

Oligarchs and Political Regime Change. A Comparative Perspective

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Abstract

Oligarchs, wealthy business people who use their financial resources to influence politics, are in many countries treated as the “real” decision-makers. While their success in influencing specific policies in favour of their business interests is highly visible, their impact on political regime change is less clear. This analysis describes the different roles that Russian oligarchs have, and could have, played in the country’s political regime developments.

Introduction

The rise of the first Russian oligarchs followed a largely uniform pattern. Building on personal networks from the Soviet system, they used the economic liberalisation of the late 1980s to start business activities mainly in trade and finance. In both cases, big gains were only possible with political support. Regulatory and inspection authorities turned a blind eye to the new entrepreneurs’ activities. The national bank provided preferential credits. State enterprises became clients. (see e.g. Rutland 2001)

Several of the new entrepreneurs used their profits from financial and trading activities to build industrial holdings. They took over state enterprises in the course of the privatisation process and their trading companies exploited their customers’ debts during bankruptcy proceedings, in order to bring them under their control. Here too, state support was indispensable. The privatisation process was in many cases manipulated by the state officials in charge of running them. The bankruptcy proceedings were also frequently steered in favour of the trading companies. (see e.g. Johnson 1997)

State Capture

This extensive rent seeking was only possible in political regimes that gave business people enough leeway for independent action, i.e., which were not fully authoritarian, while at the same time lacking the rule of law. (For a concise overview of post-Soviet cases see Hale 2015, pp. 95–110) The oligarchs’ success in stabilising a political system in which they were largely free from any controls has famously been described as “state capture” by Hellman et al. (2003).

A good conceptualization of the respective political regime is provided by Levitsky and Way (2010, p. 5): “competitive authoritarian regimes are civilian regimes in which formal democratic institutions exist and are widely viewed as the primary means of gaining power, but in which incumbents’ abuse of the state places them at a significant advantage vis-à-vis their opponents. Such

regimes are competitive in that opposition parties use democratic institutions to contest seriously for power, but they are not democratic because the playing field is heavily skewed in favour of incumbents. Competition is thus real but unfair.”

Oligarchs can play an important role in such a system, as they can help the ruling political elite create the uneven playing field. When Boris Yeltsin won the presidential elections in 1996, although his public trust ratings had usually been in single digits in the two years prior to the election, his victory was largely attributed to the oligarchs’ financial support and control over media reporting. In turn, the oligarchs received preferential treatment in privatisation auctions organised in the years before and after the election. In most cases, the bank of a favoured oligarch was awarded the task of organising the auction, which allowed it to disqualify rival bidders and sell big companies in the resource sector to a holding company controlled by the respective oligarch. In 1995 average prices paid equalled less than two years’ profits of the respective companies. (see e.g. Pleines 2000, Schröder 1999).

In his second term, Yeltsin was weakened by serious personal health problems, as well as the country’s economic crisis. On the one hand, this meant that oligarchs gained even more power, leading to popular talk about the “reign of the seven bankers” in reference to the seven most influential plutocrats. On the other hand, no one expected this system to last beyond the end of Yeltsin’s time in office. In the final years of the Yeltsin presidency, oligarchs as well as members of the political elites, e.g., regional governors, began to position themselves for a change in power.

Three Scenarios

Concerning the impact of oligarchs on Russia’s political regime, three developments seemed possible at the time. The most discussed was the role of oligarchs as power brokers. The political camp that was able to ensure support from the most important oligarchs was supposed

to win, as had happened with Yeltsin in 1996. At the same time, oligarchs who had sided with a losing candidate were likely to switch camps. In such a case, oligarchs, when trying to pick the winner of future power struggles, act as catalysts. The more obvious the winner becomes, the more oligarchs join his camp, thus speeding up his victory.

This scenario later characterized Ukraine. A telling indicator of the flexibility of Ukraine's oligarchs is their political affiliation in the national parliament. After each presidential election since 2000, each being won by an oppositional candidate to the previous incumbent, oligarchs have helped to engineer a parliamentary majority for the winner, switching sides regularly. (Pleines 2016, p.121)

A second scenario that could have played out in Russia at the end of Yeltsin's presidency, was a more direct takeover of political power by an oligarch. Boris Berezovsky, for example, one of the leading oligarchs at the time, clearly had political ambitions. He had been deputy secretary of Russia's National Security Council for a short time and was a candidate in the 1999 national parliamentary elections.

The scenario of an oligarch taking over power on his own initiative (and not as in the case of Ukraine after 2014 as part of a winning coalition) has played out in Georgia and Moldova. In Georgia, Bidzina Ivanishvili, the only Georgian who has been included on the Forbes list of billionaires to date, founded the oppositional Georgian Dream party in 2012, which won the parliamentary elections in the same year. Though for most of the time not formally in charge, Ivanishvili clearly has been dominating Georgian politics since then, e.g. forcing the government to resign in 2018 (see Pleines 2019). In Moldova, Vlad Plahotniuc, who had acquired four of five national TV stations, managed to form a broad coalition of political parties. Although his official positions—parliamentary deputy from 2010 to 2013 and again from 2014 to 2015—looked minor, he in fact indirectly controlled the government through his position as leader of the Democratic Party (Cașus 2016).

In both scenarios, oligarchs were powerful enough to prevent any big political regime change, ensuring that weak controls and their own state capture continued without any challenges from rule of law or authoritarian repression.

It is important to understand that in cases where oligarchs play an independent role in politics, they have never pro-actively promoted full democratization. Even when faced with public pressure, as e.g. in Ukraine, they have continued to manipulate politics and prevent the rule of law from applying to them. Only in two historic cases, the US robber barons of the late 19th century and

the South Korean chaebols of the late 20th century, did a combination of public pressure, investigative journalism and judicial independence over the course of several decades force independent oligarchs to integrate into a fully democratic system. (For an overview of historic cases see Pleines 2019.)

What, however, happened in Russia in 2000 was a different scenario which surprised most observers. Instead of dominating politics, oligarchs were told by the newly elected president, Vladimir Putin, that “the state has a stick” and that they should subordinate to the “vertical of power”.

Authoritarian Consolidation

Immediately after his election, Putin moved against business magnates with control over important mass media outlets, namely Boris Berezovsky and Vladimir Gusinsky. Oligarchs who challenged Putin politically, most prominently Mikhail Khodorkovsky, were also neutralized with the help of manipulated judicial proceedings. These oligarchs lost their core business assets and were forced into exile (see e.g. Barnes 2003, Monday 2017). Braguinsky (2009, p. 346) finds that “more than half of the postcommunist oligarchs who rose to prominence during the Yeltsin era did not survive in the ranks of the oligarchy until 2006.”

However, this development did not lead to the disappearance of oligarchs in Russia. On the contrary, according to the annual lists of the world's billionaires compiled by the Forbes magazine, the number of Russian billionaires more than tripled during Putin's second term (2004–08). It fell drastically in the wake of the international financial crisis, which hit Russia hard; however, it soon stabilized at approximately 100.

This is a typical phenomenon when a political regime dominated by oligarchs goes through authoritarian consolidation. Similar developments could be observed in Venezuela under Hugo Chavez and currently in Turkey under Recep Erdoğan. In order to counterbalance the old oligarchs new loyal ones are promoted, who depend fully on the increasingly autocratic ruler. When old oligarchs are expropriated, their assets are often transferred to the new loyal ones. The resulting system has been called “business capture” by Russian analysts, as the balance of power has been reversed from the old state capture (Yakovlev 2006).

Hale (2015) gives a fuller picture of such a constellation arguing that “in post-Soviet Eurasia, networks rooted in three broad sets of collective actors typically constitute the most important building blocks of the political system, the moving parts in its regime dynamics: (1) local political machines that emerged from reforms of the early 1990s, (2) giant politicised

corporate conglomerates, (3) various branches of the state that are rich either in cash or in coercive capacity. Whoever controls these bosses, “oligarchs”, and officials controls the country. [...] Understanding that this is the way politics works, the country’s machine bosses, oligarchs, and officials have a strong incentive to fall into line or, even better, to get on the chief executive’s good side by proactively working in his or her interest. [...] The recent political history of almost every post-Soviet country, therefore, has included the creation of a single pyramid of authority, a giant political machine based on selectively applied coercion and reward, on individualized favour and punishment.”

Outlook

In such a system, oligarchs become an integral part of the ruling political elites. They can still influence political decisions in their favour, but they are no longer in a position to dominate politics or to impact on political

regime change. Levitsky and Way (2010, p. 212) characterize the resulting situation with a quote from an Armenian legislator who claimed, “you cannot be a leader of an opposition party and have a businessman as a partner—he would be eliminated as a businessman.”

However, as last year’s successful pro-democracy protests in Armenia have shown, oligarchs who have been fully incorporated into the ruling clientelist system are no longer in a position to independently object to political regime change. From Taiwan and Mexico in the late 20th century to Armenia and Malaysia last year, oligarchs without an independent role in politics have moved along with democratization attempts from above as well as from below, remaining largely invisible.

For the Russian case this implies that should there be an attempt at democratization in the future, with oligarchs now tightly integrated into the ruling elites, they are most likely no longer a force to reckon with.

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