How Russia Is Ruled

David Remnick


1.

If we have learned anything from the strange and epic story of Boris Nikolayevich Yeltsin these past ten years it is that no tsar is hero to his bodyguard. Or not for long, anyway. We know this because, in the new tradition of Russian politics, the bodyguard in question has written a marvelously venomous memoir that seems truthful in spirit, if not in every fact.

Aleksandr Korzhakov was working in the Ninth Directorate of the KGB when he was assigned in 1986 to guard a new Politburo member named Yeltsin who had just come to Moscow from the Urals. Korzhakov had no doubt of his abilities. He is a prideful man, proud of his training and physical capacities. He informs us that among his many skills as a guard is his ability to work an entire day without leave to visit a bathroom. Nor does Korzhakov betray any awe or illusions in the face of Communist Party satraps and big shots, the “ideal men” who traipse along the red and green runner carpets of the Kremlin halls. He recalls an earlier employment in which he was assigned to one Central Committeeman who took him along on his constitutionals. On one such walk, Korzhakov tells us gravely, his charge “began breaking wind loudly. I felt so uncomfortable that I was ready to fall through the ground, though the ‘ideal’ man felt perfectly at ease.”

And so it was that Korzhakov was well prepared for Boris Yeltsin, a provincial chieftain from Sverdlovsk equipped with the high-handed manners of a “genuine Communist Party despot.” Yeltsin, whose background was in construction, behaved rather like a king, though one with an especially keen knowledge of joists, foundations, and reinforced concrete. Yeltsin had spent his career building things. (As it happens, his most famous job was a demolition. He leveled the Ipatiev House, where the Romanov family spent its last days; the Kremlin had not wanted the house to become a shrine for monarchist pilgrims.) Yeltsin was gruff, energetic, impulsive. Like all Soviet leaders, he told his interviewers that he read classical and contemporary literature. One doubts it very much. In the mid-1980s he was not, as Gorbachev was, intellectually curious; he never allowed himself, as Gorbachev did, to be bewildered by his surroundings, by the absurdity of Soviet political life, until perestroika was well underway. That all came later. Yeltsin ran a tight ship in Sverdlovsk and was promoted to Moscow Party chief because of it. He was a traditionalist, even at home. When Yeltsin returned to his apartment every evening, his wife, Naina, and his daughters ran to the door to greet him; they took his shoes off for him and treated him as he had been treated all day by the ministers and subministers of the Party.

As Yeltsin’s powers increased, as he moved, in the course of a decade, from Politburo member to folk hero to imperial wrecker to Russian president, as his health declined and he no longer felt
the urgent need to appear very much on television or in the papers, he began to behave very much like a tsar. His great achievements behind him, Yeltsin became more and more isolated and withdrawn from public life, more dependent on a very few aides. Those same aides came to refer to him, alternately, as “The Boss” and “Tsar Boris.” Yeltsin was meant to overhear these epithets as tribute and enjoy them.

But even while Yeltsin had been bestowed with the title of a Romanov, he acted rather more like the captain of the Bensonhurst Democratic Party clubhouse. From Korzhakov’s memoirs, one gets the sense that by 1994 or so running the country ran a distant second to the more serious business of recreation: boozy swims in the Black Sea, boozy deer shoots in Zavidovo, and tennis—lots and lots of tennis. It is, as Mel Brooks says, good to be the king. At times, Yeltsin could even be a cruel king. At one point he hired a press secretary named Vyacheslav Kostikov, whom he came to despise and treat with pitiless disdain. (Korzhakov takes vengeance on Kostikov by mocking his “blue,” or gay, staffers and their “homosexual Orgies.”) Once, on a trip to Krasnoyarsk, Yeltsin and his advisers took a river cruise and, just for the hell of it, Yeltsin, well-lubricated by this time, shouted, “Kostikov overboard!” Three members of the entourage promptly hoisted the press secretary over the rail and tossed him into the frigid river water, where he almost froze to death. Thus baptized, Kostikov was soon reassigned to be ambassador to the Holy See.

According to Korzhakov Yeltsin loves a good time. He is, it appears, a musically minded tsar. He is fond of traditional Russian drinking songs, though he is only good for a line or two of “Kalinka-malinka.” He is more of an instrumentalist. “Yeltsin’s sense of rhythm was good and he was a good player on the spoons,” Korzhakov writes. “Even on official trips, he would demand, ‘Bring spoons!’ Yeltsin was born in the village of Butka where playing spoons must have been prestigious.” Yeltsin’s favorite trick was to play knick-knack-paddy-whack with his spoons on the head of Yuri Zagaitov, the chief of the President’s administrative department. “At first the boss would beat on his leg, as is normally done, and then he beat loudly on the head of his subordinate. The latter did not dare to take offense and smiled affectedly. The audience burst out laughing.” On one occasion, Yeltsin took aside the president of one of the former Soviet states, Askar Akayev of Kyrgyzstan, and played the spoons on his head. As Korzhakov writes, “He could torture one to death with this musical instrument.”

Yeltsin’s international prestige drooped in the mid-1990s after the assault on the Russian parliament and the war in Chechnya. He became increasingly depressed. There was less spoon-playing, more drinking. He talked about resigning. He was constantly telling his chief of staff, Viktor Ilyushin, to stop bringing him “all that shit,” meaning his paperwork. He came to resent the imprecations of the precious few intellectuals in the street and in the press who were protesting the carnage in Chechnya. Yeltsin had started out his Moscow career as a reformer surrounded by intellectuals—he courted Sakharov intensely, he brought young academics into the Kremlin—but that was all in the past. He referred to one of his more liberal advisers, Sergei Filatov, as “a man who looks as if he has two flies fucking in his mouth.” Even losing at doubles in tennis would send Yeltsin into a funk, and so his faithful bodyguard, Korzhakov, always made sure that the President was paired with a professional.
For ten years, Korzhakov could not have been more loyal to Yeltsin. When Yeltsin was fired from the Politburo in 1987, Korzhakov stayed with him and even drove him around town in his own car, a tuna can-size Neva. He was with Yeltsin on top of the tank when they faced down the coup in August 1991 and he was with him when they faced a dozen crises thereafter. Like mafia blood brothers they sliced open their arms and mixed together their vital bodily fluids—not once, but twice. We do not need to take Korzhakov’s word for this; Yeltsin, in his own memoirs, praises Korzhakov as he does no other aide. He admits that during one depressed moment—a stormy confrontation with the parliament—he almost committed suicide-by-sauna; it was Korzhakov who came to the rescue, tearing open the door and pulling Yeltsin out before he was parboiled.

It was Korzhakov who came to the rescue when Yeltsin was mysteriously thrown into a river outside Moscow and was dragged to a guardhouse, where he sat waiting, and weeping, on the cold floor. Korzhakov stripped the president to his underwear, wrapped him in a blanket, fed him sips of moonshine, and then rubbed the warming booze all over the presidential corpus. “It worked beautifully.”

It was Korzhakov who organized the construction of a luxury apartment building for Yeltsin and his favorite aides on the southwestern edge of Moscow. Yeltsin had long since jettisoned his populist “campaign against privileges” and fallen deeply in love with the perquisites of power. “He also didn’t want to have to run into Gorbachev in the elevator,” Korzhakov explains.

When a subordinate came running from the presidential office yelling, “What should I do? Boris Nikolayevich gave me a hundred-dollar bill and told me to go fetch a bottle,” it was Korzhakov who calmly cracked open his secret supply of watered-down vodka supplied especially for this purpose by the Department of the Interior. (“To give him no vodka at all was, alas, not an option.”) When Yeltsin, bombed on beer, spilled coffee all over himself in the car on the way to see Helmut Kohl in Berlin, it was Korzhakov who helped him into the extra suit on hand for just such occasions. Poor Korzhakov. “Even after he got strict doctor’s orders not to drink,” he writes, “Naina continued to give her husband cognac. Yeltsin always knew how to get around my ban. If he really needed a drink, he would invite in one of his most trusted friends for ‘an audience.’”

Korzhakov has two obsessions in his memoir. The first is to portray Yeltsin’s deterioration. The second is furniture—couches in particular. There is more furniture in From Dawn to Dusk than there is in the Ethan Allen catalog. Korzhakov remembers the first sofa his family ever had—he was five years old—and in his life each new piece of furniture becomes a measure of his increasing status. His rise in the secret services really began in 1978, “the year we bought an Arab bed.” He takes the measure of Yeltsin’s former defense minister, Pavel Grachev, noting that he once “bought a truly gigantic sofa for his new apartment. It could not be brought in through the door and so soldiers had to bring it in by ropes through the balcony.”

When Korzhakov goes with Yeltsin to Helmut Kohl’s house, he notes sadly, “To be honest I expected to see expensive furniture. But there was no real luxury.” At Camp David “the modesty and plainness of the main residence flung me into a depression.” And even the White House is insufficiently furnished and far too cramped: “It was too old and, according to Russian standards,
too small for the President.” The only time Korzhakov seems truly impressed with his charge’s antagonist, Mikhail Gorbachev, is when he takes note of his well-equipped bathroom (“a bath, a toilet, a bidet…”) and his unimaginably plush French couches. “Not to be believed,” Korzhakov remarks.

Korzhakov’s intimacy with the furniture of power and the man with the biggest couches of all came to an end in June 1996, when Yeltsin fired him in the midst of his reelection campaign. This was inevitable. Yeltsin’s management style has always been to pit one adviser against the other, jettisoning them all over time. (Which is partly why he ended up so close to his bodyguard in the first place.) Korzhakov, who had been encouraging Yeltsin to postpone the elections, was at war with the barons of private business who were bankrolling the campaign and hoping to keep their man in power. These same businessmen thought that Korzhakov held a preposterously powerful position, and that he was influencing Yeltsin to jettison his most reformist advisers. They also believed he was hurting the campaign with his ignorance of retail politics.

Korzhakov blames Yeltsin’s two key advisers—his daughter Tatyana Dyachenko and the first deputy prime minister, Anatoly Chubais—for risking the life of the President merely to keep him in office. At one point, in the southern city of Rostov, Tatyana encouraged her father to go out on stage and dance with a rock band that had been engaged to play a campaign benefit. (Who can forget the subsequent photographs of Tsar Boris snapping his fingers and doin’ the Funky Monkey?) “We just prayed that the candidate would not drop dead right on the stage before the shocked eyes of the Rostov public,” Korzhakov writes.

“What are you doing with your father?” he asked Tatyana.

“Sasha, you don’t understand anything!” she cried.

Finally, Korzhakov overplayed his hand. His men arrested a couple of Chubais’s assistants as they were leaving the government administration building with a box stuffed with $500,000. Korzhakov claimed the money was illegal. Chubais claimed Korzhakov had no business meddling in such affairs. They charged that Korzhakov had become Yeltsin’s Rasputin, powerful well beyond his job description. Clearly both sides were playing politics and trying to force a razborka—a showdown. Yeltsin had to choose. It was an easy call. He needed the money. He needed those businessmen and their political representative, Chubais. He could no longer make the pleasures of the sauna his first priority. Suddenly, a poorly educated bodyguard was expendable. And so it came to be that the most loyal of men signed a book contract promising to tell all.

2.

Korzhakov’s memoirs promise intimacy and, on some level, they do deliver. There are no fewer than six color photographs of the President of the Russian Federation wearing a tiny Speedo bathing suit. Yeltsin has the coloring of a mushroom and the belly of a hippo; if Korzhakov meant to discredit Yeltsin as candidate for the Mr. Universe title, then he has been quite effective.
But, in fact, Korzhakov tells his readers very little that they did not know already. Russians have long understood that their president has a drinking problem and an imperfect physique. The man could be played in the movies by Wallace Beery or Broderick Crawford. And ever since the full press coverage of his multiple-bypass operation after the election, they have also known of his precarious health. The people are, in short, well-informed on the peccadilloes and weaknesses of their president.

“Strangely enough,” writes Aleksandr Pumpyansky, the editor of *New Times*, the people “not only understand but also forgive their drinking leader, swearing and cursing him nevertheless. Reagan was called a Teflon president because all his mistakes were forgiven him. Similarly, Yeltsin’s pranks do not cling to him, going like water off a duck’s back. One can only guess why. He is far from an ideal ruler—our people do not tolerate ideal rulers. He is bone of the bone and flesh of the flesh of his nation, and the whole set of the nation’s weaknesses and inclinations can be read in his face. No doubt, he has played enough pranks in his life, but he has also had enough trouble and enemies, with whom he did away so deftly, and the demon rum is far from the most dangerous of them.”

The average Russian, Pumpyansky is pointing out, is himself quite familiar with the bottle, does not expect to live as long as they do in the West, and sees himself as long-suffering. And so it is not this collection of Russian traits that threatens Yeltsin in his quest for a decent place in history.

For the more profound argument against Yeltsin, we might turn away from the likes of *From Dawn to Dusk* and to *The Russian Intelligentsia*, a series of lectures given at Columbia University by the great novelist and critic Andrei Sinyavsky shortly before his death last year.

Sinyavsky’s bona fides, of course, are on a far higher plane than Korzhakov’s. He was born in 1925, served in the Soviet army during the war against Germany, and, by the 1950s, began writing essays critical of the reigning aesthetic of socialist realism, “a phantasmagoric art with hypotheses instead of a purpose.” Sinyavsky adopted the pseudonym Abram Tertz, borrowed from Abrashka Tertz, a Jewish outlaw bandit celebrated in the folk songs of Odessa. Like Pasternak before him, Sinyavsky attracted the notice of the Kremlin authorities when he began publishing his fiction and essays abroad. In October 1965, he was arrested along with his friend, the writer Yuli Daniel, who was publishing abroad under the name Nikolai Arzhak. Sinyavsky and Daniel’s four-day trial in Moscow in 1966—along with Joseph Brodsky’s trial in 1964 in Leningrad—marked the reestablishment of Stalinism in both the arts and society after the all-too-brief period of thaw. But unlike the Stalinist show trials of the Thirties, Sinyavsky and Daniel, as well as Brodsky, improvised remarkable defenses, the transcripts of which became *samizdat* classics.

The verdict, of course, was never in doubt. Sinyavsky and Daniel were found guilty of “anti-Soviet agitation” under the notorious Article 70 of the penal code and shipped off to Dubrovlag, an island of the gulag archipelago in Mordovia. During his sentence to hard labor, Sinyavsky managed to write two masterworks, *A Voice from the Chorus*, a kind of pastiche memoir fashioned out of his letters home to his wife, and *Strolls with Pushkin*, an irreverent portrait of the great Russian literary demigod, which, when it was published in Moscow during the
perestroika years, came as a far greater shock to many intellectuals than any work of Solzhenitsyn, Orwell, or Grossman. Sinyavsky emigrated to France in 1973, where he wrote, taught at the Sorbonne, and was active in émigré polemics and literary magazines.

In view of Sinyavsky’s literary achievement, as well as his reputation for honesty and courage, it is not easy to challenge his judgments about contemporary Russia. But they are deeply flawed judgments based on surprisingly erratic observation.

The core argument of Sinyavsky’s three lectures is that since 1991 the Russian intelligentsia has abdicated its traditional role of opposition to power and has instead adopted a sickening affection for Yeltsin that resembles nothing less than the intelligentsia’s capitulation to Stalin in the Thirties. At the same time, Sinyavsky argues, the same intellectuals who roundly mocked Gorbachev for his errors now forgive Yeltsin’s far greater errors—especially the Draconian market reforms of 1992 devised by the economist Yegor Gaidar, the violent assault on parliament in October 1993, and the war waged against Chechnya in 1995. Sinyavsky draws an acid caricature of contemporary Russian intellectuals as a tribe thoroughly divorced from reality, as artists, writers, and scholars who are so grateful for their new freedoms and opportunities to travel abroad that they disdain “the people” and their complaints of poverty as hopelessly retrograde. Using a phrase from Nikolai Nekrasov’s Elegy, Sinyavsky asks, “Why in the past did the intelligentsia pity the people, sympathize with them, declare ‘I dedicated my lyre to the people,’ but now tremble? What happened?”

Sinyavsky spent the last twenty-four years of his life living in France and not speaking much French; like so many older literary émigrés, he concentrated on his books and on learning what he could of home from Russian-language radio broadcasts, newspaper clippings, and other sources. Writing of his life both inside the Soviet Union and then in France, Sinyavsky tells his audience at Columbia, “Before perestroika, I had a wonderful life. The Soviet regime seemed unshakable. It was possible to clash with it and to end up in prison, as had happened to me. It was possible to thumb one’s nose at it behind its back, as many intellectuals did. It was possible to adapt to it—and even to love it. In a purely abstract sense, I understood that at some point it would collapse, perhaps in a hundred or two hundred years, but I did not think I would live to see that. There was no hope of that, nor could there have been any such hope. Instead, there was stability.” Sinyavsky is being partly ironic, of course—his arrest and imprisonment were hardly “wonderful.” And yet I think he is absolutely sincere about his sense of stability; almost no one expected anything like the cataclysm of 1991 and no one at all was prepared for the shock, the pleasures, the disorientation, and the tragedies it would bring.

In the summer of 1992, Sinyavsky went to “Gaidar’s Moscow” and, to his horror, discovered a new world of beggars and dirt, widows selling off the contents of their closets. “We had the feeling that we had returned to the wartime years of our youth,” he writes. “History was repeating itself.” When his fellow intellectuals told him that every country in the West had poverty and crime, Sinyavsky would not accept it. “I am not an economist,” he writes. “If you ask me what a monetary system is, I answer that I don’t know. The International Monetary Fund? I don’t know about that either. But I do know that economics—perhaps more than any other area of human activity—must be based on common sense.” And common sense, he adds,
does not entail workers being paid in sanitary napkins or vodka or bras or newborn calves—all legal tender, at times and in various places, in modern Russia.

One can—and must—understand Sinyavsky’s despair. The collapse of communism was soon followed by industrial collapse, rising crime, rising mortality rates, disappearing funding for the arts and sciences, and, perhaps worst of all, the increasing violence and imperious isolation of central power. One can argue about the economic policies of 1992, but not about the Kremlin’s indifference to corruption and bloodshed.

And yet, Sinyavsky’s understanding of the Russian transition is curiously incomplete. In his book there is no sense at all that every country in the East has experienced to one degree or another many of the same ills—the organized crime, the economic uncertainty—that Russia has. Considering the degree of calcification in the Soviet Union compared to Poland or the Czech Republic, considering the degree of economic, social, and political pathology experienced in Russia since 1917, it is only natural that the transition would be so much more painful and long-lasting. There is also little mention in Sinyavsky’s lectures of even the partial freedoms that have been won: the freedom of worship and expression, the irreversible dismantling of the command economy, the end of an imperial and hostile foreign policy, the sense of promise among millions of young people. Sinyavsky fails to note the seeds of entrepreneurship in the cities, the openness to useful Western influences even in the deepest provinces.

Sinyavsky’s is an analysis based on emotion, conspicuous omission, disorientation, and anecdote. He writes of newspapers and political parties being shut down after the October 1993 crisis, but does not care to remind the reader that they were all quickly reopened and reactivated. He writes of street beggars but fails to remind his American audience that the Soviet Union in its waning years was already a landscape of poverty, a region of terrible infant mortality rates, rural collapse, rampant alcoholism, overburdened and insufficient health care facilities, and on and on. Sinyavsky seems to give the impression that a purely benevolent Gorbachev, whom he rightly admires, unleashed perestroika *in order* to publish censored books and to screen unseen films. He did not. Glasnost, the policy of openness in the arts and sciences, was a deliberate means of encouraging the intelligentsia to join the world and work for *obnovleniye*—the renewal of the Communist system. Yeltsin can be criticized for his inadequate response to corruption, but he must also be given credit for encouraging foreign investment, the rise of normal market mechanisms, the privatization of state enterprises, and a reversal of initially enormous inflation rates.

Sinyavsky’s most wounding charge, that the intelligentsia has behaved miserably, is as anecdotal and errant as his economics. “Once again the flower of the Russian intelligentsia went over to the authorities, supporting Gaidar’s looting and Yeltsin’s firing on the White House, chanting: ‘Right on, Boria! Give it to them Boria, go to it, Boria! Crush our enemies!’” he writes. “No one thinks of what our children and grandchildren will say or whether they will be ashamed of us. Our times are interesting because they are so ironically congruent with our unhappy past.”

He condemns such intellectuals as Sergei Averintsev, Bulat Okhudzhava, Bella Akhmadulina, and Marietta Chudakova for signing letters in support of Yeltsin during the October crisis. Never once does Sinyavsky mention that the “parliamentarians” who precipitated the October crisis
amended the constitution hundreds of times as part of a political battle waged against Yeltsin. Nor does he mention repeated rejections at a political settlement or, worst of all, the leader of the insurrection, Aleksandr Rutskoi (Yeltsin’s former vice-president), calling on armed crowds to capture key buildings around Moscow. Sinyavsky says that the intellectuals have failed to point out the fall in living standards among ordinary people. “This reminded me of the beginning of the 1930s when the intelligentsia closed its eyes to the horrendous famines and disasters in the villages and maintained its silence.”

There are undoubtedly a few intellectuals in contemporary Russia who have made fools of themselves, who sold themselves out simply “to clink glasses” with Yeltsin at a Kremlin reception. And in the October crisis there were some whose fury led them to bloody rhetoric. But to compare Yeltsin to Stalin? To compare monetary reform to Stalin’s artificially induced famines, his slaughter of the peasantry? To say that the intelligentsia has kept silent on poverty?

And yet the most astonishing statement in Sinyavsky’s book is this:

The democrats have let their opportunity slip. I don’t like the Communists, but they are better for the people than the democrats. It is not fortuitous that the very word democrat has been compromised and that people call democrats ‘demo-thieves.’ Democracy is associated with poverty, theft, corruption, and other horrors. Against that background the Communists look wonderful.

Sinyavsky could not have met the current leadership of the Communist Party and made that statement; they are much like the old leadership, but dumber, less competent. The cream of the Party has long since left to set up businesses. All the real supporters of the Gorbachev reforms, the reforms Sinyavsky so much admires, abandoned the Communist Party before its collapse or soon thereafter. What’s left are the true believers, the cranks. Sinyavsky rightly points out that Yeltsin has failed to deliver on his promise of erecting a European model of civilization, but what was he thinking when he said that “everything in Russia is being done the way things were done in Uganda under President Idi Amin”?

3.

Both Korzhakov’s and Sinyavsky’s critiques are insufficient—Korzhakov’s because it is limited to personal anecdote and the dorsal vantage point of the bodyguard, Sinyavsky’s because it is limited to economic anecdote and a kind of intellectual version of sensationalism.

Yet even as contemporary Russia fades from the front pages and becomes a gigantic developing nation with nuclear weapons, there is a serious critique to be made. It is true that Yeltsin’s commitment to democracy is, as one of his former chiefs of staff Gennady Burbulis, once told me, “purely situational.” He is a democrat when it suits him. Happily, democratic means often appealed to him between 1988 and 1992: the result was the dissolution of communism and the imperial Soviet state. But had Yeltsin believed in 1996 that he had no chance to win the elections, he would surely have postponed the balloting indefinitely.
The present Russian constitution allows a president only two terms in office, but I am not at all sure that Yeltsin, despite his health, will retire gracefully. Will he once more come to believe that he, and only he, can save Russia? Will he try to amend the constitution to allow for a third try in the year 2000? Those are questions Russians are asking now in advance of the next campaign.

But to concentrate too much on Yeltsin himself is to overlook the structures of power, property, and influence that are taking hold in Russia today. Constitutionally, the Russian presidency is enormously powerful, far more so than the American office, but, in fact, the most powerful men in the country today are seven business barons—”the seven boyars,” “the Magnificent Seven”—who own nearly the entire news media and a fantastic proportion of the national wealth. These boyars are not mentioned at all in Sinyavsky’s lectures, and yet they are at the core of the “crony capitalism” that now dominates Russian public life.

The seven men are: Boris Berezovsky of Logovaz (automobiles, television, oil); Mikhail Friedman of the Alfa Group (oil, tea, sugar, cement); Mikhail Khodorkovsky of Ros-Prom (banking, oil); Vladimir Gusinsky of Media-Most Group (television, newspapers, banking, real estate); Mikhail Smolensky of SBS-Agro (banking); Vladimir Potanin of Uneximbank (banking, real estate, oil and gas, media, ferrous metals); Vladimir Vinogradov of Inkombank (banking, metals, oil). Other imperial beachheads include Gazprom, the country’s immense natural gas conglomerate, which has Prime Minister Viktor Chernomyrdin as its patron, and various regional potentates, including Yuri Luzhkov, the mayor of Moscow.

The ascent of this oligarchy began with the collapse of the old system and the legalization of commercial banking in 1988, but really accelerated in 1995 when Yeltsin instituted a “loans for shares” privatization scheme whereby the new breed of Russian bankers, who had made their initial fortunes by speculating on the international currency markets at a time of runaway inflation, could make loans to the cash-starved state. The state could not pay back the loans and instead allowed the bankers to participate in rigged insider auctions for some of the most valuable industrial properties in the country. Although Russian manufacturing is in a sorry state, the country’s natural resources—its oil and natural gas, its precious metals and minerals—represent a vast Klondike. The bankers were pleased to be picking up these bargains; and Yeltsin was pleased to give out the bargains to friendly bankers rather than to the provincial industrialists who backed the Communists. And the bargains! It was like shopping for conglomerates at Filene’s Basement. Berezovsky, for example, paid $100 million for Sibneft, the Siberian oil giant; Western investors, who were going to join in with Berezovsky on the deal, backed out because they were nervous that Yeltsin might be voted out of office. After Yeltsin won, Berezovsky claimed he was offered a billion dollars for the property. Khodorkovsky bought three quarters of Yukos Oil for $168 million; annual revenues for Yukos are now around $3 billion.

The various empires resemble one another in that they always have a political patron, a series of media outlets to protect their business and political interests, and a vast “security” apparatus which acts as a kind of private army and KGB, shielding them from physical attack and gathering intelligence on their rivals and other businesses. Gusinsky’s MOST security force is well over ten thousand men; he counts a former deputy chairman of the KGB as an “adviser.” The new barons have also acquired a certain style gleaned from their trips to the west: posh
business clubs, private jets, fleets of armored cars, immense gated dacha-mansions on the edge of Moscow, vacation retreats in Cyprus, London, Switzerland, Vienna. All of them can get a Kremlin minister on the phone in an instant. Sometimes, as in the cases of Potanin and Berezovsky, they themselves have worked for a stint in the Kremlin.

With Chubais as their leader and patron, the barons (some of whom had been intense rivals) came together in 1996 to ensure that Yeltsin would defeat the Communist Party. They had a lot to offer: money, control of the media, expertise. After the election, Berezovsky and Potanin spent some time in the Russian government before leaving again to pursue their increasing fortunes.

Not long ago, Business Week declared Potanin “the most powerful man in Russia.” His companies are worth around $32 billion and his personal wealth is somewhere between $1.5 billion and $3 billion. His Uneximbank is the biggest private bank in the country and owns major stakes in credit-card and insurance companies; he is co-founder of MFK-Renaissance, the biggest investment bank in Russia; he owns 85 percent of Sidanko, the third biggest oil producer; he owns the Norilsk Nickel works, which he bought for a song; he owns the majority share in Izvestia, Komsomolskaya Pravda, and Russky Telegraf; he owns the Central Army basketball and hockey teams. Potanin is thirty-six years old and a former leader of the Young Communists. He plays chess and likes jet-skiing very much.

In a series of articles for The Washington Post, David Hoffman compared the new Russian conglomerates to the South Korean model; others have mentioned the Japanese keiretsu. Hoffman compares the barons themselves to the American railroad barons of the late nineteenth century who, using the Pacific Railroad Act of 1862, won land grants from the government and then formed companies to develop and sell the lands, and then used the money to hire their own construction companies to build the rails at an inflated price. The situation in Russia is much the same. A small core of businessmen whose political connections are so great that they are able to call themselves capitalists without yielding any of the monopolistic tendencies of their Soviet predecessors.

The Russians, however, suffer by the comparison to South Korea and Japan. The rise of those economies in the Seventies and Eighties was based on the export of cheap, well-made manufactured goods to highly competitive foreign markets. The Russian conglomerates are based mainly on the exploitation of natural resources, where competition is minimal and government connections are at a premium. The seven boyars and the other monopolies dominate the stock markets but they do not, generally, make anything; there is minimal technological innovation. At the same time, tens of thousands of medium-size businesses are floundering because they attract minimal foreign or domestic investment, suffer under Draconian tax codes, continually battle organized crime, and get no favors from political patrons.

The creation of capitalism on the ash heap of communism has not been a pretty sight. The question is whether the Russian system will develop over time into something resembling the West or whether it will calcify into a stagnant oligarchic arrangement. The optimistic view is that the new barons will become increasingly competitive among themselves and that they will also begin investing more heavily in smaller enterprises—a turn of events that will hasten the creation of a middle class not merely in Moscow, where it is already evident, but elsewhere in Russia.
There is little doubt, too, that the business culture of Russia is growing more sophisticated. The biggest business story of 1994 was the collapse of a gigantic pyramid scheme called MMM run by a con man named Sergei Mavrodi. The likes of Mavrodi have been replaced on the pages of the newspapers by the latest arrivals from Morgan Stanley, West-Deutsche LandesBank, and dozens of others.

One of the most encouraging signs in the Russian political scene in the past year was the appearance of the first real fissure in the seven-sided oligarchy. Customarily, one of the seven barons would enter into the privatization auctions as a “walkaway” partner—a designated low bidder present only to give the appearance of fair play. Last year, the government put up 25 percent of an enormous corporation called Svyazinvest for auction. The company is the parent concern of 88 local telephone companies and the main long-distance carrier. Gusinsky, who had not been very active in the snatching up of other industrial properties in the past, was especially interested in this deal and assembled a bidding consortium that included Friedman, the Spanish telephone company Telefonica, and Crédit Suisse First Boston.

Gusinsky thought he had clear sailing. At the time the deal was first mentioned, Potanin was still in the government—he was vice premier in charge of economic policy and privatization—and could not participate. Unfortunately for Gusinsky, however, Potanin quit his Kremlin post in time to take part. Potanin had been instrumental in designing the “loans for shares” scheme in the first place which ensured that the oligarchs—and not the Communist factory chieftains—would win the most valuable properties. The two first deputy prime ministers, Chubais and Boris Nemtsov, told Gusinsky that this time the bidding would be open and real.

The auction was scheduled for July 25. In the run-up, Potanin’s newspapers attacked Gusinsky for corruption and foul deeds, and Gusinsky’s media outlets did the same to Potanin. (The oligarchic system has been terrible for press freedoms.) To compete with Gusinsky, Potanin brought in $980 million from George Soros’s Quantum Fund and help from Morgan Stanley and Deutsche Morgan Grenfell to come up with a bid of $1.87 billion, topping Gusinsky by $160 million. It was perhaps the most significant deal in the short history of Russian capitalism and by far the largest foreign investment. The final price was 50 percent more than the government had expected. Leonid Rozhetskin, a member of the Renaissance Capital investment bank, predicted that the consortium’s investment would triple by the year 2000.

“If a bandit-like amassing of capital, the country is moving to a more or less civilized regime,” the first deputy premier, Boris Nemtsov, said. Perhaps.

Granted, this new and dominant story of Russian politics does not have the euphoria and allure of perestroika in the late 1980s or the heroic battles of 1991. Sakharov is gone, Solzhenitsyn ignored, and heroes, in general, are absent from the scene. It is hard to warm to an auction as a heroic event. And yet if business can advance in a way that begins to benefit more than a few Moscow tycoons, if Yeltsin finally fades away in a peaceful transition of power, then Russia might then be on the way toward becoming what it has always said it has wanted to be: part of the world, a normal country.