



# Putin and the Oligarch

## The Khodorkovsky –Yukos Affair

Richard Sakwa

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The 1990s collapse and dismantling of the communist system in the Union of Soviet Socialist Republics (USSR) produced new sovereign and independent states. Russia experienced a combination of continuity, instability and uncertainty as it went through its transition. The evolving new governance model led by the perestroika and glasnost policies of Mikhail Gorbachev spurred a process towards parliamentary democracy and capitalism, though lacking clarity and fraught with contradictions and inconsistencies.

Richard Sakwa in *Putin and the Oligarch: The Khodorkovsky–Yukos Affair* provides an evidence-based analysis of a corrupt and dangerous political, economic and social oligarchy with the support of security machinery. They reduced the role of society, state and its institutions to mere properties, platforms and instruments of capital accumulation. The Russian state, Sakwa claims, was polarised between dangerous and powerful forces. To be successful, states require a rule-bound system of formal and informal

rules and institutions that comprise predictability and effectiveness of law and order as well as checks and balances across various components of society. These include the judicial system, protection of public goods and property, openness and transparency on the part of public administration and its role in state-market regulations, and the level of error, fraud and corruption.

Sakwa shows that the Russian transition to democracy was beset by multiple sets of rules, formal and not articulated and supported by competing interest-holders that pervade relations between state, society and the vicious battle for access to capital resources. Powerful networks formed corrupt and collusive relations that influenced the crafting of laws, regulations, rules and decrees of state institutions and compromised propriety (Plaatjies, 2013), creating conditions for rampant fraud and corruption. This transition from communism to parliamentary democracy and capitalism, given the instability and discontinuity in parts of the Russian society, led to

contradictions and contesting interests in consolidating power in the state. Many state institutions such as the bureaucracy, military, intelligence and secret police continued in weakened forms the consequence of which was to provide functionaries inside the state and opportunists inside and outside state enterprises to seize state assets in the uncoordinated transition.

State-owned enterprises are the driving forces of the Russian state-economy given their comprehensive hold of natural resources such as within the oil and fuel industry. During the transition, the political support of the state bureaucracy was critical in all its forms. These conditions created fertile ground for seizure of state assets by at least seven oligarchs to control around 50% of the Russian economy. In fact, Mikhail Khodorkovsky confirms in Sakwa (2015) that “[p]olitics is the most lucrative field of business in Russia. And it will be this way forever.” During the 1990s to early 2000s a parallel corporatist state emerged with powerful economic assets and interests such as control of the oil industry. Together with the support >>

of political elites and kleptocrats, this corporatist state gained control of the levers of the state. The transitional state of Russia was captured. These elites with full state security support, controlled vast economic assets which had serious implications for economic and fiscal resource management. At a macroeconomic level, the new oligarchy, given their large bribery and corrupting influence, were able to exercise direct and indirect power over the structures of government and its business dealings. This included public policies, decisions on access to and distribution of state assets. The power of politics and broader uncertainty in the interaction of the economic and political system during Boris Yeltsin's regime were motive forces of un-coordination and imperfect economic policy shifts from state-controlled, centralised decision-making and resource allocation to market-driven, decentralised decision-making and resource allocation. Undoubtedly, markets and industries in Russia's transition needed strong political control and legal support from state institutions to protect properties and competition. However, given the chaos that emerged and the instability in all facets of Russian society, some of the consequences were conditions for rising corruption, rampant fraud and crime. The economic consequences to transition also led to high social costs to society, deepening poverty levels and disintegration of social protection systems.

The transition through political, economic and social reforms, overlaid by the corrupt relationships between political, economic and social elites within the government and business, took place in conditions of instability. The processes of accumulation and concentration of wealth among the oligarchs contributed to an environment of greed and corruption



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and efforts by corporations to avoid tax liabilities through under reporting of business and financial transactions. The oligarchs and state officials used the collapse of the communist system to benefit from distorted state regulations such as multiple exchange rates, multiple prices, rent-seeking rewards of subsidised credits, export and import subsidies. The transition bred racketeering, an arbitrary tax system and unregulated and nepotistic licensing of businesses and tax dodging.

Mikhail Khodorkovsky and his Yukos Corporation emerged as the central protagonist of privatisation through auctions and shares for loans of state assets. The imperfect transition, with an absence of rules as it moved from communism to capitalism, spurred the stripping of state asset rather than wealth creation

and redistribution of economic resources. Putin cracked down on Khodorkovsky, Chief Executive Officer and main owner of Yukos Oil, Russia's most valuable company. Khodorkovsky was imprisoned on charges of tax evasion exceeding billions of US dollars, allegedly after backing Putin's political opponents. There are also claims that Putin's associates and Yukos adversaries wanted Yukos' wealth, which was confiscated by the state oil company through dubious taxation, leaving Putin's tax reform and judicial reform in tatters and severely undermining property rights. Following his arrest, the state also seized and unbundled the Yukos' assets, including several other private-owned companies.

The close and incestuous relationships between the new captains of industry and the state bureaucracy have successfully trumped the law. Moreover, those in charge of the Russian transition, actively exploited gaps in the ambiguity, uncertainty and absence of clarity of a constitutional and regulatory framework for transition, thereby favouring private and personal interests over the public goods and interests. This book is a powerful exposition of corruption of state assets and institutions, rugged competition and conflict of interests – political, economic and social – and the networks of capital linking the concentration of natural resources and wealth, financial markets and state-owned enterprises in the transition from communism to capitalism. Through historic and regional state networks, Sakwa shows how Putin has used the state machinery to forcefully remove all corruptly acquired assets from Mikhail Khodorkovsky and his Yukos Corporation, but also to push all opposition into absolute silence and nothingness. Riveting! [NA](#)