions in order to survive. Equally painful, in both an economic and psychological sense, was the near collapse of the ruble. Yegor Gaidar later defended these strictly monetarist policies by claiming that if tough measures had not been taken, the monetary system might have collapsed altogether.<sup>xliii</sup> His reasoning, arriving late, was too complicated for people to understand. An abstract explanation of the needs of the market was an insufficient counterpoint to the fear and blight in many peoples' lives.

When government policies result in such "tears and blood," they are obviously hard to accept without proper explanation, preparation, reasoning and some trade-offs. Instead of receiving motivation, accounts, clarifications, and updates on the policies of the macroeconomics stabilization and voucher privatization, the Russian people were stunned to hear that the government felt no longer responsible for them and their welfare. Various statements of local and national governments officials asserted, that people must understand that they are responsible for themselves, that they should not rely on others -- government, god, czar, not even the IMF for their salvation.<sup>xliiii</sup> Alfred Kokh, a leading privatization official in Chubais's entourage, went even further saying that "now is the time of Social Darwinism during which a process of natural selection must take place."<sup>xliv</sup> Indeed, a number of reformers in search of a clean slate, proudly compared the government's market policy with the actions of a surgeon who operates on a patient without anesthesia.<sup>xlv</sup>

As the whole process was more an experiment rather than a fully thought-through policy aimed to improve conditions of the country and its people, the reformist spirit militantly rejected public discussion of its program, implying that professional scientists

should never descend to the level of dilettantes. The "expert ethos" of the Gaidar team was well expressed in Gaidar's own book *State and Evolution*, where he explains the selection of political leaders from those who saw professional expertise as more important than political vision for the reconstruction of society. No wonder, during his administration far more attention was devoted to economic policy than to other pressing issues facing his government, such as restoration of confidence in the future.<sup>xlvi</sup>

Following this "expert" mode, Anatoly Chubais asserted that the Soviet economy was boring as the only thing one could do was microeconomics,<sup>xlvii</sup> but small experiments did not provide the excitement and opportunities of the big sweeping changes.

Guided by the ultimate goal of a complete make-over, driven by the usual Russian idea of totality, the Kremlin reformers of the 1991 generation simply could not go step by step, bit by bit in a slow process of capitalization. Instead they had to "build capitalism in just a few [*udarnykh*] shock years." Although this technique of "enthusiasm" was familiar from Soviet times, this was also a utopian objective in regard to Russia. First because *avral* already had proved itself as an ultimately counterproductive policy, and second because the new policies were perceived as Western, not authentically Russian, while the country has always been suspicious towards the West.<sup>xlviii</sup>

A 1994 one-volume compilation *The Russian Idea* gathered together writings of Nikolai Gogol, Alexander Herzen, Konstantin Leontiev, Vladimir Soloviev and other very prominent Russian philosophers and writers. Despite the diversity of approaches, there is an important source of unity among all opinions: the insistence that the Western path can and should be avoided in the name of a harmonious and egalitarian Russian society based on a higher form of belief.<sup>xliv</sup> Anything Western in Russia was always

approached with caution and mistrust, therefore as the IMF and the World Bank involvement had not been properly explained to Russian citizens, their loan policies were often perceived as imposing pain upon average people. This happened because these organizations were said to be handmaidens to corporate and political interests, both Western and Russian.<sup>1</sup> Because there was little transparency, people simply were not informed that there were strings routinely attached to the IMF loans; the government was forced to balance the budget, establish a proper tax system, par down official spending. All were reasonable policies and conditions, but the lack of public discussion tremendously hurt their perception in the long-suffering country.

It also did not help, of course, that foreign advisers had been let into the "sacred of sacred" for the Russian populace, the Kremlin -- bastion of the Russian power, as advisers and even high officials.

According to Janine Wedel, a vigorous Western critic of the "Chubais clan":

Chubais assembled a group of Western looking, energetic associates... From the start, the "young reformers" together with their Harvard helpmates chose rapid, massive privatization as their showcase reform. Harvard economist [Andrei] Shleifer became director of the Harvard Institute's Russia Project. Another Harvard player was a former World Bank consultant named Jonathan Hay. In 1991... Hay became a senior legal adviser to Russia's new privatization agency, the State Property Committee (GKI)...<sup>li</sup>

Wedel goes on as to give evidence of Chubais's non-democratic behavior:

Despite the fact that building democracy was a stated goal of the aid community, many aid officials embraced this [every subsequent major regulation of privatization was introduced by presidential decree rather than parliamentary action] dictatorial modus operandi... As USAID's Walter Coles, a key American official in the privatization and economic restructuring program in Russia, pointed out, 'If we needed a decree, Chubais didn't have to go through the bureaucracy.'<sup>lii</sup>

True, in 1993 the Duma consisted of a large number of conservative forces, among them many officials who opposed market reforms. But the decision to rule by decree through chief executives and with the involvement of foreigners lacked political wisdom. By trying to gain control over all political levers of power, Yeltsin's leadership marginalized other political leaders, made them suspicious, defensive and aggressive. As a result scandal after scandal rocked cities and regions throughout Russia; the media publicized the bribery and corruption stories in which reformers and their Western colleagues appeared in less than a moral light.<sup>liii</sup> In this atmosphere of a political decay the Russian population confirmed its worst suspicions of the Western ideology that "it is cut off from everything that lifts the heart above personal interests."<sup>liv</sup>

Even more so, Western ideology started to be seen as a core to the Russian corruption problem. As Khomyakov, the Aksakov brothers, Berdyaev and other advocates for Russia's uniqueness warned, money when taken to heart does destroy the human soul. The combination of Boris Berezovsky's shady affairs (or at least a public perception of them as such),<sup>lv</sup> banking pyramids of MMM and Chara Banks in the mid nineties,<sup>lvi</sup> GKO schemes of 1997-1998, the Bank of New York allegations in 1999, on

and off rumors of the investigation of Yeltsin's family and its alleged enormous accounts in Swiss banks, Vladimir Gusinsky and Mikhail Khodorkovsky meddling with politics, through media outlets or funding the opposing politicians -- all this yet again convinced the Russians that both Slavophiles and socialists might have indeed been right: "The Western way of life is [not only] *meshchanski*, i.e., both bourgeois, philistine and profoundly repulsive,"<sup>lvii</sup> it also represents "'the greatest evil of all,' the vampire which sucks the blood out of the social body...-- commerce".<sup>lviii</sup>

Ultimately, as if following the script of many Slavophiles' predictions, in the post-soviet environment rent-seeking has proven to be much more profitable and attractive for many businesses and individuals than productive activity. The foremost cause of this situation was the sheer scale of national wealth being redistributed through the 1990s and the character of the privatization process. Russia being a country of tremendous resources and potential allowed for, in the words of the *Financial Times* Moscow Bureau Chief Chrystia Freeland, "the sale of the century."<sup>lix</sup> This division of a huge pie under conditions of legal uncertainty had allowed corruption to skyrocket. Kakha Bendukidze, a leading Russian businessman at the time and president of the UralMash factories, currently Georgian Minister of Economics, once pointed out, "Russia has the curse of a rich country, so rich with raw materials that it never had to bother to create a structure of services or a sturdy line of production."<sup>lx</sup> (Earlier?)

Some businesses, particularly Khodorkovsky's Yukos Oil Company, did straighten out, in just a few years transforming Yukos from a "Corporate Governance Nightmare to Poster Child of the Russian Market."<sup>lxi</sup> The company started observing shareholders rights, cleaned up the production system, and in 2001 won as many as 4 out of possible 7

Investor Protection Association Awards for the Corporate Governance in Russia: The Best Manager in 2001 -- Mikhail Khodorkovsky; Company with best dividend policy; Company with best web site; Company with most improved corporate governance in 2001.<sup>lxii</sup> Nevertheless, this change came at a time when it was almost too late to both change the public perceptions of the corrupt oligarchs and to convince the populace that although the original fortunes may have been acquired by shady connections to power and politics, the ultimate goal of a given business is not only to establish its own legitimacy but also to contribute to the prosperity of the country as a whole and to secure Russia's economic prestige around the world.

All in all, the Yeltsin era policies imposed from and abused by the top in the 1990s clashed with expectations arising from the bottom, primarily because the average Russian held to long-established ideas of social justice which most deemed more valuable than any idea of democracy or capitalism, something that Vladimir Putin's government understands very well, and while it itself doesn't uphold to these egalitarian principles, creates a successful perception that it does.

For centuries Russians have been taught that the interests of society and the state are far more important than the interests of any individual -- collectivism and solidarity should be valued higher than individualism. Thus, the values of wealth, competition, and the necessity of social inequality were not accepted as inevitable by the majority of the population. Spirituality and personal ethics remained much more significant qualities.

In this regard, Vladimir Putin's policies against the oligarchs, despite their selective nature, still go better with the Russian public perceptions of justice that will be detailed in the next section of this essay.

## Russia's Bottom: Culture of Envy

Russian mistrust towards markets and the unconventional attitude of most Russians towards money have their roots in Russian spirituality and personal ethics. "Self-interest has no warranty in morality; material gain, a purely quantitative individual good, excludes the qualitative dimensions of life centered around service to the community,"<sup>lxiii</sup> said the 19<sup>th</sup> century Slavophile Alexey Khomyakov. These roots are manifested in the distinction Russians draw between "greed" cultures and "envy" cultures.<sup>lxiv</sup>

In Russian eyes, a "greed" culture tends to respect personal accumulation of money and goods, and rewards its citizens for this practice, both morally and materially. It requires working out sensible tax structures that provide for a public safety net. It also encourages philanthropy, and in general considers inequality inevitable and prosperity a sign of not just providential favor, but also a deserved result.

However, in Russia "greed" culture is opposed by "envy" culture -- by the widespread egalitarian impulse that personal economic gain is illegitimate and hurts the communal interests of the collective. The 19<sup>th</sup> century revolutionary writer Alexander Herzen once exclaimed that the "Petite bourgeoisie are incompatible with the Russian character -- and thank God for it!"<sup>lxv</sup> This means that instead of the "greed" culture motto of "keeping up with the Joneses," in such communities more satisfaction comes from "keeping the Ivanovs down." In Russia, "equality of outcomes," a belief that material conditions in society should not vary too greatly among individual and classes, rules out over "equality of opportunities," which tends to tolerate, even encourage the open

flourishing of class distinctions. There is, indeed, a signature joke which Russians like to tell about "envy" cultures: A fairy godmother approaches a poor peasant and promises him anything he should desire with only one stipulation: that his neighbor get twice as much of it. The peasant thought for a long time, and then finally said: "All right. Blind me in one eye."

"Envy" cultures aim to guarantee the survival of the group at a subsistence level, but ruin the ambitious. The very idea of profit, of tangible reward for taking an economic risk is associated with the inequality imposed by men. Meanwhile, justice is identified with protecting the integrity of the helpless, disadvantaged and weak in a given collective against the indifference and self-promotion of the strong. It is thus important to remind here that Russian culture was traditionally hostile to political democracy altogether. In the words of Konstantine Akasakov, one of the "Russian way of life" proponents, "It is clear that the principle of majority is a principle, which does not need harmony; it is a compulsory principle, which wins only through physical superiority; those who are in the majority overwhelm those who are in the minority."<sup>lxvi</sup> That Russia traditionally belongs to an "envy" culture has nourished the strong and often very attractive values of egalitarianism, compassion, inefficiency, and the dislike of consumerism as it is seen as distractive for the spiritual values of the commune.

The fact that Russians proved to be avid consumers when the totalitarian system was freed economically, doesn't contradict this statement -- consumerism, much like corruption in fact, in a Russian "totalian" fashion has become as limitless and all-encompassing as the lack of it was before. Besides, as will be detailed further in this chapter, for centuries money did not have much significance in Russia. Therefore Russian



relationship with money, and consumerism for that matter, is still more of a hypothesis than reality, driven by a fear that all these products and possibilities may one day be taken away. Traditionally the system of power in Russia, be it any system -- monarchy, communism, Yeltsin's "decree" market economy or even Putin's "dictatorship of law" -- despises its citizens, eliciting an equal and opposite reaction of derision and distrust. Thus, to the average Russian the Commissar merely gave way to the Oligarch. Many Russians do believe that their capitalism hates the consumer as much as Soviet communism did. People therefore are convinced that they will be ripped off or told off, in the meantime consuming as much as possible as if there is no tomorrow.<sup>lxvii</sup> Following Lotman's explanation of a perpetual crisis and uncertainty of the Russian psyche and the Russian state, the natural inclination is for a person to try to take advantage of any situation which presents itself since in a time of crisis thing will likely only get worse.

Given such attitudes, "Homo economicus" could neither survive, nor be happy, in Russia's so-to-speak, "Left-handed Civilization."<sup>lxviii</sup> The left-hander, cultural historian Alexander Panchenko suggests, is a national Russian hero.<sup>lxix</sup> This is why, according to Panchenko, when Russians left the countryside, the wholesome Russian soil, which in its modesty and goodness gave them only really satisfactory life, they realized that they were "left-handed." When they moved to the city, they did not know how to reconcile their harmonious, but somewhat "left-handed" qualities, within the context of a competitive, modern urban civilization, where life and business are calculating and cold and where emotions are concealed and even disdained.<sup>lxx</sup> Panchenko argues that, for Russians, little of real human value depends on the economy; all that truly matters depends on the soul and consciousness.

The late Russian dissident philosopher and writer Abram Tertz explains,

A peasant man of the past was much more connected in his everyday life with a universal life on a historical and cosmic levels. While our whole world could be traveled around in just a few days -- just take a plane, but seeing new things we won't get anything for our soul, and the only thing we will gain is the amount of the available information. These illusory horizons should be compared to the life of a peasant who had never left his village. We think that his worldview is narrow, but in truth his ritualistic life was connected to the universal calendar set up from the beginning of days. Following Lents and Feasts that man lived according to the universal historical calendar, which began with Adam and would be ending with the Last Judgment.<sup>lxxi</sup>

That sensibility, indeed, has been at the root of Russia's literary tradition, from Leo Tolstoy, Ivan Turgenev, and Anton Chekhov up to the present day with the former exile Alexander Solzhenitsyn, who loathes individualism and market values as much as any Bolshevik. To the pragmatic civilizations of the West, Russia is a developing society. Panchenko asserts that Peter the Great and Vladimir Lenin, along with Khrushchev, Gorbachev and Yeltsin, tried to force on Russians the individualistic and economic values of the West. But in general Russians fear that form of civilization. Now, many Russians think that the country's spiritual strength as well as her authentic ethical civilization has been destroyed and that her great land is now so much smaller. Unable to be "Great Russians" any more, there seems to be to such people no alternative to adopting the ways of the West. In a recent book, *Stalin: The Second Murder*, a journalist

from Saint Petersburg Yelena Prudnikova laments that Russia has “come to such a sorry state, when every foreigner could teach us life. Since then we lived increasingly useless and dirtier lives,”<sup>lxxii</sup> because “the second, true murder of Stalin was also a murder of his time, his generation, the murder of his people.”<sup>lxxiii</sup> As a result, “the country, deprived of high ideals in just a few decades has rotten to the ground,” bringing all the “evils” of the new post-soviet freedoms when “homosexuality has become rampant and Tampax commercials are allowed on TV.”<sup>lxxiv</sup>

Prudnikova’s or Panchenko’s argument may be exaggerated and simplified, as Russia is no longer either a patriarchy based on agriculture, or a totalitarian welfare state, and its social and political structures bear little resemblance to the old peasant society or the socialist communal apartment. However, the spiritual despair that this cultural decimation has inspired is real, for cultural legacies are hard to change, and only if and when society has been presented with a positive experience that it can trust, will it be able to transform.<sup>lxxv</sup>

Russia has had no such experience. Russians, the ordinary Russians who did not get their philosophical education from Milton Friedman’s books, still insist that there is an almost unbridgeable gap between the entrepreneurial spirit and the Russian soul. Russians, indeed, have always considered themselves a separate civilization. Evil comes to it from “without,” from the outside -- from the West and from those Russian rulers who would recast Russian institutions in the West’s image. Gaidar and Chubais with their “rational” policies represented just that type of figure to a majority of Russians. This point was made emphatically in an interview, entitled “Russia is not just a country, it is the whole civilization,” with the contemporary Russian scholar and academic, I. Shefarevich. He

explains why competition and capitalism go "against the spiritual makeup of this country."

The competitive situation would just come into conflict with the world-view, which has been established in the course of a thousand years. If one considers even the existing [Russian] sayings, they are all based on the idea that wealth is not an end in itself. It is not a sin, but presents at least a dangerous moral situation in which a person must be very careful in order not to harm his soul.<sup>lxxvi</sup>

Characteristically, when concluding the interview, Shefarevich found an even more authoritative and radical voice to support his position: "As Marina Tsvetaeva says, 'the notion of the basic falsehood of money is ineradicable from the Russian soul.'<sup>lxxvii</sup>

Material possessions were understood as to harm the spiritual wealth of people and thus should never be pursued and wished for.<sup>lxxviii</sup> Therefore, traditionally, money did not have much significance in Russia. Culturally, Russians have been very suspicious of money (*prezrennyi metal*, (contemptible metal) as they call it), and wealth almost always has been considered a negative value. The old Christian idea that a rich man has more trouble passing into heaven than a camel does through the eye of a needle, corresponds with the overwhelming Russian belief that concern for money somehow reflects smallness of soul and a reluctance to trust in providence. Already quoted by Shefarevich, Marina Tsvetaeva, the rebellious and anti-material spirit of Russia's intelligentsia, once wrote a poem entitled "Praise to the Rich" (1922), which nicely captures this sentiments. The more generous towards the rich the poet pretends to appear, the more condescending the poem means to be:

And so, making clear in advance/I know there are miles between us/... I proclaim  
it: I love the rich./For their rotten, unsteady root/for the damage done in their

cradle/... for the way their softest word is/obeyed like a shouted order;  
because/they will not be let into heaven.../I say that among all outcasts/there are  
no such orphans on earth.<sup>lxxix</sup>

Whatever Russian reformers might say, wealth in Russia is far from being perceived as a noble achievement; it is a curse, a misfortune, something to be ashamed of and sorry for. It is also a subject of complacent envy, because not many Russians are able to become rich -- fortunes require stability of the evolutionary development, as well as persistent efforts and consistency. "Our national characteristics: a natural inclination to anarchy (which seen from outside, is commonly mistaken for barbarous or immature behavior), fluidity, amorphousness, readiness to adopt any mould ('come and rule over us'), our gift (or vice) of thinking and living artistically, combined with an inability to manage the very serious practical side of daily life. 'Why bother? Who cares?' we ask. In this sense Russia offers a most favorable soil for the experiments and fantasies of the artist, though his lot, as of a human being is something very terrible indeed."<sup>lxxx</sup> Culturally, it is forgivable to be wealthy, but only if wealth is brought about in a "good way": by virtue, by divine miracle, by inheritance, even by gambling, as a challenge "to test one's fate."

The gambler, indeed, is the same as the fool in a fairy tale: shrewder than anyone else, more agile than anyone else. There is certain logic in fate's protection of the carefree man: after all, who else would worry about someone like him? And there is a Christian method to support the theory: the last shall be first! Therefore in Russian folklore work is not a constant effort, but an unpredictable burst of activity. By contrast, American folktales, for example, are imbued with a rational spirit; there is not too wide a gap between dream and reality. Heroes do not just wait for help from above, they don't spend

endless hours in contemplation, but constantly work and struggle. Paul Bunyan, for instance, is direct, straightforward and full of initiative. He is not miserly, but careful and precise.

In short, working for money, a virtue so respected in the West, was a not a "good way" in Russia. Russians can be great workers, as long as labor is done not for profit but for some spiritual or personal reason,<sup>lxxxii</sup> or is done as a heroic deed, which performs wonders, knowing no limits. For centuries the conscious, calculating accumulation of wealth has been in conflict with other Russian cultural values, such as unlimited hospitality, humility, belief in miracles (fate takes care of those who can't take care of themselves) and in material sacrifice.<sup>lxxxiii</sup> Therefore, in the Soviet times Russians were capable of sending a man into space, of developing Sputnik or the best (albeit one) computer for the KGB to use in its monitoring -- all those achievements were for the good of the state, but were absolutely incapable of establishing consumer production of decent washing machines.

To revisit Jeffrey Sachs's "geographical" idea, perhaps it is the vastness of the Russian land that encourages such a mindset. Over the centuries Russia acquired 11 times zones, but it did not have the strength to stop, to map out a border, to build homes for many people: "We Russians still look and act like travelers. No one has a defined sphere of engagement; we have no rules for anything; we don't even have a home. Nothing that can tie us up, that can evoke everlasting sympathy and love, nothing durable, nothing permanent; everything flows by, goes by, without leaving a print either within or outside us."<sup>lxxxiii</sup> The renowned philosopher Nikolai Berdyaev explained Russia's neglect for the discipline necessary to make the surrounding reality comfortable: "The Russian people,

in accordance with its eternal idea, have no love for the ordering of this earthly city and struggles toward a city that is to come, towards the new Jerusalem.<sup>»lxxxiv</sup> Like its land, Russia's interests are sporadic and spontaneous and spread everywhere, dilettantism without methodology and any other obligation except to its fabled size, enormous spirituality, and legendary soul. Russians "raised neither to seed corn nor children. Our hero was the jack-of-all-trades: he sews, he mows, he plays the oboe. Each hand does miracles: incredible dress designs, incredible harvests, incredible melodies -- while in reality we had convicts in rags, starving millions..."<sup>lxxxv</sup>

Western businessmen coming to Russia right after the Soviet collapse experienced a stunningly unusual way of doing business. In Western type hotels like Sheraton, Metropol, Palace, one could easily have a chance breakfast with a stranger who would offer a large oil refinery for sale. Russia has always looked with disdain at small deals (hence, the oligarchs). Although Moscow has always been "desperate for vegetable stands, restaurants, car washes, dry cleaners, and hardware stores... many people in business are selling oceans of natural gas, tons of gold, timber concessions the size of Michigan, or used MIG crafts."<sup>lxxxvi</sup>

A nation of sweeping revolutions and generalizations, where everyone is an artist who creates his or her own grandiose reality of extremes, where all artists crave to write gospels instead of novels, Russians have no respect for detail. Abram Tertz, a famous dissident and contemporary Russian philosopher of culture, in his *Voice From the Chorus*, asserted that even Russian misers do not hoard money so much as weave fancies around it. Porfiry Golovlev, Pliushkin, Pushkin's Covetous Knight<sup>lxxxvii</sup> -- all these are very Russian characters. For the most part they merely give rein to their imagination,

sitting on their coffers. They get all worked up about the idea of money, but they are not really concerned with either profit or loss.<sup>lxxxviii</sup>

This unconventional, almost dreamy and irrational behavior only coheres into a sensible cluster if a state is rich enough economically to guarantee all citizens minimal material security at some welfare level.<sup>lxxxix</sup> The enormous richness of Russia's resources has enabled the country to survive for so long through a mere redistribution of wealth without really producing much that is new. A Russian cultural historian Mikhail Epstein explains:

At the root of word ownership is the concept of "one's own." And the first miracle is that ownership can be not "one's own" but no one's, collective: an oxymoron, equivalent to a white raven or to black snow. We Russians didn't think up this most miraculous of miracles, but we worked hard to make of all humankind a collective miracle worker; and, in the meantime, as an example and a lesson to the world, we showed what can be done with our fabulous nation. Ownership was removed from the sphere of "one's own" and became "othership." The peasant community of the *artel*, the *mir* of the collective farm, the landowner or the party secretary, the pre-Revolutionary bailiff or the post-revolutionary bureaucrat -- all worked in concert to make it impossible for anyone to work for himself.<sup>xc</sup>

In the Russian understanding, the individual was always inferior to the community because the communal way of life was so near to the ideal of brotherly love, which forms the essence of Christianity and thus represents the higher mission of the people.<sup>xcii</sup> "A commune" was seen as "a union of the people, who have renounced their egoism, their individuality, and who express their common accord; this is an act of love, a noble



Christian act... A commune thus represents a moral choir, and just as in a choir a voice is not lost, but follows the general pattern and is heard in the harmony of all voices: so in the commune the individual is not lost, but renounces his exclusiveness in favor of general accord -- and there arises the noble phenomenon of harmonious, joint existence of rational being (consciousness); there arises a brotherhood, a commune -- a triumph of human spirit. <sup>"xcii</sup>

In Russia, where cultural attitudes have proven more durable and resilient than in other countries, at least so far (as it hasn't been even 15 years since centuries-closed Russian borders opened for free travel and exchange), ethical values, appropriate for communal life in the village, suitable for somewhat narrow relations based on personal acquaintance, were simply transferred to the whole society. Community was seen as an opposition to law, abstract associations, formal organizations and personal interests. Law especially was denied any value in and of itself in comparison with the inner truth and internal ethics: "Law and custom rule the social life of people. Law, written and armed with compulsion, brings the differing private wills into conditional unity. Custom, unwritten and unarmed, is the expression of the most basic unity of society. <sup>"xciii</sup>

This kind of logic, which perceives unnecessary any social contract between the state and the people, makes sense, of course, only when a ruler embodies the symbol and the essence of Russian life. As he sees himself ruling over people united in devotion to him, he is perceived as the embodiment of the faith, the highest law (religion) and the protector of the Russian way of life.

The idea of the "culture of envy" recognizes only vertical hierarchy -- czar versus slave (no wonder, Putin's "vertical of power" or Stalin's "firm hand" resonates with the

masses despite their obviously undemocratic nature) -- in contrast to the "greed" culture with its horizontal hierarchy of competitive individuals. This assumes, by the state in the first instance and followed by the individual citizens in the second, that "private" benefits always come at the expense of the "public" and state. This means that if you (singular) are rich and powerful, that condition comes at our expense -- we are poorer and weaker. The 19<sup>th</sup> century revolutionary poet Nikolai Ogarev looked upon the peasant community as the equality of universal slavery. For him it was "the expression of envy of all against the individual."<sup>xciv</sup> In such conditions, "for most of Russian history, the state was for all practical purposes the property of the czar."<sup>xcv</sup> Therefore the czar, like God, has the right to punish for sins of physical or spiritual rebellion. He is a humble sufferer for his people (power is an evil burden and the fewer men who had to carry it, the better), and he has to carry burdens of power, property, decisions, responsibilities. (Hence, Putin as a bearer of people's will.) People on the other hand have only one responsibility -- to serve their God and their czar.<sup>xcvi</sup>

Following upon the Byzantine tradition where, in opposition to the Western structure of the suzerain and some free vassals, there was only the ruler and the serfs, Russia set up a system in which the ruler does not provide guarantees or laws, but gives amnesty, mercy, and forgiveness of sins. The czar, as God's governor, does not need explanations and proof; everyone is equal in front of him, as they are in front of God.

As Thomas Graham, former US diplomat currently with the National Security Council, pointed out: "There was no formal distinction between sovereignty and ownership, between the public sphere and the private sphere. Almost by definition, public possessions were exploited for private gain."<sup>xcvii</sup> Russian journalist Masha Lipman offers

a number of examples of the use of public billboards in Russia to convey private messages. One such example was of a billboard depicting a man with coins raining down on him and the slogan: “Roma takes care of the family and the family takes care of Roma. Congratulations!”<sup>xcviii</sup> It is widely believed that “Roma” was oligarch Roman Abramovich who had close ties with then-president and “Family” head Boris Yeltsin. No public explanation of the message was given as the masses didn’t seem to have to know the meaning of this message. Lipman describes the whole episode as the appropriation of public space for private communications among insiders with no regard to what the public at large would think. It indicates a disconnect between the public and ruling elite.

Disdain for the virtue of private property and ownership also stems in part from the arbitrariness. The lack of definite laws for economic or human rights emerged from a world where, for many centuries the individual in charge -- czar, landowner, commissar, and now, the president-- had the power to alone determine who owned what, lived where, even whether someone lived or died. Ideally, the perfect czar establishes a perfect rule; in reality he remains a human being and his verdicts are often far from being perfect, because there are no institutional checks upon them. They are willful because they are products only of the will. Thus, the commune obeys an ideal image of the czar and at the same time mistrusts the reality of his rule, although he himself is rarely guilty of the injustices, it’s his surroundings that are to blame. The more the current “czar” fits an ideal image of a czar, the more his reality is being perceived as necessary for the good of the country: Putin for example is seen as establishing his own rule, and thus trustworthy, while Yeltsin would have had better luck with the public if the “Family,” i.e. Gaidar, Chubias, Berezovsky, or Abramovich for that matter, were not seen as dishonest

bureaucratic thieves manipulating the country's fortunes for their own advantage. There is no surprise then that most people still don't believe that it is worth working to acquire ownership, since it can be taken away at any moment.<sup>xcix</sup>

The case of Grigory Lopakhin in Anton Chekhov's *Cherry Orchard* is instructive here. Lopakhin's father was a *muzhik*, a slave at the Ranevskaya estate, which his entrepreneurial son, a millionaire through his own cleverness and efforts, is buying from the former owners. His plan is to cut down the cherry orchard, build small houses and rent them out as *dachi* (vacation houses). Ranevskaya, the landowner, insists that whether or not her property is useful in market terms, it is its beauty and age that matters the most. According to Chekhov, Ranevskaya and her family live in a past that is vanishing. But the present, as represented by Lopakhin and his like, offer a future that is even more deadening to the soul. Although the latter deserve credit for their entrepreneurship, their coldness, calculation and disregard for beauty are qualities unworthy of human life. Needless to say, this Russian ambiguity of what it really desired -- beauty or rationality, contributed directly to the events of 1917, when the cherry orchard would end up belonging to neither "the past" nor "the present," but to no one. Instead, it would be owned by the state, which would waste this land, depriving it both of its beauty and of the practical use to which Lopakhin would have put it.

For all these reasons personal ownership has been considered undignified, difficult, burdensome, but also useless. In fact, for most of Russian culture the concept of "personal ownership" remains as unsettling as it was for Chekhov, while it is unquestionably reassuring for Americans. Abram Tertz suggests that:

The most important quality of a Russian person is the belief that he has nothing to lose. Therefore he is disinterested and unselfish. And the straightforwardness of the people is not just hospitality but despair of a gambler. Readiness to share his last bit, because it is the last one indeed and there is nothing left, and everything is on the verge, and almost at the end... And there is lightness in thoughts, in decisions. Nothing has been saved and stored, nothing has been learnt.<sup>c</sup>

In a country where private property and personal ownership are seen as acts of usurpation, it is no surprise that even human rights as are understood in the West -- i.e. political and civil rights -- have always been shunned in Russia in favor of a communal idea, i.e. freedom from economic risks, and not freedom to invest, achieve and retain profit. To the West, "human rights" imply freedom of individual expression against the potential tyranny of the crowd: freedom of speech, press, assembly, religion, and then the intuitive sense that the right to own property guarantees all the others. In Russia, however, where profit is considered profiteering, and where even legitimate gains are terribly vulnerable to confiscation, the "tyranny of the crowd" -- being *kak vse* (like everyone else) -- would be the only way to protect oneself from the tyranny of the calculating and greedy individual.

Freedom in the West means opportunity, where a society openly embraces differences in individual talents and initiatives, understanding that there might be unequal results. Not so for Russia. There freedom meant security, not only material security but the psychological security of knowing that no one else -- no one else living under your nose -- has much more than you. For instance, under the old Soviet Constitution, Russians had the "right to rest," twenty-four day vacations were guaranteed to everyone by his or her employer. There was also a "right to living space" -- a fixed number of

square meters per family member. There was the right for "free education and medical care" -- not always of the highest quality, not always the best, but in principle it was available in equal measure for all.

Perhaps, the most appreciated constitutional right was the "right to work" -- which meant the right "not to lose your job." The right to keep your job, no matter how badly you work or how unnecessary your job is, was the essence of, first, Russian communal, and then Soviet socialist security. In another Chekhov's play, *Three Sisters*, the old peasant nanny is too old to work as she once did. The sisters, however, insist that she stay in the house and help as much or as little as she can, pretending that everything remains the same. Having a job was rarely a matter of money, but rather a matter of personal belonging to a group, being *kak vse*.

This notion was driven home in 1991, the last Soviet year, when a group of American businessmen of considerable wealth went on a study tour to St. Petersburg and Finland. They met with high-ranking managers and officials in a various candy-production plants. During one such visit, the group was astonished to see hundreds of old women at tables wrapping little candies by hand. "This is inefficient, unsanitary, costly, unnecessary," US visitors told the manager, "In the West there are machines..." But the manager waved his hand impatiently and took the Americans into the warehouse where, a candy-wrapping machine from East Germany was gathering dust and cobwebs. "We purchased this machine five years ago, but no one has the heart to install it. Those old women have a human right to a life that includes the dignity of work," the manager said.<sup>ci</sup>

For the Westerners this most likely seemed to be a useless, unprofessional, even harmful practice, an obstacle on the way to progress and prosperity. Scenes such as this

also convinced Anatoly Chubais, who in the early 1980s was just out of graduate school in St. Petersburg (then Leningrad), to experiment with Western business methods. In the mid-eighties one of his test projects, “Payment and Reward Practices for Engineers in St. Petersburg,” proved that change could be positive if done gradually and supported by the majority: “We felt we were walking on air, so good the results were. The amount of *lishnie lyudi* (unnecessary, superfluous people) was reduced, production went up, people worked more effectively... Then I became absolutely convinced that regular market mechanisms are universal. They work in the hotel business, as perfectly as they do in the turbine construction business... And one more thing, it is absolutely useless to insert the market mechanisms step by step...”<sup>cii</sup> Because this microeconomics experiment worked well when applied to a few plants in St. Petersburg, the results convinced reformers to repeat the experiment undeviatingly on the whole country five years later. The results of that experiment proved different, however. The dignity of work (as a cultural condition on a larger scale), so useless from the rational point of view, is more valuable in the “left-handed civilization,” than the rationale of work results, because it would always come without the indignities and difficulties of personal responsibility and personal ownership.

There could have not been a culture more out of touch with Adam Smith. And while since 1986 the attitude towards money and wealth has been slowly changing -- Russia's traditional feudal relationship with money (power meaning wealth), assumed a new, capitalist attitude (wealth meaning power) -- corruption and dishonesty of those who “have” (the money) together with the “have-nots” derogatory attitudes towards them, have proved the inevitability not only of the character of Vladimir Putin as current Russian president, but also explain his policies towards one goal – the establishment of a vertical

Russian state – at the expense of other ‘horizontal’ variables, including the oligarchs.

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<sup>i</sup> Stephen Holmes, "Cultural Legacies or State Collapse?" in Michael Mandelbaum, ed., *Post-Communism: Four Perspectives*. A Council on Foreign Relations Book, 1996, p. 25.

<sup>ii</sup> Paul Klebnikov, *The Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia*. Harcourt Brace, 2000; Peter Reddaway, Dmitri Glinski, *The Tragedy of Russia's Reforms*. Washington, DC: US Institute of Peace Press, 2001?.

<sup>iii</sup> Transparency's International 1998 and 1999 Corruption Perceptions Index ranked Russia 76 out of 85 countries. In 2002 Russia did slightly better, was 71, this time out of 104 countries. [<http://ww1.transparency.org/cpi/2002/cpi2002.en.html>]  
In 2004 it was 90<sup>th</sup> out of 145 countries, [<http://ww1.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>]. All in all in the last 7-8 years Russia's score has fluctuated between 2,4 and 2,8, putting the country just barely 1,0 point above the lowest corruption scores.

<sup>iv</sup> Kenneth Murphy, Marek Hassel, "Stealing the State and Everything Else: A Survey on Corruption in the Post-Communist World," *Project Syndicate: An Association of Newspapers Around the World*, Winter 1999. [www.project-syndicate.cz](http://www.project-syndicate.cz).



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<sup>v</sup> For information on the US Senate/House Congressional Hearings see

<http://www.gpoaccess.gov/chearings/index.html>.

In 2002 there was still hope that Yeltsin's corruption would turn into Putin's "normal" trade, and the U. S. House of Representatives held Hearings on Exploring Permanent Normal Trade Relations for Russia in April 2002. However, just a few years later, in February 2005 the Senate Hearings started addressing such issues as Democracy In Retreat In Russia. See [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_senate\\_hearings&docid=22751.wais.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_senate_hearings&docid=22751.wais.pdf).

<sup>vi</sup> "Dictatorship of law and order" as Vladimir Putin put it. See Jonas Bernstein, "Party Lines: Dictated by Law, or Nods," *Moscow Times*, March 4, 2000.

<sup>vii</sup> The term itself, though widely used, is something of a misnomer, in at least two respects. First, it greatly exaggerates the extent to which the tycoons so labeled represent power independent of, and dominating, the state. Oligarchs who fall out of favor with the Kremlin can soon find themselves out of business, or at least out of the country, as the careers of men like Vladimir Vinogradov, Aleksandr Smolensky, Vladimir Gusinsky and Boris Berezovsky attest. Secondly, the term "oligarch" implies something like an "oligarchy," a small ruling clique. In fact, Russia's tycoons have never been good at cooperating with each other and have tended only to unite when faced with a common, immediate threat, as when they banded together to assist Yeltsin's re-election effort in 1996. This is a critical point, as Putin rapidly demonstrated how easily the state could play on the oligarchs' rivalries and mutual enmities. Berezovsky's definition of the oligarchs... William Tompson, *Putin and the Oligarchs: A Two-Sided Commitment Problem*. Chatham House Briefing Note, March 2004.

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<sup>viii</sup> Holmes, "Cultural Legacies," p. 26.

<sup>ix</sup> While Mikhail Khodorkovsky was being convicted by the Russian court, on July 25, 2005 Pyotr Aven of the Alfa Bank was receiving a medal for his loyal service to the country, Honor of the State Award (See: "Pyotr Aven, Alfa-Bank's President, to Receive Prestigious State Award in Kremlin" @ <http://www.alfabank.com/media/news/2005/07/25>). His office, namely Christopher Weafer, chief strategist of Alfa Bank, on July 8, 2005, produced a report "Russia Investment Case: Political Risk and Kremlinology," which suggested that the future of the investment climate depends on the figure in power; and Putin is an ideal president in this regard, since he personifies the stability that business needs. Thus, President Putin is the best choice of the 2008 presidential elections, i.e. he has to find a way to amend the constitution and stay as president for a third term. (See: Christopher Weafer, "Prosperity and Political Predictability," *The Moscow Times*, August 1, 2005; Igor Moiseev, "Putin will Have to Give 'Reluctant' Consent to Amending the Constitution," *Izvestia*, August 31, 2005.)

<sup>x</sup> Today only a few reformists insist that the road to capitalism which they chose by way of "shock therapy" has proven itself successful. Yegor Gaidar, Anatoly Chubais, Anders Aslund and a few others remain confident that reforms could not have been done differently. In his book *Privatization Russian Style*, Chubais argues that the way reforms were implemented was defined by the necessity to neutralize the Soviet-style bureaucracy, because the command system never wanted to admit that a "Soviet man like every other man was nothing more than 'homo economicus,' fully engrossed in the economic interests: interest in money, interest in property and profit." (Anatoly Chubais,

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"Birth of the Idea," in Anatoly Chubais, ed., *Privatizatsiya po-rossiiski* [Privatization Russian Style]. Moscow: Vagrius, 1999, p. 29.) And while Anders Aslund is now critical of president Putin he still refuses to see that there is a connection between the negative attitude towards Yeltsin and his reformers and oligarchs today and the policies these people introduced and followed. (See Anders Aslund, "Whither Putin's Regime?" *Project Syndicate*, May 2002 @ <http://www.project-syndicate.org/commentary/aslund13>.)

<sup>xi</sup> Holmes, "Cultural Legacies," p. 26.

<sup>xii</sup> Jeffrey D. Sachs, "Eastern Europe Reforms: Why the Outcomes Differed so Sharply," *Boston Globe*, September 19, 1999.

<sup>xiii</sup> See, for example, Edward Keenan, "Muscovite Political Folkways," *The Russian Review*, 45, No. 2, April 1986.

<sup>xiv</sup> Anatoly Chubais insists, "Of course our privatization was not without "minuses," however if we followed the slow A-B-C process suggested by the 'soft' reformers, we would have had much more negative outcome... Criminalization would have been *absolute*." (Chubais, *Privatizatsiya po-rossiiski*, p. 32.) It is comforting to know to know that the level of criminalization could have been *more* absolute. Now, however, there has been evidence that reforms could have taken a less radical turn if the reformers and their Western advisers would have been less rigid in understanding the reforms. Traditional structures would not have been destroyed, appropriate new structures would have been built, and Russian cultural values and peculiarities of the Russian national character would have been taken into consideration. See, for example: Juseppe Chiesa, *Proshchai Rossiya* [Farewell Russia]. Moscow, 1997, pp. 35-60; Jeffrey Sachs, "Betrayal," *The*

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New Republic, January 31, 1994; Michael Ellman and Vladimir Kontorovich, eds., *The Destruction of the Soviet Economic System*. Armonk, NY: M.E. Sharpe, 1998.

<sup>xv</sup> See Richard Pipes, "Flight From Freedom: What Russians Think and Want." Foreign Affairs, May/June 2004.

<sup>xvi</sup> Among the most recent polls available at the writing of this essay, president Vladimir Putin received a 70% approval rating in September 2005, up from July 2005 rating of 67% (RIA Novosti 9/1/05); while 73% of Russians polled said they trusted Putin in November 2005 (ITAR-TASS, 11/22/05).

<sup>xvii</sup> Yury Lotman, *Kultura i Vzryv* [Culture and Explosion]. Moscow: Gnozis, 1992.

<sup>xviii</sup> This may also be the reason why many reformers keep insisting that their policies were ultimately the right ones.

<sup>xix</sup> All Russian revolutions have operated by the rule, *tsel opravdyvaet sredstva* (the end justifies the means).

<sup>xx</sup> See *Ot pervogo litsa: Razgovory s Vladimirom Putinym* with Natalia Gevorkyan, Natalia Timakova, Andrei Kolesnikov. Moscow: Vagrius, 2000 (in English, *First Person: An Astonishingly Frank Self-Portrait by Russia's President*. New York: Public Affairs, 2000). Or just listen to the following public admissions, "First and foremost it is worth acknowledging that the demise of the Soviet Union was the greatest geopolitical catastrophe of the century. As for the Russian people, it became a genuine tragedy. Tens of millions of our fellow citizens and countrymen found themselves beyond the fringes of Russian territory. The epidemic of collapse has spilled over to Russia itself." (Putin's nationally televised speech before parliament quoted in Mike Eckel, "Russian president: Soviet collapse 'greatest geopolitical catastrophe' of 20th century." Associated Press,

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April 25, 2005.) His other famous quote is “Those who don’t miss the Soviet Union don’t have the heart, those who want to bring it back have no brain.” This line was originally used by General Alexander Lebed, governor of Krasnoyarsk, who died in a plane crash in April 2002. Lebed exact words were: "Anyone who does not regret the passing of the Soviet Union has no heart. Anyone who thinks it can be put back together has no brain." (Quoted in Seamus Martin, “Fruits of freedom leave bitter taste for Russians,” *Irish Times*, November 8, 1999.)

<sup>xxi</sup> Isaiah Berlin, “Political Ideas in the Twentieth Century” in Isaiah Berlin, *Four Essays on Liberty*. Oxford, New York: Oxford University Press, 1969, p. 17.

<sup>xxii</sup> Some analysts call it "a crisis of morality," but I would suggest that it is rather "a crisis of modernity," in which old paternalistic system is being forced to give way to a new, modern system of "shared responsibility."

<sup>xxiii</sup> See Archie Brown, “Vladimir Putin and the Reaffirmation of Central State Power,” *Post-Soviet Affairs* 17:1 (January–March 2001); Thomas F. Remington, “Russia and the ‘Strong State’ Ideal,” *East European Constitutional Review* 9:1/2 (Winter/Spring 2000); and Martin Nicholson, “Putin’s Russia: Slowing the Pendulum without Stopping the Clock,” *International Affairs* 77:4 (October 2001).

<sup>xxiv</sup> On Putin’s relations with the regional elite and the Federal Assembly see two articles by Thomas F. Remington, “Putin and the Duma,” *Post-Soviet Affairs* 17:4 (October–December 2001) and “Majorities without Mandates: The Russian Federation Council since 2000,” *Europe-Asia Studies* 55:5 (July 2003). Also see Matthew Hyde, “Putin’s Federal Reforms and their Implications for Presidential Power in Russia,” *Europe-Asia Studies* 53:5 (July 2001); and Gordon M. Hahn, “The Impact of Putin’s

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Federative Reforms on Democratization in Russia,” Post-Soviet Affairs 19:3

(July–September 2003).

<sup>xxv</sup> *Glasnost* was widely used to make known the crimes of the past, but had no application to the processes of the present.

<sup>xxvi</sup> Prime-TASS Newswire, December 21, 1998.

<sup>xxvii</sup> Transcript of Sergei Kiriyenko's lecture at the NYU School of Law, November 30, 1999.?

<sup>xxviii</sup> Quoted in *Forward*, April 4, 1997, and in David Aikman, “The Men who run Russia,” *The Weekly Standard*, July 28, 1998.

<sup>xxix</sup> See Andrei Piontokovsky, “What was Wrong: Asian Flu or Russian Pneumonia?” PRISM, Volume 5, Issue 12 (June 18, 1999).

<sup>xxx</sup> See Andrei Piontokovsky, “Same old story for Russian market reform,” The Russia Journal, December 14-20, 2001. Quoted from Johnson’s Russia List, No. 5600, December 15, 2001.

<sup>xxxi</sup> See Roy Medvedev, *Kapitalizm v Rossii?* [Capitalism in Russia], Moscow: Prava Cheloveka, 1998.

<sup>xxxii</sup> *Nezavisimaya gazeta*, February 27, 1992.

<sup>xxxiii</sup> Quoted from “Putin Versus the Oligarchs: The Future of Russian Business,” The Economist, August 5, 2004.

<sup>xxxiv</sup> Joseph Stiglitz, “Whither Reforms? The Years of the Transition,” Key Note Address at the Annual World Bank Conference on Development Economics. Quoted from Johnson's Russia List, No. 3317, June 1, 1999.

<sup>xxxv</sup> Anatoly Chubais in a TV interview on the Russian program “*Detali*,” June 29, 1994.

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Vladimir Putin, in his memoirs, *First Person*, which were published in Russia right before he was elected president on March 26, 2000, suggests that Chubais is hardly aware of methodologies other than some "ephemeral ideas... He tends to get stuck, such a Bolshevik... this is the true definition of him." Quoted from the internet version of the book at [www.vagrius.com](http://www.vagrius.com): *Ot pervogo litsa*.

In this regard, it is not surprising that in 2003 Anatoly Chubais, by then turned business tycoon, heading the Russian Energy monopoly RAO UES, announced that "Russia's ideology in the 21st century should be liberal capitalism with the aim of creating a liberal empire. Russian culture must be promoted along with the culture of its neighboring countries. Russian business must be allowed to expand and the basic elements of freedom and democracy in Russia and the CIS must be protected. This is the mission of our great country." Reported by *Pravda.ru*, September 25, 2003 @ <http://newsfromrussia.com/main/2003/09/25/50165.html>.

<sup>xxxvi</sup> *Delovoi Mir*, August 14, 1993.

<sup>xxxvii</sup> Anatoly Chubais, "How We Defended Privatization," in Chubais, *Privatizatsiya po-rossiiski*, p. 143.

<sup>xxxviii</sup> This term -- "too much shock, not enough therapy" -- was borrowed from Jeffrey Sachs, "Betrayal," *The New Republic*, January 31, 1994, p. 14.

<sup>xxxix</sup> Boris Yeltsin, *Zapiski Prezidenta* [Notes of the President], Moscow: Ogonek, 1994, p. 300.

<sup>xl</sup> See Reddaway, Glinsky, *The Tragedy of Russia's Reforms*; Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia*, New York, London: W.W.Norton, 2000; Medvedev, *Kapitalizm v Rossii?*

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<sup>xli</sup> [What Went Wrong in Russia, source?](#)

<sup>xliii</sup> It did collapse nonetheless in 1998, when financial pyramid of GKO (short-term treasury loans) ruined the Russian market and brought the country to bankruptcy. Due to the pressures on the exchange rate, Russian foreign trade slipped into deficit in July 1997, suggesting that devaluation was overdue. Concerned over the ruble's stability possible GKO buyers were taking a pause, leaving over \$10 billion of falling GKO by the end of September 1998. Unable to find a solution, on 17 August the Russian government announced a 90-day moratorium on foreign debt payments, a suspension on GKO payments, and allowed the ruble to devalue from \$6 to \$9. The financial system was frozen, prices increased, and by September the ruble had fallen further to \$21. Although Sergei Kiriyenko was the Prime Minister who announced the 90 days moratorium, he is rarely blamed for the collapse, as Chubais, with Gaidar as an intellectual adviser, was said to be behind the GKO schemes. For more on the subject see: Roy Medvedev, "Obval piramidy GKO," in Roy Medvedev, *Politics and Politicians of Russia* [Politika i politiki Rossii], Moscow: Prava cheloveka, 1999, pp. 119-144.

<sup>xliiii</sup> See, *Current Digest*, No. 12, April 8, 1992; *Rossiiskie vesti*, September 1, 1992.

<sup>xliv</sup> *Chas Pik*, October 12, 1992.

<sup>xlvi</sup> *Rossiiskaya gazeta*, September 1, 1992.

<sup>xlvi</sup> Yegor Gaidar, *Gosudarstvo i Evolutsia* [The State and Evolution], Moscow: Evraziia, 1995. Also see: Yegor Gaidar, *Days of Defeat and Victory*, University of Washington Press, 1999.

<sup>xlvii</sup> "While I was in college, we had no serious studies in economics... Only microeconomics was available, to work with concrete factories, well, sometimes with a



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certain branch of production. But what I was really interested in, was macroeconomics -- dynamics of the economic figures, and money relations, and it was really depressing that there was no one to discuss it with." (Anatoly Chubais, "'The Last Thing You Needed was Chubais!' Instead of Preface," in Chubais, *Privatizatsiya po-rossiiski*, p. 5.)

<sup>xlvi</sup> For centuries, Russian tradition, from the Boyars, Slavophiles to pan-Slavists and from Eurasianists to Communists, has elaborated a nightmare vision of the West as the kingdom of Moloch, where petty individual interests run the show. In the West the upper classes roll in luxury while the landless workers "drink nothing but clear water and live on insufficient bread alone." (Quoted from Paul Miliukov, *The Origins of Ideology*, Gulf Breeze, Fla.: Academic International, 1974, p. 133). Thus, Russia cannot follow the West, cannot allow the West to take over Russia's spirit of equality and commune, as it is the key virtue of Russian society. Russian ethical belief that a good society should be highly egalitarian, support the idea that in Russia "all people, by the kindness of God, the richest as well as the poorest, eat rye bread, fish, meat and drink kvas, even if they lack beer." (Ibid.) It is precisely because of such factors as the lack of private property, or the strength of government solicitude, Russian society was seen as being able to avoid inequalities of bourgeois society of the West.

<sup>xlix</sup> V.M. Piskunov, ed., *Russkaya ideya* [The Russian Idea], Moscow: Isskusstvo, 1994.

<sup>1</sup> CNN.com transcript of the CNN NewsStand, April 17, 2000.

<sup>li</sup> Janine Wedel, "Rigging the U.S.-Russian Relationship: Harvard, Chubais, and the Transidentity Game," *Democratizatsiya*, Vol. 7, No. 4, Fall 1999, p. 477. Also see, Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1980-1998*, New York: St. Martin's Press, 1998.

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<sup>lii</sup> Wedel, "Rigging the U.S.-Russian Relationship," p. 481.

<sup>liii</sup> On the connection between the former Clinton cabinet Treasury Secretary Laurence Summers, Harvard professors Andrei Shleifer and Jonathan Hay, and Russian Privatization Chief Anatoly Chubais see, among others, Matt Bivens, "Harvard's 'Fitting Choice,'" The Nation, June 25, 2001. In his article Bivens writes, "Long after those rigged auctions [of the oil companies, nickel mines and other crown jewels of Soviet industry] were over, Summers was praising their organizers as an "economic dream team." That was consistent with the Clinton Administration's see-no-evil approach to Boris Yeltsin's boys--one that Summers helped design. Summers's critics may find new ammunition in a Justice Department lawsuit brought against Harvard over its work on Russian privatizations. In *United States of America v. the President and Fellows of Harvard College, Andrei Shleifer, Jonathan Hay, Nancy Zimmerman and Elizabeth Hebert*, the Justice Department accuses a team from Harvard of having "defrauded the United States out of \$40 million"--the amount paid to Harvard's Institute for International Development to work on Russian economic policy in tandem with reformers like Chubais. The Justice Department says that Shleifer and Hay, who ran Harvard's Russia project, secretly bought large personal stakes in Russian oil companies and in "GKOs"--wildly high-interest Russian treasury bills. Harvard University's endowment, by the way, was also heavy in GKOs. In other words, Harvard and its representatives were investing in areas they were being paid to help design and regulate." Also see, Janine R. Wedel, "The Harvard Boys Do Russia," The Nation, June 1, 1998.

<sup>liv</sup> Quoted from Abbott Gleason, "Republic of Humbug: The Russian Nativist Critique of the United States 1830-1930," American Quarterly 44 (March 1992), p. 6.

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<sup>lv</sup> See, Klebnikov, *Godfather of the Kremlin*; Reddaway, Glinsky, *The Tragedy of Russia's Reforms*.

<sup>lvi</sup> MMM and Chara Banks, two of the most popular Moscow stock funds of the early 1990s were functioning as a classic pyramid scheme: their stock prices depended only on the people who were buying shares, when each new round of investors supplied the money for previous groups.

<sup>lvii</sup> Nicolai Berdyaev, *Sub'ektivizm i Individualizm v obshchestvennoi filosofii* [Subjectivism and Individualism in Social Philosophy], St. Petersburg: Elektricheskaya tipografiia, 1901, pp. 147-148.

<sup>lviii</sup> Alexander N. Tumanov, "Merchant, Entrepreneur and Profit in Russian Literature: The Russian Artistic Intelligentsia and Money," in Anthony Purdy, ed., *Literature and Money*, Amsterdam-Atlanta, GA, 1993, p. 25.

<sup>lix</sup> See Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism*, New York: Crown Publishers, 2000.

<sup>lx</sup> *Nezavisimaya Gazeta*, August 2, 1997.

<sup>lxi</sup> Diana Yousef-Martinek, Raphael Minder Knight-Bagehot, Rahim Rabimov, "Yukos Oil: A Corporate Governance Success Story?" Chazen Web Journal of International Business, Fall 2003 @ [www.gsb.columbia.edu/chazenjournal](http://www.gsb.columbia.edu/chazenjournal).

<sup>lxii</sup> Information provided on a still existing old Yukos website from 2001 @ <http://www.yukos.com/vpo/news.asp?year=2001&month=12>.

<sup>lxiii</sup> A.S. Khomyakov, "O starom i novom" [On the Old and the New] in M.A. Maslin, ed., *Russkaya ideya* [The Russian Idea], Moscow: Respublica, 1992, p. 58.

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<sup>lxiv</sup> See, for example, Johanna Hubb, *Mother Russia: The Feminine Myth in Russian Culture*, Bloomington and Indianapolis: Indiana University Press, 1993.

<sup>lxv</sup> Alexander Herzen, *My Past and Thoughts*, Berkley: University of California Press, 1982, p. 285.

<sup>lxvi</sup> Konstantin Aksakov, *Sobranie sochinenii v trekh tomakh* [Collected Works in 3 Volumes], Moscow, 1910, vol. 1, p.292.

<sup>lxvii</sup> For more on the subject see my article: Nina Khrushcheva, "Russia's Culture of Contempt," *Project Syndicate*, July 2004 @ <http://www.project-syndicate.org/commentary/khrushcheva24>.

<sup>lxviii</sup> The title derived from a famous story "*Levsha*" (The Left-handed Man), written by the 19<sup>th</sup> century writer Nikolai Leskov. Its hero, *Levsha*, the left-handed blacksmith, is capable of doing work that none of his Western counterparts can do, despite their technical equipment, modern appliances, and scientific knowledge. With his able left hand he shoed a flea, while his foreign visitors could not see the flea without a microscope, not to mention the flea's legs.

<sup>lxix</sup> "Tsvivilizatsiya Levshi" [The Left-handed Civilization], interview with Alexander Panchenko, *Nevskoe Vremya*, March 5, 1993.

<sup>lxx</sup> Mikhail Zadornov, former Russian Minister of Finance, thought the argument wrong, since, as he put it, "70 percent of the Russian population live in the cities." Another economist Alexey Makushkin responded, "*Propiska* (residency permit, stamped in the Russian citizen passport) doesn't necessarily change mentality." Even today, rural Russians treat Muscovites "with an illogical mixture of mistrust, servility and ill will. Their attitude towards foreigners is similar." (Luibov Brezhneva, *The World I Left*

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*Behind*, New York: Random House, 1995, p. 595-296.)

<sup>lxxi</sup> Abram Tertz (Andrei Sinyavsky), "Mysli vrasplokh" [Thoughts Caught Unawares], in *Sobranie sochinenii v dvukh tomakh* [Collected Works in 2 Volumes], Moscow: SP Start, 1992, vol. 1, p. 322.

<sup>lxxii</sup> Prudnikova, Yelena. *Stalin. Vtoroe Ubiistvo* [Stalin: The Second Murder], St. Petersburg: Neva, 2003. P. 8.

<sup>lxxiii</sup> *Ibid.*, p. 7.

<sup>lxxiv</sup> *Ibid.*, p. 9.

<sup>lxxv</sup> See, Khrushcheva, "Russia's Culture of Contempt."

<sup>lxxvi</sup> Agafonov, V., Rokitinsky, V., "Rossiya - eto ne prosto strana, eto - tsivilizatsia" [Russia is not just a Country; It is a Civilization], *Novoe Russkoe Slovo*, August 1-2, 1992, p. 5. It is worth noting here that corruption, the scourge upon the country, skyrocketed, indeed "harming a person's soul" in the post-Soviet years because Russians discovered money. Rather than the traditional barter of privileges, goods and services, which ultimately were limited by the actual position of a bureaucrat on the official "ladder," money has become the prime factor. Before every step of this "ladder" presented a certain set of benefits, movement up the ladder offered greater privileges, but the process was not without surveillance and some systemic control: everyone could get only as much as his position allowed him to. Money transactions now are not limited to positions and privileges, therefore the possibility of acquiring huge windfall profits has become the focus of corrupt trade.

<sup>lxxvii</sup> *Ibid.*

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<sup>lxxviii</sup> G.P. Fedotov, *Sud'ba i grekhi Rossii* [Fate and Sins of Russia], St. Petersburg:

Sofiia, 1991, p. 202.

<sup>lxxix</sup> Marina Tsvetaeva, *Selected Poems*, Penguin Books, 1993, p. 39-40.

<sup>lxxx</sup> Abram Tertz (Andrei Sinyavsky), *A Voice from the Chorus*, New York: Farrar, Straus and Giroux, 1976, p. 247.

<sup>lxxxi</sup> According to cultural historian Mikhail Epstein when Russians "take up the trade, he takes it up with all his heart as if he is marrying it." Work in Russia is becoming a mysterious dedication, "a tormenting but happy wedding ring, an unbreakable connection with the world of object, the mystery of a human being and an object becoming one's flesh... The product then carries the stamp of love, a sign that the made object is the fruit of privation..." (Mikhail Epstein, "Labor of Lust," Common Knowledge, Winter 1992, V1 N3, p. 99). This type of work, which is always connected with love, can easily produce revolutions, but hardly amounts to practical, sustainable and considerable results in routine, everyday life. "Homo Sovieticus, successor and predecessor of Homo Russicus, labored long and willingly, but his labor somehow lacked a foundation... There was no firm, lifelong tie with the object and the product of labor. His love was general, public and belonged to no one... [as] Russians are supposed to be a mystical people who find rational knowledge about the objective world alien. (Ibid., p. 92, p. 102.)

<sup>lxxxii</sup> In Russia the world is not so "disenchanted" (in the famous term that Max Weber used with respect to modern Western societies). Miracles and mystery still inhere in daily life. Such believes provide a person with a certain kind of freedom from constrains and authorities of institutions and social structures. They are unbinding in Russia as they are only phantoms of their true essence. People depend on their wits and their friends much

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more than on the fixed procedures and routines, which they find petty and boring. There is little authority in the formal authorities of the world, for Russia is a literary world where appearances seldom correspond to reality. Hence disregard for the rule of law.

<sup>lxxxiii</sup> Pyotr Chaadaev, "Filosofskie pisma" [Philosophical Letters] (1831). Quoted from P.S. Taranov, *Filosofskaya aforistika* [Philosophical Quotes], Moscow: Ostozh'e, 1996, p. 553.

<sup>lxxxiv</sup> Nicolas Berdyaev, *The Russian Idea*. New York: Macmillan, 1948, p. 255.

<sup>lxxxv</sup> Epstein, "Labor of Lust," p. 99.

<sup>lxxxvi</sup> Matthew Stevenson, "Dealing in Russia," *American Scholar*, Autumn 1993, p. 501.

<sup>lxxxvii</sup> Protagonist of *The Golovlev Family*, a novel by Michael Saltykov-Shchedrin; Pliushkin, one of the landowners in Nikolai Gogol's *Dead Souls*. The Covetous Knight is a character from Alexander Pushkin's *Little Tragedies*.

<sup>lxxxviii</sup> Tertz, *A Voice From the Chorus*, p. 106.

<sup>lxxxix</sup> Even today "Russia presents a classic example of a 'welfare state': federal, regional and local legislation presently provides 336 various social benefits, for which 449 various categories of population are eligible..." (Tatyana Maleva, "What Sort of Russia Has the New President Inherited? Or Russia's Key Social Problems," Carnegie Endowment for International Peace Moscow Center, Briefing No. 4, 2000. Quoted from Johnson's Russia List, No. 4307, May 17, 2000). However, in the current neo-liberal conditions "the inadequacies in the social welfare system directly follow from a social policy which [still] identifies the notion of a 'welfare state' with government paternalism..." (Ibid.) This "vicious circle" needs to be broken.

<sup>xc</sup> Epstein, "Labor of Lust," p. 92.

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<sup>xc</sup>i See, for example, Isaiah Berlin, *Russian Thinkers*, London: The Hogarth Press, 1978.

<sup>xc</sup>ii Konstantin Aksakov, *Sobranie sochinenii v trekh tomakh* [Collected Works in 3 Volumes], Moscow, 1910, vol. 1, p. 291-292.

<sup>xc</sup>iii Alexey Khomyakov, *Sobranie sochinenii v trekh tomakh* [Collected Works in 3 Volumes], Moscow, 1916, vol. 3, p. 75.

<sup>xc</sup>iv Valery Blagavolo, "Nikolai Ogarev. Russkie Voprosy" [Nickolas Ogarev: Russian Questions], in *Svobodnaya Mysl'* 2, 1993, p. 110.

<sup>xc</sup>v Thomas E. Graham, Jr., "Testimony on Corruption in Russia and Future U.S. Policy Before the Senate Committee on Foreign Relations, September 30, 1999." Quoted from *Johnson's Russia List*, No. 3538, October 1, 1999.

<sup>xc</sup>vi Another important part of the chain between the people and the ruler is a class of landowners, clerks, commissars and "nomenclatura" bureaucrats. In a communal structure the excess of wealth was rejected for the sake of the village, as the land was to belong to God, and everything else belonged to the czar, so nothing could be appropriated by any of the intermediary classes. Owning property was ethically and spiritually illegitimate.

<sup>xc</sup>vii Graham, "Testimony on Corruption in Russia."

<sup>xc</sup>viii Transcript of a panel discussion "Russia's Present Condition: Why Putin Couldn't Lose" at New School University, April 29, 2004 @ <http://www.worldpolicy.org/projects/russia/transcript.html>.

<sup>xc</sup>ix It is worth noting here, that Russia is by no means a hopelessly dishonest nation. The sweeping scale of cronyism and corruption in the last 15 years was first of all a consequence of traditional cultural behavior of the Russians: disregard for morality in



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favor of ethical relations; (trust in personal ethics) disbelief in the social contract, seen as a Western invention of individuals who mistrust each other and therefore have to document their every transaction; the fact that rules and laws were established individually by the ruler in each individual case; mistrust in the authorities as rules usually depend on the leader's personal qualities rather than generally accepted, documented notion of justice. In such a societal make-up each member of his/her commune (clan, family, circle, etc.) mends for him/herself (within the clan) as if there is no tomorrow, ever suspicious of what change of power or the arbitrary mood of the one in power might bring. Secondly, when the state ceased to be either the property of the czar or the Communist Party of the Soviet Union, "various key pieces of the state remain the private preserves of specific individuals, managed primarily for private gain rather than for the public good. Moreover, unlike the Soviet period, when 'property owners' derived profit from the state's strength and control of society, today's' proprietors... enrich themselves by preying on the weakness of the state, by stripping assets from property that once belonged to the state as a whole." (Graham, "Testimony on Corruption in Russia.") And finally, the grandiose scale of corruption also stemmed from the routinely extreme, absolute revolutionary manner, which Russians assume in all trades they are engaged in. Thus, corruption and "oligarchizm" yet again, as previously absolute monarchy, or dictatorship of proletariat came in a form of the overwhelming totality.

<sup>c</sup> Tertz, "Mysli vrasplokh," p. 321.

<sup>ci</sup> Story told in 1999 by Princeton University professor of Slavic Studies Caryl Emerson in one of her lectures on Russian culture.

<sup>cii</sup> Anatoly Chubais, "The Last Thing You Needed was Chubais!" in Chubais,

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*Privatizatsiya po-rossiiski, p. 9-*

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