

From Yeltsin to Putin: Chubais, Liberal Pathology, and Harvard's Criminal Record

Matthew Raphael Johnson
Johnstown, PA

When the USSR collapsed in 1990-1991, Gorbachev was incapable of handling the situation. Boris Yeltsin came to power both bureaucratically and popularly. He was named the Chief of the Presidium, but in June of 1991, he was elected in a popular election where he earned 57% of the popular vote.

With a small army of American advisers, Yeltsin began selling off Soviet era assets. The problem was that the process had nothing to do with markets. Privatization of assets went to a handful of well-connected politicians and bureaucrats who came to control the economy as a whole.¹ They had amassed a huge number of shares by 1995, and hence, the post-Soviet oligarchy was born. The fact is that the work of 70 years of Soviet labor went to the pockets of two or three dozen people.²

The rising oligarchs could easily manipulate the court system and tax police, since there was no real law governing private enterprise. Russia was led to the brink of anarchy. By 1998, according to a paper by Sergei Guriev and Andrei Rachinsky, the oligarchs comprised about 700 individuals that completely controlled Russia's economic assets.³

The Western Elites and the Ivy League as a Criminal Syndicate

In NS Leonov's book (only in Russian), *The Way of the Cross: Russia from 1991-2000*, he states, as the first "reform" of Yeltsin's government:

Government "reforms" that began Gaidar's privatization scam was the seizure of the savings of the people. These were taken by force, though not directly. Inflation and economic collapse made the transfer of funds easy. State control was removed from prices and the "free market" would ensure the enrichment of corruption. This was the level of cynicism the new democracy had reached, while simultaneously preaching the sanctity of private property. What did not melt away in the deliberate fleecing of the people was taken by other means. An estimate of the total taken this way is about 300 billion rubles, and it had the proper effect: without money, rebellion was difficult. They cried out in frustration.⁴

Nothing was done according to democratic norms, which is odd since democracy was the buzzword that made these economic decisions seem political. At almost no time in the history of the USSR did one man, Chubais and his allies, have such total and irresponsible control over the Russian economy. When the voucher program was introduced in 1992, massive inflation resulted. Soon, each 10,000 ruble voucher was worth very little. It was rendered null regardless, since the state refused to consider the vouchers as legal tender.

¹ Hoffman, D. *The Oligarchs: Wealth And Power In The New Russia*. Public Affairs Books, 2011 (cf esp ch 12).

² Kotz, D.M. *Russia's Financial Crisis: The Failure of Neoliberalism?* Z Magazine, (1998), 28-32

³ Guriev, S. and Andrei Rachinsky. *The Role of Oligarchs in Russian Capitalism*. Journal of Economic Perspectives, 19(1), (2005), 131-150 <http://pages.nes.ru/sguriev/papers/GurievRachinsky.pdf>

⁴ Leonov, NS. *The Way of the Cross: Russia from 1991-2000*. Moscow: Russia House, 2002 (All citations are my translations from the Russian).

Making the entire scam even more blatant, Chubais inserted a rider to the law stating that the value of the voucher would only exist until late 1993. In 1992, Yeltsin's popularity went from 50% in January to 30% in August, and from there to single digits.

By July of 1992, Chubais was hated. This led Yeltsin to limit the power of parliament, increase his executive power and totally dominate the regions. This was done with western backing and was a far greater centralization of power than Putin was later to be condemned for. He had already banned the Communist Party, helping to break his main opposition and prevent their imminent reelection in Parliament. The fraud of democracy was clearly open.

Soon Chubais and his crew stated that there was no benchmark value for any sold property. The institution in charge of this, the Russian Federal Property Fund and related agencies, therefore, began from arbitrary benchmarks. Ultimately, major firms were being sold for 1-5% of their value. Worse, some of these were defense plants, bought up by shell companies operated by the CIA – this was Hay's job. Therefore, scientific advances of the USSR were now entirely in American hands.

In 1992, Yeltsin did fairly well in a referendum, receiving about 50% approval, but at this date, privatization had just begun. Elections a bit later were to belie this vote. Yeltsin himself clearly had no confidence in this referendum. Having no confidence in that vote, Yeltsin then, again with western backing, banned all opposition protests in Moscow. Then, making matters worse, he signed order 1400 in September of 1993 which stripped the Congress of People's Deputies of all power. For the upcoming elections, Yeltsin passed a law saying that only 25% of voters needed to show for it to be valid. This was a means of making sure that opposition boycotts could not win. Yeltsin soon after banned the main opposition newspaper.

Russia's privatization scam was created, directed and imposed by Harvard University and carried out by two “professors” whose incompetence is rivaled only by their lack of accountability. Anatoly Chubais, probably the most hated man in Russia, was an old friend of Harvard “economist” Andrei Shleifer, who was also working with Harvard don Jonathan Hay (who according to the FSB, is CIA). Chubais, functioning as a Russian dictator since Yeltsin was not functional at the time, put the privatization scheme into Harvard's hands. Apparently having no workable knowledge of Russian life, the Harvard elite, believing themselves infallible, quickly proved their theories not only false, but directly responsible for ruining the lives of millions.⁵

1994-1995 was the period of the solidification of the oligarchic clans, their connection with the United States, and the complete collapse of the state. Oligarchic clans, created by Chubais, filled the vacuum with private armies, political machines and newspapers. In the US, conservative and liberal alike called this the “free market” and democracy. Vladimir Zhirinovskiy, of Jewish origin and endlessly changing political positions, became the government's ace in the hole: whenever the US questioned the increasingly obvious destruction of Russia, Yeltsin would trot this clown out to make some typically outrageous statement. In 1995, it was clear that Zhirinovskiy both “loved Hitler” and was “proud” of Russia's victory in the Great Patriotic War. Clearly in the pocket of Yeltsin, Zhirinovskiy a) kept US aid money coming into his efforts, b) siphoned off serious criticism, c) easily associated nationalist views with this kind of rhetorical nonsense.

Chubais continued to hang onto power. Not being a Russian citizen (and yet having all that power), he clearly equated the oligarchic clans as “democracy.” In Davos, 1996, he met with the heads of all the clans including Guzinsky, Berezovsky, Khodorkovskiy, Friedman, Potanin and many others, and formed a political movement designed to keep nationalist and

⁵ McClintick, D. How Harvard Lost Russia. Institutional Investor, 2006.
<http://www.institutionalinvestor.com/Article/1020662/How-Harvard-lost-Russia.html?ArticleId=1020662&single=true#.UY7bILWG2So>

communists out of power. This move shows that Chubais backed the oligarchs, did not consider them “unintended consequences” and sought their assistance to stay in power: All in the name of democracy.

Yeltsin, now at 3% (with the same margin of error) began to implement populist measures, but now isolated. Winning a strangely high 33% of the vote in the 1996 elections, it can only be attributed to a) electoral fraud, or b) the fact that Gen. Alexander Lebed had been talked into entering a sort of coalition with Yeltsin. If they won, then Lebed's rival Pavel Grachev, would be history. Yeltsin won the second round with just over 50%, as the oligarchs and Chubais personally spend a small fortune bribing artists, journalists, writers and, making an even worse mockery of democracy, busing thousands of urban youth into Moscow to ensure their support.

Harvard's Sinister Role

Harvard University spent quite a bit of its money to restructure Russia. The US government sued some of them, specifically, Andrei Shleifer, for breach of contract. Many economists from Harvard worked for the state Department so as to be able to control Russia for the better. The fraud of the Russian economy was in part blamed on these advisers, who were forced to pay more than \$31 million to the US government for “conspiracy to defraud.”

Harvard had authored the plan that Gorbachev had requested to turn Russia into a capitalist state. This was the plan that was enacted. The Harvard Institute for International Development in Russia was the group created at Harvard and sponsored by the US government. This is what was sued over. The US government argued that the reform program was a failure, and the planners, living in America, knew it was a failure and continued to defend it – with taxpayer money. Even worse, as it turns out, Shleifer was rigging some of the auctions himself, investing his own money in firms that he knew would turn a profit, even if overseas.

The US Justice Department in 2000 sued, among others, Shleifer and Hay for defrauding the US government. The Justice Department stated:

The United States alleges that Defendants' actions undercut the fundamental purpose of the United States' program in Russia -- the creation of trust and confidence in the emerging Russian financial markets and the promotion of openness, transparency, the rule of law, and fair play in the development of the Russian economy and laws.⁶

Since they were using \$40 million in taxpayer money, the cold-blooded desolation of Russia implicated the US. The civil lawsuit argued, to simplify, that Harvard's economists, especially Shleifer (and his wife), was investing taxpayer money in Russian companies about which they were giving financial advice. Harvard admitted guilt in the form of a \$25 million settlement. How much of this assisted their victims in Russia is not known.⁷

In response to the suit, lawyers for Shleifer and his co-conspirator, Jonathan Hay, sneered to the press: “We are confident that, as the civil case unfolds, the court will confirm that the Harvard program significantly fostered Russian reform and that the government received its money’s worth.” As it turns out, even their lawyers did not believe this, since their defense rested, not on the denial that conflict of interest existed, but that they were never

⁶ “United States of America, Plaintiff v. the President and Fellows of Harvard College, Andrei Shleifer, Jonathan Hay, Nancy Zimmerman, and Elizabeth Hebert, Defendants” (2000)

⁷ His crimes and the full nature of the lawsuit and evidence can be found here: Wedel, J. Who Taught Crony Capitalism to Russia? How Harvard and the 'U.S. Government's Aid Agency became part of the Russian Problem. The Wall Street Journal Europe, March 19, 2001

bound by such ethical rules.⁸

In 2005, a federal judge found Shleifer guilty of professional fraud. The disgraced “professor” paid the US government \$2 million, and his wife, operating yet another scam, settled out of court for \$1.5 million. Harvard paid about \$10 million in legal fees to defend their role in the starvation of Russia.⁹ For all that, Shleifer remains a celebrated professor at Harvard and the toast of academia worldwide. His academic stock has not suffered in the least from this. Just as puzzling, Harvard suffered no diminution in prestige. This is especially puzzling in that ivy league scandals erupt seemingly on a daily basis. This Teflon world exists partly due to the protection of former Harvard President, World Bank economist and Treasury Secretary, Lawrence Summers, also a pivotal figure in the Russian fiasco.¹⁰

Summers is partly to blame for the American sub-prime mortgage disaster since he was pivotal in removing many of the regulatory barriers that forbade predatory lending practices. Therefore, the execrable Summers is the co-author of not one but *two* national meltdowns. Summers, after being forced to resign from Harvard based on an unrelated set of sins,¹¹ was quickly rehired as a “professor” of government. Then, Summers became a leading figure in Obama's economic brain trust, was soon after appointed as part of the “oversight” panel for the UN's economic programs and became a member of the Group of 30, a highly elite and secretive organization created by the Rockefeller family.

Like Summers and Shleifer, Chubais was also handsomely rewarded for his direct role in the Russian cataclysm. He was soon placed on the board of JP Morgan, and, to no one's surprise, was granted a seat on the ultra-elite Council on Foreign Relations, another powerful conclave within the Rockefeller cult.¹²

Summer's career, his almost comic legacy of failure and ignorance, and the criminal impoverishment of Russia (not to mention the 2007 US meltdown) wholly destroy the “elite status” of places like Harvard.¹³ This set of scandals, largely unknown to a bewildered and exhausted American public, shows the profound and pervasive putrescence of academia, especially in the ivy leagues. It brought into question academic tenure, unearned salaries, and the famed academic insulation from consequences arising from their theories. The Harvard civil suit and all it entails demonstrates the incompetence of those paid to implement policy and their ability to get their hands on taxpayer money. It shows a reprehensible and reckless disregard for the welfare of others that is rewarded with academic posts, social prestige, ostentatious wealth and immense power.

It might be worth mentioning that the behavior patters of Chubais conforms almost perfectly to the Triarchic diagnostic model of psychopathy as developed by Skeem, et al in 2011. First, it is typified by a pathological arrogance. The victim has full confidence that he is above the law, or that the law only applies to others. Second, the victim shows an impulsive and anti-social temper that focuses only on short term gratification based on the lowest motives. Because of these two symptoms, the victim either does not perceive or does not have any restraints on his destructive behavior. Finally, and most significantly, the victim

⁸ Seward, Z. Harvard To Pay \$26.5 Million in HIID Settlement. *Crimson*, July 2005

⁹ The guilty verdict and settlement issues are summarized in the *Crimson* article above.

¹⁰ Finucane, M “Feds Sue Harvard over Russia Advisers.” *ABD News*; also see Wedel, Janine R. *The Harvard Boys Do Russia*. *The Nation*, 2008; and “Larry Summers, Robert Rubin: Will The Harvard Shadow Elite Bankrupt The University And The Country?” *The Huffington Post*, Jan 2010: http://www.huffingtonpost.com/harry-r-lewis/larry-summers-robert-rubi_b_419224.html

¹¹ These had something to do with comments about intellectual differences between men and women. That this contrived controversy erupted just as Harvard was paying off the federal government is no coincidence.

¹² Levy, Ari. Summers Joins Andreessen Horowitz as a Part-Time Adviser to Entrepreneurs. *Bloomberg*, June 2011 and Greenwald, Glenn. *Larry Summers, Tim Geithner and Wall Street's ownership of government*. *Salon*, 2009

¹³ As far as ivy league fraud and incompetence go, this is just one scandal out of hundreds.

feels no remorse for the consequences of his actions. Other criteria related to these include parasitic behavior, superficial charm, grandiosity, ingenious criminal ideas, and assertive narcissism.¹⁴ Yeltsin, quoted in Leonov's book, called Chubais “an absolute Bolshevik by temperament and mentality.” The basic consensus about Chubais' behavior is that he cared little for construction, and only for destruction.

The political lesson of this is unfortunate: the diagnostic criteria for criminal psychopathy are precisely the qualities required for success in big business and government. Even the best intentioned politician or businessman must display some combination of these vices in order to successfully compete in these fields. What passes as virtue in liberal capitalism is actually an undisguised form of mental illness.

Leonov speaks in more detail about his pathology:

Evil lurks in Chubais' colorless eyes. He arrogantly uses his supporters in public. Assertiveness and phony composure is his cynical way. Yeltsin was seen by him as merely manageable. Yeltsin was easy to manipulate due to his unpopularity. He did not have the intellectual wherewithal to fight back. He was compliant and signed anything on cue. He saw the Duma as mere formalism that can be bypassed. In reality, he just relied on Presidential decrees.

Of course, all of this in the name of democracy. Rather than deal with the fallout for the sins of others, Yeltsin did one excellent thing for Russia – appointed Vladimir Putin as temporary president on new year's eve, 1999. As was proper, Putin guaranteed Yeltsin immunity from prosecution, which meant he could no longer be used as a scapegoat. Putin, to make a long story very short, brought Russia from a GDP that was 98th in the world to 2014, where it is 8th. For the period 1991-1997, the transfer of wealth from Russia to the oligarchs was roughly \$1.75 trillion. This was not “lost” to Russia, since wealth is not “lost.” It merely changed hands. Under Chubais and Harvard, the economic contracted by almost 90%.

For all that, Yeltsin's party received 15% of the vote. With instructions from the US, Yeltsin, after this humiliation, created the idea of a “consensus document.” The point is to create the illusion of agreement. Several western NGOs designed a position paper which supported “free market” reforms. Representatives of the new rich in Russia signed this document, which was then trumpeted as proof of social cohesion around Yeltsin. Bernard Black et al, writing in 2009, described the devastation of this shock treatment for Russia and Ukraine in 1994:

Russia's mass privatization. . . permitted insiders (managers and controlling shareholders) to engage in extensive “self” or “inside” dealing. . . which the government did nothing to control. Later privatization “auctions” were a massive giveaway of Russia’s most important companies at bargain prices to a handful of well-connected “kleptocrats”. . . Medium-term prospects are grim; the Russian ruble has plunged; the Russian government has defaulted on both its dollar denominated and ruble-denominated debt; most banks are bankrupt; corruption is rampant; tax revenues have collapsed; capital flight is pervasive; and the government (whomever the Prime Minister happens to be at the moment) seems clueless about what to do next.¹⁵

¹⁴ Skeem, JL, Polaschek, DLL, Patrick, CJ, and S Lilienfeld. Psychopathic Personality: Bridging the Gap Between Scientific Evidence and Public Policy. *Psychological Science in the Public Interest* 12 (3): 95–162 2011

¹⁵ Black, et al, 1

This scheme represents one of the most luridly thoroughgoing, colossal and overwhelming failures in economic history. The role of the US government, international financial agencies and elite academia in this monumental disaster is well known. During the well publicized destruction and starvation of Russia, the British journal *Euromoney* named Chubais the “Worlds Greatest Finance Minister,” as yet another means of displaying the elite's lack of accountability. In the *Financial Times* of 2004, A. Ostrovsky states “Chubais makes no excuses and feels no remorse over the most controversial privatization of all - the 'loans-for-shares' deal, in which he handed control of Russia's largest and most valuable assets to the group of tycoons [sic] in return for loans and support in the 1996 election for the then ailing Yeltsin.”¹⁶

Once this became plain, the architects of the plan backed off, blaming everyone else for the issues. He writes in *Foreign Affairs* that the “Russian people” must vote for “democracy” in the 2000 elections. At the time, his own popularity was running about 2-3%. Hence, he did not mean “democracy” in the normal sense of the word.

The real change was between 1994-1996. Here, the oligarchs were openly ruling with Yeltsin, who was often drunk and would disappear for weeks on end. It didn't matter. The oligarchs bought up most of the banks, then issued licenses to trade internationally that only they could have. As the government got desperate, the oligarchs stepped in and loaned Moscow the money to continue to function. Russian was not a “government” in any sense of the word. About 700 major families controlled almost the entire Russian economy and hence, the state as well.

The Results of the Scam

Government revenues went down by over 50% in this same time. Wages went down by about 75% by 1998. In 1992, the inflation rate was almost 1000%. Light industry, that is, the consumer sector, lost about 90% of its capital, the hardest hit sector of all. Machinery of all kinds fell by about 75%, meaning that 75% of the machines useful in the Russian economy had been liquidated (or were just not used) by 1998. The only thing that kept Russia afloat was the black market.¹⁷

The state could no longer enforce its laws, and hence, men started not showing up for the draft. Republic after republics declared independence, to be immediately recognized by the US. So, what can we conclude here? Very few deny that Yeltsin was a failure, but a failure of the worst kind. This kind of economic destruction has never been seen before outside of warfare. Government revenues and expenditures collapsed, hence, an already bad infrastructure was made far worse. Believe it or not, from 1992-1999, the Russian government collected about \$6 billion all told. Hence, the state did not function.

Interest rates were high, about 300% in 1994, so credit was available only to the very rich, who controlled the (now private) central bank in the first place. Nearly every oligarchical bank was connected with organized crime. In fact, there is no substantial difference between the oligarchs and organized crime.¹⁸

Under the oligarchs, tax collection collapsed. Industrial production went down by 25% in just a few years. By 1997, Russia had defaulted on its debts. Between 1991 and 1998, Russian GDP fell by almost 40%. Life expectancy went down from 68 to 56 years. Russians became impoverished. Money was so scarce that, by 1996, most trade was done through barter. Importantly, these oligarchs became a state within a state. Tax collection had collapsed, and the new Russia was completely broke. With the Asian meltdown in 1998,

¹⁶ Arkady Ostrovsky, *Father to the Oligarchs*. *Financial Times*, 2004.

¹⁷ Graham, Thomas. *From Oligarchy to Oligarchy: The Structure of Russia's Ruling Elite*. *Demokratizatsiya* 7(3), (1997) 325-340

¹⁸ *ibid*

interest rates for Russian borrowing went to 300%.¹⁹

Yeltsin's popularity by 1998 went to about zero. Since then, pro-western (that is, pro-free market) parties have polled no more than 5-7% of the vote combined. Yeltsin resigned the Presidency in 1999 and appointed Vladimir Putin as president. A man of immense mental and physical strength, he sought to discipline the oligarchs, rebuild Russia and create a modern economy. As soon as Putin took office, he went after the media monopoly of Vladimir Guzinsky. Soon, numerous oil firms and banks were investigated for tax fraud. Some oligarchs fled the country, others like Mikhail Khordokovsky, ended up in prison. Attempting to split the oligarchs, playing one fraction against another, Putin's popularity soared, and Russian economic growth recovered.²⁰ Since the meltdown in 1998, the Russian economy has gone from \$1 trillion to \$2.5 trillion by 2011. Growth rates remain high, and Russia enjoys both a trade and budget surplus. In the first eight years of Putin's presidency, the Russian GDP increased by over 75%.

Near the end of 1993, about 18-20 billion rubles had fled the country. As 1994 dawned, the population was impoverished. Malnutrition was becoming a problem, and alcoholism was increasing, as was suicide and all manner of social pathology. By 1994, the deputy interior minister, Vladimir Kozlov, stated that about 40% of the economy is now criminalized. Leonov writes,

V. Polevanov [deputy prime minister at the time] notes that the total nominal value of the voucher fund (about \$1.5 trillion rubles) was 20 times less than the cost fixed assets industry, fired up for auction. One Moscow, where privatization was not carried out on the residual and by market value, gained 20% of the enterprises 1.8 trillion rubles, while income from the rest of Russia in the first two years of privatization amounted to only \$1 trillion rubles.

The above argument is abstract. In this section, a case study will be analyzed in detail to show how these forces come to be, how they operate, and how they attempt to insulate themselves from its consequences. Traumatic economic events do not occur due to abstract or impersonal forces. People, very powerful people, create the conditions that destroy entire economies. Economic self-interest is the engine of these irrational policies. Economics depicts social actors and institutions as calculating machines with no identity or purpose. The result is that economics is always treated in the passive voice, which is a fundamental mystification.

The Second Half of the 1990s

Showing Chubais complete rejection of supporting Russian interests, Leonov writes,

Soon, it became clear that Chubais committed his sins only because he was controlled by others. The real owners of Russia. In 1998, Russia was continuing to disaster, that is, total bankruptcy. At this point, even after the default, American investors finally got the message and moved their cash out of Russian securities. This strengthened the effect of the default. As he became CEO of RAO (etc), he sold to foreigners a 32% chunk of Russian energy concerns, which violated all Russian laws. This meant, of course, that foreigners now could block Russian energy policy.

Chubais and his Harvard friends did not believe in their own rhetoric. Their had

¹⁹ Ibid, cf esp 330-332

²⁰ Sakwa, R. Putin and the Oligarchs. *New Political Economy*, 13(2) (2008): 185-191

quickly moved into the most luxurious apartments and appointed to themselves very high salaries. Nothing about their world was based on the market principles they hypocritically advocated. While advocating the rule of law, the oligarchical firms allied with Chubais were not paying taxes; but it just so happens that the criminal code recently passed did not consider this a crime. In 1997, there was no question that Chubais was evading taxes as well.

Admitting his guilt, he paid about 500 million rubles, which was just a small amount of what he owed. His power did not diminish, but it remains a fact that no dictator in Russian history had the power that Chubais had. In the name of market reform and the rule of law, Chubais was receiving millions from shell companies for non-existent services.

Alexander Lebed remained the sole source of opposition to Chubais once Yeltsin sought treatment for heart illness. Chubais, realizing the general's recent spike in popularity for negotiating successfully with Chechen rebels, invented a slew of charges that the general conspired with these same militants. Chubais had become so powerful that he was no longer required to be creative. Lebed was dismissed from his post, proving that Chubais was, in fact, a dictator.²¹

In the name of the rule of law, Chubais made mafia gangster Boris Berezovsky "deputy director of the security council." Potanin, another underworld billionaire, was named "Deputy Prime Minister." Chubais was rubbing Russia's face in his power, typical of the psychotic. Soon, all major television channels were in the hands of two mafia dons, Berezovsky and Guzinsky. Leonov writes:

By 1996, all the financial power was concentrated in the hands of a small group of businessmen almost exclusively Jewish. It consisted of Boris Berezovsky, Vladimir Gusinsky, Alexander Smolensky, Pyotr Aven, Boris Chait, and Vitaly Malkin. Major bankers also included gentiles Potanin and Vinogradov, the only two.

Since the state had collapsed, these oligarchs acted as the state treasury and profited from it. Billions continued to be looted and wound up in banks in Israel, Britain and the US. Yet, elections were coming up. An ailing Yeltsin dismissed Chernomyrdin's "government," which included Chubais. Boris Berezovsky began, in his words, to rally all the "democratic and reformist forces in Russia" to prevent his own possible dispossession.

Typical of the psychotic, these men knew no limits. They began issuing high yield junk bonds, eventually promising to pay out, in some cases, 180%. Foreigners were buying these bonds to the point where almost 30% of all marketable securities of the Russian "state" were owned by outsiders. It was another scam, and the bankers refused to pay any percentage, and even more, demanded the return of Chubais to government. Chubais quickly flew to Washington, warning of a communist-nationalist resurgence. \$6 billion was quickly given, which was never seen again.

Forming a shadow government, Russia's bankers dictated terms to Yeltsin. In their generosity, they agreed to not demand immediate debt payment from the Russian taxpayer. Yet, to punish Yeltsin, this oligarchy declared that it will reduce the sale of foreign currency. Putting downward pressure on the ruble, the oligarchs got their revenge for the tepid rebellion of Yeltsin. This is what drove the junk bonds as high as 180%; the ruble was suddenly worth nothing. In fear, Yeltsin put the banker's friend, Chernomyrdin, back in power in late summer, 1998.²²

²¹ Ostrovsky, Arkady. *Father to the Oligarchs*. Financial Times, 2004

²² Russian Federation: Selected Issues 2012 International Monetary Fund IMF Country Report No. 12/218 <http://www.imf.org/external/pubs/ft/scr/2012/cr12218.pdf> and Olikier, O, and T. Paley. *Assessing Russia's*

As typical of capitalist democracies, the political clique took the fall for the private sector. Yeltsin was blamed for the disaster, though his power was nil. That winter, Russia froze with millions unable to buy fuel. The perfect man was chosen for the prime ministership, Yevgeny Primakov, with no apparent beliefs of any kind. Quickly, Primakov demanded the return of Chubais and others who caused the mess, in order to repair it.

The default that August destroyed any bank not immediately under the oligarchs. GDP fell by 200-300 billion rubles. Industry was devastated. In one month, September of 1998, the average Russian income fell by over 30%. The Federation Council, too late, officially declared Chubais and crew as “negligent and incompetent.” At the same time, the banking oligarchy was speculating in currency markets, making a profit estimated at the time of 5.5 billion rubles in 1997.

Bill Clinton at the time cared only about the possibility of the Lebed coup. Primakov, however, began to strengthen the state as the only possibly solution to the total dissolution of Russia as a political entity. Soon, the dependable Zhirnovsky was again trotted out, with the occasional spray painted swastika to re-direct attention and create the “extremist” threat. More political groups, heretofore unknown, showed up in Moscow with strange uniforms and rallies. Gaidar was quick to link them with the communists, creating a convenient, single group for the masses to visualize.

In the midst of the meltdown, the system took advantage of the perfectly timed murder of Galina Starovoitova, a westernizing politician. 15,000 members of the opposition were rounded up and the “democratic forces” demanded emergency powers. The westernizers even created their own “nationalist” political group, “Fatherland” in order to siphon off opposition activists. In a display showing excellent acting, Yeltsin, in December of 1998, disbanded the group as a “threat” to “democracy.” Of course, western Russia experts breathed a sigh of relief that “fascism” was not coming to Russia.

Solzhenitsyn refused to be a part of the charade, refusing to accept the Medal of St. Andrei from Yeltsin. A long time nationalist, Solzhenitsyn realized that in giving this award, Yeltsin was currying favor. Another misdirection was the attempted impeachment of Yeltsin in 1998, as if he was in charge of the disaster he only vaguely understood. Like the Clinton impeachment, it was an absurdity, deliberately designed to protect those with actual power (that is, the private sector) who created the disaster. The Commission decided that Yeltsin had “exceeded his power” as president, as if this is the reason why Muscovites just froze the previous winter. Using political figures to cover for the banking cartel is as old as the Medicis in Florence. Then, in another mockery of Russia, Yeltsin was blamed 100% for the disaster of the previous decade.²³

Given all this, you are now ready to understand Putin. He came to power as Premier under Yeltsin when the latter resigned in 1999. Yeltsin's popularity rating was between 3-5%. All aid from the IMF was stolen and funneled into the hands of the oligarchs. Oil and gas firms had their profits pocketed in the same way, tax free. As Yeltsin retired, he gave many of his friends immunity from prosecution.

Putin as the Restorer of Sanity

Putin's leadership restored confidence in the currency, the state and the law. Oligarchy still exists in Russia (as elsewhere), but the monopoly position they used to wield is no more. Russian oil firms have come under the control, though not the ownership, of the state, since oligarchs were planning on selling assets to Exxon-Mobil, which led to the “Khordokovsky

Decline. The Rand Corporation, 2002

http://www.rand.org/content/dam/rand/pubs/monograph_reports/2007/MR1442.pdf

²³ Guriev, S. and Andrei Rachinsky (2005). The Role of Oligarchs in Russian Capitalism. *Journal of Economic Perspectives*, 19(1), (2005) 131-150 <http://pages.nes.ru/sguriev/papers/GurievRachinsky.pdf>

affair.” Mikhail Khordokovshy was an oligarch who controlled YUKOS, one of Russia's most powerful oil firms. In the interest of national security, Putin placed Khordokovsky under arrest. He was indeed guilty of tax evasion, but his plans to see Russian strategic assets to Americans was too much for Putin to stomach. The more oligarchs Putin put in jail, the more popular he becomes.

Putin's policy has been to tread softly, taking on only the most powerful and obnoxious of the oligarchs. He has made strategic alliances with some in order to intimidate others. While Russia has been rebuilt and the state became powerful, the oligarchs still have fight left in them, and Putin acts cautiously. Putin's basic approach has been to guide investment and control the flow of investment funds so they benefit Russia, not the oligarchy. The state does not own the economy, but it does oversee it. The oligarchy gave Putin no other choice.

The oligarchs financed all of Yeltsin's election campaigns and public image in Russia at the time. The point was to keep Yeltsin in power long enough so that the oligarchs could get their cash out of the country. They knew that eventually, a popular government would punish them. Putin, to a great extent, was this punishment.

Putin created an entirely new Russian government, when local districts under his control. Needless to say, the regional governments had been bought, and Putin could have no dealings with them. Some of them even had their own foreign policy! All those sent to govern the regions were from the security services or the army. This was no accident. Putin restructured the Upper House (the Federation Council) so as to permit his government to have a say in who gets appointed to it.²⁴

Putin insisted that local law must be consistent with federal law. This is because local leaders were creating their own countries, and this could not stand. Putin then permitted oligarchs and their puppets to be tried as violators of the constitution. Let me give you one example. In 2003, the oligarch Mikhail Khodorkovsky had taken over the Russian oil giant Yukos. Now, Putin got intelligence that Khodorkovsky was planning on entering into business with Exxon-Mobil, permitting their penetration into the Russian market. Realizing this was a security threat (which it was, since it would mean that Exxon would control much of Russia's oil), he had Khodorkovsky arrested. His list of crimes was well known, but the state got him on taxes, which was a no-brainer. Putin was immediately attacked or “authoritarianism” by the press in the west.

So why does the west heap abuse on this man?

He reformed the tax code, putting in place a 13% flat tax on all income and investments. About half of regional prosecutors were removed from their positions due to extreme corruption. All Russians knew that already. He quickly ended the war in Chechnya, making sure a Chechen, pro-Russian government was put in charge.

He brought together the top 13 oligarchical families to a conference he organized. He told them that their rule was over. He forced them to pay millions in back taxes to the state, and to create several important charitable funds with their stolen money.

He was going to use the state to pressure their media into being more objective, pro-Russian and pro-state. Since the oligarchs controlled the press, it made sense that this had to be fought. To call this “assaulting press freedom” is absurd.

He realized that the political opposition in Russia was created by the oligarchy. Hence, there was no actual party development. Few parties had an agenda (except the communists, who did well), and these were mostly personal vehicles for their founders.

Putin also shifted investment away from oil and towards higher end items. This was needed to diversify the economy. The judiciary is independent. Today, about 70% of people

²⁴ Sakwa, R. Putin and the Oligarchs. *New Political Economy*, 13(2), (2008), 185-191

who sue the state for various reasons win. Putin also introduced the jury.²⁵

It's tough to argue with Putin's success:

Labor productivity grew 49 percent 1995-2005, ranging from a 23 percent improvement in retailing to a 73 percent rise in construction. Total factor productivity grew by 5.8 percent per year, and the World Bank estimates that only one third of that increase came from increased capacity utilization. Firm turnover (i.e. the exit of inefficient firms and the entry of new ones) accounts for half the total improvement. Stock market capitalization rose to 44 percent of GDP by 2005, while the RTS index went from 300 in 2000 to 2,360 in December 2007. In September 2006 the market capitalization of the 200 biggest firms was \$833 billion (one third of which was Gazprom). The percent of the population living in poverty fell from 38 percent in 1999 to 9.5 percent in 2004, and the share of family budgets spent on food fell from 73% in 1992 to 54% in 2004. The only macroeconomic indicator that gives cause for concern is inflation, which dropped from 20 percent in 2000 to 9 percent in 2006, before creeping back up to 11-12 percent level.²⁶

Now, “market capitalization” and other such elite measures are not the whole story. They can exist with an economy failing in other respects. However, before wealth can be redistributed, it has to exist. Accumulating what can then be redistributed are what these numbers are telling us. Given all this, however, it should come as no surprise that those who are condemning Putin today backed the privatization deals 20 years ago.

W. Thompson, writing in the *Guardian* in the Summer of 2003, states:

Fiscal consolidation has probably contributed more than any other single factor to restoring the authority and legitimacy of the formerly bankrupt state. Exceptionally favorable economic circumstances account for much of this improvement, but so also do better expenditure management, the reform of tax legislation and more efficient administration. The state's rule-making capacity has also grown markedly. Unlike Yeltsin, Putin has a compliant parliament and presides over a government that, for all its internal divisions, is not riven by the factional conflicts that marked the 1990s. The result has been a flood of new legislation, much of it directly concerned with state reconstruction.²⁷

Thompson speaks the truth. “Exceptionally favorable economic circumstances” cannot cause national success. They do not in Ukraine, much of Africa or Detroit. They must be identified and utilized with substantial skill. Circumstances, of themselves, tell us nothing. The “compliant parliament” exists because of Putin's popularity, though Thomas seems to suggest that such legislative cooperation is required in times of emergency.

Worried about bureaucratic corruption, Putin passed several laws limiting the discretionary power of federal agencies. Reform has reduced corruption, endemic at one point. Business is much easier to accomplish. Putin's reelection numbers roughly mirror his popularity in the country, and his opposition, backed by the US, has no agenda whatsoever.

²⁵ Lavelle, P Putin's “Authoritarianism” vs. the “Commentariat”. Commentary, 2004a <http://www.futurebrief.com/peterlavelle004.asp> and Lavelle, P Russia's Economic Future. Commentary, 2004 <http://www.futurebrief.com/peterlavelle.asp>

²⁶ Rutland, P. Putin's Economic Record. Wesleyan University, CT, 2008

²⁷ Thompson, W. Putin's Success. The Guardian; June 2003 <http://www.guardian.co.uk/world/2003/jun/08/russia.theworldtodayessays>

They simply want more Yeltsinism.

As of January 1 of this 2013, Russia's anti-bribery legislation is the toughest in the world. In Russia, about 92% of American businesses think that Russian investment is a good thing, and that Russia is a decent place to do business. The IMF has stated that part of Putin's success is utilization of capital that was left idle. Utilization of the country's resources has increased from about 50% in 2000 to over 76% today. But in order to do this, he needed to destroy the power of the oligarchs at the regional level.

Conclusion

The simple fact is that Putin's authoritarianism was forced upon him. He did use a heavy hand, but not nearly as heavy as Yeltsin. He realized that it was either a strong hand or chaos. As the state has been rebuilt, so have oversight bodies empowered to check it's behavior. Putin launched a bunch of commissions to look into corruption in different areas of the country, knowing full well that his popularity is based on that, plus economic growth. Putin needed to increase the potential of the state before the state itself could grow. Hence, the reformation of all police agencies gave them a direct line to the Kremlin, but, by 2002, crime was still rife. Now, all that has changed.

It makes sense to call Putin a reaction to Yeltsin, chaos and oligarchy. His policies make no sense without the background. Things appear differently when contrasted with the free-fall collapse of the Yeltsin years.

Putin then did two things: first, to build up the rudiments of a new state, one that can permit business to thrive and destroy oligarchy. He needed a new law code, more centralized structures and an end to regional independence. Second, he was to create a new macroeconomic structure, with strong fiscal and oversight measures. Russia now runs a trade and budget deficit. He then stabilized the currency.

Once economic growth took off, he tried to get as much money out of foreign banks as possible. He first backed big business (for the sake of growth), then shifted more recently to backing smaller business. He then engaged in education and pension reform. He turned Russia to the east, allying with China to cooperate in their tremendous economic growth.

It is easy to forget that all that Putin is "blamed" for was suggested by western elites for Yeltsin. Liberal democracy in the eastern bloc has, without exception, merely been a cover for the most cynical sort of exploitation. In the name of "democracy" the eastern bloc melted into the bank accounts of both foreign and local elites. Warlords developed with private armies that, in the 1990s, were the subject of some journalistic treatment. A Russia in collapse is far more dangerous for the west than anything Putin has dreamed about.

Rationally, the enforced, rehearsed and studied contempt of Putin can only exist because the west had other plans for Russia, as a hinterland for cheap, educated labor and resources. Western collapse is assured precisely because Russia is not prostrate and under the thumb of Exxon-Mobil. Putin will have the last laugh, which, when the smoke clears, is the only real cause of the west's irrational hatred.

Bibliography

- Lazareva, O. et al. A Survey of Corporate Governance in Russia. Moscow, Centre for Economic and Financial Research at New Economic School. Working Paper no. 103, 2007. http://pdc.ceu.hu/archive/00003405/01/survey_of_corporate_governance.pdf
- Mroz, T, L. Henderson, and B.M. Popkin. "Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2004." University of North Carolina at Chapel Hill, North Carolina, 2005: <http://www.cpc.unc.edu/rfms>
- Thompson, W. Putin's Success. The Guardian, June 2003
<http://www.guardian.co.uk/world/2003/jun/08/russia.theworldtodayessays>
- Ledevina, L and Shekshina, S. Doing Business in Russia's Regions. Russia-NIS Center, 2011
http://www.wardhowell.ru/upload/iblock/f06/IFRI_ifriledenevashekshniaengcorruptionrussia_march2011o1w.pdf
- Russian Federation: Selected Issues 2012 International Monetary Fund IMF Country Report No. 12/218
<http://www.imf.org/external/pubs/ft/scr/2012/cr12218.pdf>
- Oliker, O, and T. Paley. Assessing Russia's Decline. The Rand Corporation, 2002
http://www.rand.org/content/dam/rand/pubs/monograph_reports/2007/MR1442.pdf
- Taylor, B. State Building in Putin's Russia: Policing and Coercion After Communism Cambridge University Press, 2011
- Lavelle, P. Putin's "Authoritarianism" vs. the "Commentariat". Commentary, 2004a
<http://www.futurebrief.com/peterlavelle004.asp>
- Lavelle, P. Russia's Economic Future. Commentary, 2004
<http://www.futurebrief.com/peterlavelle.asp>
- Hoffman, D. The Oligarchs: Wealth And Power In The New Russia. Public Affairs Books, 2012 (cf esp ch 12).
- Guriev, S. and Andrei Rachinsky. The Role of Oligarchs in Russian Capitalism. Journal of Economic Perspectives, 19(1), 2005 131-150
<http://pages.nes.ru/sguriev/papers/GurievRachinsky.pdf>
- Kotz, D.M. Russia's Financial Crisis: The Failure of Neoliberalism? Z Magazine, 1998, 28-32
http://people.umass.edu/dmkotz/R_Fin_Crisis_99.pdf
- Graham, Thomas. From Oligarchy to Oligarchy: The Structure of Russia's Ruling Elite. Demokratizatsiya 7(3), 1997 325-340
- Sakwa, R. Putin and the Oligarchs. New Political Economy, 13(2), 2008, 185-191

Bracho, G. The Economic Collapse of Russia. Mexican Foreign Service, 2005
http://www.networkideas.org/featart/nov2005/economic_collapse.pdf

McClintick, D. How Harvard Lost Russia. Institutional Investor, February 2006
<http://www.institutionalinvestor.com/Article/1020662/How-Harvard-lost-Russia.html?ArticleId=1020662&single=true#.UY7bLWG2So>

Goldman, M. Lost Opportunity: Why Economic Reforms in Russia Have Not Worked. Norton, 1994

Goldman, M. The Piratization of Russia: Russian Reform Goes Awry. Rutledge, 2003.

Stiglitz, J.E. Globalization and Its Discontents. Norton, 2003

Rutland, P. Putin's Economic Record. Wesleyan University, CT, 2008
<http://prutland.web.wesleyan.edu/Documents/Putin's%20record.pdf>

Greenwald, Glenn. Larry Summers, Tim Geithner and Wall Street's Ownership of Government. Salon, 2009

Black, Bernard, Reinier Kraakman and Anna Tarassova. Russian Privatization and Corporate Governance: What Went Wrong? John M. Olin Program in Law and Economics Working Paper No. 178, 2009

Finucane, M. Feds Sue Harvard over Russia Advisers. ABC News, 2013
<http://abcnews.go.com/US/story?id=95619&page=1>

Levy, Ari. Summers Joins Andreessen Horowitz as a Part-Time Adviser to Entrepreneurs. Bloomberg, June 2011

Ostrovsky, Arkady. Father to the Oligarchs. Financial Times, 2004

Skeem, JL, Polaschek, DLL, Patrick, CJ, and S Lilienfeld. Psychopathic Personality: Bridging the Gap Between Scientific Evidence and Public Policy. Psychological Science in the Public Interest 12 (3): 95–162

Seward, Z. Harvard To Pay \$26.5 Million in HIID Settlement. Crimson, July 2005

Wedel, J. Who Taught Crony Capitalism to Russia? How Harvard and the 'U.S. Government's Aid Agency became part of the Russian Problem. The Wall Street Journal Europe, March 19, 2001

Leonov, NS. The Way of the Cross: Russia from 1991-2000. Moscow: Russia House, 2002