The Truth About Putin and Medvedev

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by Boris Nemtsov and Vladimir Milov

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As he prepares to step down from the Russian presidency in early May, Vladimir Putin has been boasting about his accomplishments. In a speech to the State Council on February 8, he talked of the stability that his government had established, thanks to which “people once more have confidence that life will continue to change for the better.” A few days later, during the last of his long annual press conferences as president of the Russian Federation, Putin said: “I have worked like a galley slave throughout these eight years, morning till night, and I have given all I could to this work. I am happy with the results.”

That Putin’s hand-picked successor, Dmitry Medvedev, won the presidential election on March 2 with 70 percent of the vote doubtless boosted Putin’s ego further, although, because of strict new election rules and the Kremlin’s control of the press and television, there were no other serious competitors on the ballot. Medvedev announced before the election that he would make Putin his prime minister, and Putin immediately agreed to serve. Thus, when they went to the polls, Russians assumed that a vote for Medvedev would ensure that Putin stayed on as supreme leader, at least for some time. And this, according to opinion surveys, is what most of them want.¹

As popular as President Putin is among Russians, largely because of Russia’s economic growth, there are those who disagree strongly with positive assessments of his presidency. Among them are Boris Nemtsov and Vladimir Milov, authors of a short book titled *Putin: The Results: An Independent Expert Report*, published in Moscow just a few days before Putin’s last press conference.² Both Nemtsov and Milov are highly regarded liberal democrats with inside knowledge of the Kremlin. Nemtsov, who has a Ph.D. in physics and mathematics, was a popular governor of the Nizhny-Novgorod region before serving as a first deputy prime minister of Russia under Boris Yeltsin in 1997–1998. He was a co-founder of the liberal democratic Union of Right Forces (Soyuz Pravykh Sil, or SPS) and served as a member of the Russian parliament, the Duma, until his party lost its seats in the December 2003 elections. Nemtsov, now forty-nine, has since then continued to be an important member of the political opposition to President Putin. (He was arrested briefly in November 2007 for taking part in a protest rally in St. Petersburg.)

Nemtsov’s thirty-five-year-old co-author, Milov, is a respected specialist in energy policy. As deputy minister of energy in 2002, he worked on designing market reforms within the Russian gas, electricity, and railway industries. But the government stalled on carrying out his reforms and he resigned in late 2002. Since then, Milov has headed the Institute for Energy Policy, an independent economic think tank in Moscow, while contributing frequently to the liberal Russian
press. He was among those invited to the US embassy in Moscow in March to brief visiting Secretary of State Condoleezza Rice about the political situation in Russia.

In their concise and eloquent report, Nemtsov and Milov present a devastating picture of Putin’s eight years in the Kremlin. Indeed, the report’s appraisal of Putin and his administration is so damning that the Kremlin attempted, with considerable success, to block its distribution. Originally, the publisher, Novaya Gazeta (which produces the newspaper of the same name and had employed the murdered investigative journalist Anna Politkovskaya), planned on a first printing of 100,000. But the distributor backed out at the last minute because of strong pressure from the Kremlin. This left Novaya Gazeta with only one place in the entire country to sell the book—its own kiosk on Moscow’s Pushkin Square. As a result, only five thousand copies were printed, and by mid-March some two thousand had been sold.

When I met with Milov in his Moscow office last month, he told me that the report caused a “hysterical” reaction among the political leadership. He heard from a trusted government source, he said, that the report led to a series of urgent, high-level meetings both in the Kremlin and the FSB (the successor to the KGB). Lilia Shevtsova, a political analyst at Moscow’s Carnegie Center, told me that the report was like a “bomb, which anywhere but in Russia would cause the country to collapse.” Anatoly Chubais, formerly Yeltsin’s leading economic strategist and now head of the Kremlin’s electricity monopoly, was especially concerned, because he is a close friend of Nemtsov and a co-founder of the SPS (although he is no longer a member). Chubais worried that he would be ousted because of his association with Nemtsov and the SPS. After a long and reportedly heated discussion with Chubais, Nemtsov made the concession of “suspending” his membership in SPS, so the party (and Chubais) could distance themselves from the report.

I asked Milov if he was worried about the repercussions of the report, in view of what happened to Politkovskaya. He said with a laugh that if anything bad happened to him or Nemtsov, it would be a “huge advertisement” for the book and attract Russian readers, who know nothing about it.

It was predictable that Putin: The Results could not be widely circulated because it so strongly refutes Putin’s version of what has happened to Russia since 2000. In his February 8 address, Putin asserted that his administration has had enormous success in bringing the people new prosperity and in tackling the problems inherited from the chaotic Yeltsin presidency. He also described conditions in Russia when he took office: Chechnya was a “regime of terror” planning to carry out aggression against Russia. Russian armed forces, demoralized and under-equipped, were not prepared for combat. The government was weak and ineffective, with little regard for the law. Agriculture was in a state of crisis. The economy was controlled by oligarchs and criminal organizations. Inflation was running at 36.5 percent, and unprecedented amounts of wages, pensions, and benefits were not being paid. In Putin’s words, “Wealthy Russia had become a land of impoverished people.”

Today, Putin says, the war in the North Caucasus is over and Chechnya has a full-fledged democracy. Russia’s levels of social and economic development have been rising. Citizens can exercise their rights in full and courts enjoy real independence. Total investment in the Russian
economy has increased sevenfold, with capital inflow in 2007 reaching $82.3 billion. Real incomes are 2.5 times what they were in 2000 and unemployment and poverty have declined. Also, according to Putin, Russia has a stable and effective political system.

Nemtsov and Milov acknowledge the economic successes that Putin and the Kremlin claim, including the 70 percent rise in Russia’s GDP since Putin came to power. But they point out that oil prices, which were about $16 per barrel under Yeltsin, have risen sharply, averaging some $40 per barrel during Putin’s presidency (and are now much higher). This, they argue, should have enabled the Kremlin to carry out much-needed reforms—in health care, education, transportation, the pension system, the army, etc. Instead: “As under Brezhnev, super-income from the export of oil and gas has to a large extent been frittered away and necessary reforms left undone.”

As Nemtsov and Milov rightly stress, their country has “a level of corruption completely unprecedented in all of Russia’s history.” Indeed, the nongovernmental organization Transparency International ranked Russia in 143rd place (with first place being the least corrupt) in its 2007 worldwide country rating of degrees of corruption. Of course, the authors say, there was plenty of corruption under Yeltsin as well. But today the sums are much larger, measured in billions of dollars, and corrupt officials, who occupy high-level government positions, are protected from public exposure by the Kremlin’s control of the law enforcement agencies and the mass media.

According to the report:

Assets are being removed from state ownership and handed over to the control of private people, property is being purchased with state money back from the oligarchs at stunning prices, a friends-of-Putin oil export monopoly is being created, and a Kremlin “black safe” [slush fund] is being funded. This is a brief outline of the criminal system of government that has taken shape under Putin.

As one example, the authors cite what they call the “Oscar-winner” in the transfer of Russian government assets to secret third parties—Gazprom, the state-controlled energy giant whose board chairman for the last six years has been the president designate, Dmitry Medvedev. During the past three years several key assets of Gazprom—its insurance subsidiary, Sogaz, its pension funds, and its mass media interests (the Gazprom-Media group has shares in two television stations)—have fallen into the hands of Rossiya Bank, which has its headquarters in St. Petersburg. Rossiya Bank’s chairman, Yury Kovalchuk, happens to be an old and close friend of President Putin. And the bank acquired these valuable assets at bargain prices, buying Gazprom-Media Holdings in 2005 for only $166 million. In 2007—just two years later—Medvedev estimated that these holdings were worth $7.5 billion, or about forty-five times the sale price. “It would appear,” the report observes, “that Gazprom gave its assets to friends of President Putin for a fraction of their real worth! Compared to this deal, the loans for shares auctions [the much-disparaged privatization of state enterprises under Yeltsin] look like exemplars of honesty and transparency.”
Another highly dubious Kremlin transaction mentioned by Nemtsov and Milov was the purchase by Gazprom in 2005 of 75 percent of the shares of Sibneft, an oil company owned by Roman Abramovich, the Russian billionaire oligarch, Putin’s close friend, who lives in London and owns the Chelsea Football Club. To purchase Sibneft the government paid an unnecessarily large sum—$13.7 billion—when it could have gotten the company for much less. (Abramovich acquired it in 1995 for only $100 million.) Why, the authors wonder, did Sibneft have to be nationalized at all? The company would have become much more efficient and profitable if it had remained in private hands.

Then there are the middlemen used by the Kremlin in selling its energy exports, such as the mysterious Swiss-based company RosUkrEnergo, which supplies Russian and Central Asian gas to Ukraine and Europe. The authors do not mention this, but one member of the board of directors of RosUkrEnergo is Konstantin Chuichenko, a close friend and former classmate of Medvedev who worked for three years for the KGB. Also, one of RosUkrEnergo’s reported co-owners, Semyon Mogilevich, is a notorious international criminal who has been sought for several years by the FBI for racketeering and money-laundering. He was arrested in Moscow in early 2008, apparently because his open presence there was making Kremlin authorities uncomfortable.

Nemtsov and Milov acknowledge that because the Kremlin’s financial records are kept secret, it is difficult to come up with concrete proof that Putin or Medvedev has been taking state money for himself. But whoever has gained financially from the Kremlin’s energy transactions, it is clear, as the report shows, that the money has not been used to solve many of the most serious problems inherited from the Yeltsin era. While the number of Russian billionaires continues to rise, Russia today has an army that appears to be “straight out of the last century.” The road system has deteriorated dramatically. According to the authors, “the system for financing road repairs and building has to all intents and purposes collapsed under Putin.”

As for public health, the life expectancy for Russian men is less than fifty-nine years (on par with underdeveloped African countries), in large part because of the rise in smoking and alcohol abuse (Russia has an estimated 2.5 million alcoholics), as well traffic fatalities (a 60 percent increase since 2000). According to Russian government statistics cited in the report, violent crime also rose by 170 percent between 2000 and 2006. And Russia’s health care system is in crisis. Because of insufficient funds, poorly equipped hospitals, shortages of medicines, and widespread bribe-taking for medical services, health care of any reasonable quality is beyond the reach of most Russians. (This is confirmed by the World Health Organization, which in 2007 ranked health care in Russia 130th out of 190 countries, below Bolivia and Guyana.)

Meanwhile, the authors add, the quality of Russia’s education is declining, affordable housing is scarce, and the pension system is headed for a collapse, with the population aging and the deficit in the pension fund growing swiftly. Because Russia’s pension system is based on employee contributions, and the ratio of workers to pensioners in Russia today is only 1.7 to 1—in comparison to more than three workers per pensioner in the United States—average pensions are only about 4,000 rubles ($160) a month.
In 2005 the Putin government made some attempt to address the need for social reforms by introducing so-called National Projects, which allocated money for improving health care, education, housing, and agriculture. But the results of the highly publicized program, headed by none other than Dmitry Medvedev, have been meager. As Nemtsov and Milov put it: “In essence the ‘national projects’ represent the replacement of systematic reform by random, one-off, modest injections of cash which do not really solve anything.”

A particularly grave failure of Putin’s leadership has been the decline in the rule of law and respect for human rights. With the exception of courts at the local levels, the country’s judges are entirely subordinate to those in political power. Instead of protecting civil rights, law enforcement agencies and courts use the law to advance the financial interests of powerful political clans or well-connected companies. This was the case with Mikhail Khodorkovsky, owner of the oil concern Yukos, who was arrested in 2003 for tax evasion and is still in prison. According to the report, after Yukos assets were acquired by the state-controlled company Rosneft, some of the tax claims against Khodorkovsky were dismissed by the courts. This so-called “tax terrorism” is widely used by the authorities to take over property from private owners and redistribute it to Kremlin insiders. In Khodorkovsky’s case, an additional motive for suppressing him was his funding of a new democratic party.

In a very recent example of such Kremlin tactics, an employee of British Petroleum’s Russian oil venture, TNK-BP, was arrested (along with his brother) on charges of industrial espionage. This was followed by a raid on TNK-BP’s Moscow headquarters and a police investigation of alleged tax evasion by BP. Many assume that these maneuvers are part of a Kremlin-inspired campaign to take over assets of the company and transfer them to Gazprom.

The legal system is also an effective instrument for silencing Kremlin critics. Last December, the FSB ordered the deportation of Moldovan journalist Natalia Morar, a Moscow resident—married to a Russian—who was writing a series of articles for The New Times, a small independent newsweekly, about election fraud and corruption. On March 3, Maxim Reznik, the head of the St. Petersburg chapter of the liberal party Yabloko and an outspoken critic of the Kremlin, was arrested as he left his office, where he had been looking into reports of election fraud. Reznik, who was kept in isolation for almost three weeks before being released, was charged with assaulting a policeman, and could face up to five years in prison. Reznik’s colleagues say he was detained because he was the chief organizer of a conference of liberal democrats that was held in St. Petersburg on April 5. On March 24, the FSB also arrested Oleg Kochin, chairman of the Penza District branch of Yabloko and chief editor of the opposition newspaper Lubimaya Gazeta. He was charged with extortion, for which no evidence has been presented.

Even more alarming, as Nemtsov and Milov write, is the violence against journalists who report critically about the Kremlin. (In 2007, according to the Glasnost Defense Foundation, seventy-five journalists were physically attacked and eight killed.) Not a single recent murder of a journalist, including the 2006 shooting of Anna Politkovskaya, has been solved.

A central question, in view of this grim picture of Russia’s political and economic situation, is whether there can be any positive changes after Medvedev assumes the presidency in early May. Although the forty-two-year-old Medvedev does not have a KGB background, he has been a
close protégé of Putin for many years and is a direct product and beneficiary of Putin’s system, which is dominated by former and current security and intelligence officers, the so-called siloviki. According to the Moscow Times, over 75 percent of the country’s leaders have links to the KGB or its successor agencies, the FSB and the Foreign Intelligence Service (SVR). Unlike during the Soviet era, when the ruling Communist Party had firm control over the KGB, the FSB is to a large extent its own master, operating with impunity throughout the country. Not even Putin, with all of his KGB credentials, has been able to prevent factions among the siloviki from arresting one another’s associates as they engage in a struggle for assets and power. It is doubtful that Medvedev will do much better.

More to the point, Putin, as Medvedev’s prime minister, will continue to have a powerful influence on decision-making in Russia. The presidential administration is now filled with Putin appointees, who are unlikely to shift their loyalties to Medvedev, at least until they see how the situation evolves over the next year or two. And Putin, as prime minister, will be in charge of the entire national economy. Although the Russian constitution grants authority to the president to dismiss a prime minister (as Yeltsin did often), he must, in order to appoint a replacement, get approval from the Duma, which is dominated by Putin loyalists. Putin’s acceptance, on April 15, of the leadership of the United Russia Party, which holds a 70 percent majority in the Duma, means that it would be almost impossible for Medvedev to get rid of Putin (even if he wanted to) or to pass legislative initiatives that Putin opposes.

There has been some talk about Medvedev’s relative liberalism, but it would be risky politically for him to attempt reforms such as weakening state controls on the press and on the economy or reining in the security police. Although such changes could hugely benefit Russia’s future development, Medvedev would offend too many powerful people and interests. Nor is he likely to encourage a more flexible policy toward the West. As Milov told me:

Medvedev is a representative of a new generation of Russian bureaucrats: they listen to Western rock music, speak foreign languages, wear Brioni suits. But deep inside they are strong Russian national conservatives…. They buy the advantages of Western civilization but they do not buy its values. They are generally afraid of the West as a competing system.

Nemtsov and Milov urge their readers to take the situation into their own hands and call the current regime to account. But how? The Kremlin’s domination of the mass media has made it virtually impossible for democratic opposition candidates to get elected to the Duma or to run for the presidency. There are only three truly independent daily newspapers in Russia—Novaya Gazeta, Kommersant, and Vedomosti—and together they have a minuscule circulation. Aside from the courageous and provocative radio station Ekho Moskvy, most Russian broadcasters stick to the Kremlin line. And television, which is enormously popular in Russia, is almost completely controlled by the government and used extensively as an instrument of propaganda. The authorities still haven’t managed to censor the Internet (although they seem to be trying) but less than 20 percent of adult Russians (and that is probably an inflated estimate) regularly go on line.

Russia’s restrictive electoral procedures make the situation even worse. To be in the Duma, a candidate’s party has to win over 7.6 percent of the total vote. And in order to get on the
presidential ballot, a candidate whose party is not represented in the Duma has to collect two million signatures after being nominated. Vladimir Bukovsky, the former Soviet dissident who spent years in the Gulag and was deported from the country in 1976, managed to get through the rigorous nomination process (requiring hundreds of notarized signatures) in December 2007 and was supported by the Yabloko party, which is led by Grigory Yavlinsky, a liberal economist who led reforms in the 1990s. But the election commission denied him registration as a presidential candidate because he has dual Russian and British citizenship and had not resided in Russia for the required previous ten years.

With no constitutional way of changing the government, liberals have reverted to protests and street demonstrations, but authorities use any excuse to forcefully intervene and make arrests. The Putinites do not worry about the impression that such tactics make upon the West. They are confident that Russia’s enormous energy reserves will ensure its great power status, and they have observed that Western leaders—with the exception of German Chancellor Angela Merkel—have responded feebly to the Putin administration’s blatant abuse of human rights.

The West can probably do little to influence Russia’s political future anyway. In the end, a real change in the country will have to come from Russians themselves. And they may not be motivated to make that change unless a crisis discredits the current leadership. As Nemtsov told me in March, Putin made an invisible contract with the Russian people by which they tolerate corruption, mismanagement, crime, and constraints on the mass media so long as they have buying power and continue to live better than they did in the Yeltsin era. But if the economy falters, that contract could be broken. People will remember some of the bad things that happened while Putin was president, such as the Kursk submarine accident, in which many Russian sailors died because of carelessness, and the government’s brutal and inept handling of the hostage crisis in Beslan. They might then demand accountability. “Reforms only happen when the money runs out,” Nemtsov said.

How likely is it that Russia will face serious economic problems? Although high oil prices are ensuring a steady flow of money into the state treasury, there have been signs of economic vulnerability. The cost of living is rising sharply, with inflation reaching 12.6 percent in January 2008. Owing partly to lax lending standards, consumer and corporate credit is increasing rapidly—by 50 percent a year. A surge in external borrowing by Russian banks to fund credit expansion has aroused concerns about a crisis of liquidity in the banking system if access to foreign borrowing is curtailed. Moreover, according to Anatoly Chubais, Russia’s current account surplus is declining to the point where it could disappear in just a couple of years. There has been a marked slowdown in the growth of Russia’s oil output, resulting from the failure to invest in oil extracting capacity. Income from oil and gas may not be sufficient to cover future imports.

These developments should be a cause of concern for the Kremlin. Three years ago, thousands of angry Russian pensioners staged protests throughout the country after the government, in an effort to save money, passed a law replacing their social benefits, such as rent subsidies and free transportation and medicine, with monthly cash payments that many felt were inadequate. If Russians were to take to the streets in large numbers to protest against their political leaders, as they did in August 1991, would liberal democrats be prepared to offer something new? They
would have to unite their forces and come up with a program that offers a real alternative to the current regime in Russia; and they would have to find ways of communicating their ideas to the population at large.

Disagreements and personal disputes among the opposition have stood in the way of such unifying action. The former chess champion Garry Kasparov, who futilely attempted a run for the Russian presidency, estranged other democrats by joining in a coalition with Eduard Limonov, head of the National Bolshevik Party and a fervent Russian nationalist. Nemtsov and Yavlinsky, the Yabloko leader, have been at odds over Nemtsov’s close relationship with Chubais, whom Yavlinsky considers an opportunist for having long cooperated closely with the Kremlin.

What is needed now, some Russian democrats say, are young leaders who carry no political baggage from the 1990s and could bring opposition groups together. It is thus a hopeful sign that Vladimir Milov recently announced his decision to enter politics. As the well-informed Moscow journalist Yevgenia Albats told me, Milov combines broad experience in the energy sector of the economy with a “Western understanding of the way democracy should work.” Milov was a participant, along with Nemtsov, in the conference of Russian oppositionists that took place in St. Petersburg on April 5, the first serious step in years to unite democrats of all different parties and groups. (Yabloko’s Maxim Reznik was not able to open the conference because he was called for an interrogation relating to the bogus charges of assault against him, but he was able later to join the group and endorse its platform.)

Their goal right now, as Nemtsov explained to me after the conference ended, is not to establish a new political party, because that would involve an official registration process and enable the Kremlin to thwart the efforts of the democrats. Instead, they plan to organize a broad coalition of liberal democratic forces, patterned after the Polish Solidarity movement. The resolution adopted by the conference was a rallying call for liberals to unite with the common aim of creating a free and democratic Russia.

Nemtsov sees Milov, who wrote the first draft of the resolution, as the possible future “ideological leader” of their movement. Preparations are now underway for a series of regional conferences and a large congress of democratic forces in the autumn of this year. It will, I was told, attempt to enlist the support of a broader segment of the Russian population, whose voices of dissatisfaction with the current regime have not been heard.

When the Marquis de Custine traveled around Russia in 1839, he observed in his diary: “Russia is a nation of mutes; some magician has changed sixty million men into automatons.” Some Russians say that their compatriots have become once again a “nation of mutes,” who sit glued to the state-dominated television absorbing the continuous propaganda glorifying their leaders. Perhaps. But as one Russian liberal commented recently, “nations are mute only for a time. Sooner or later the day of discussion arises.”

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A poll conducted by the government-sponsored All-Russian Center for the Study of Public Opinion and published on March 7, 2008, showed that 66 percent of those who voted for Medvedev expected that most of his presidential powers would shift to Putin as prime minister. A more independent poll organization, the Levada Center, released in February the results of a nationwide survey showing that 63 percent of Russians assumed that Medvedev would be controlled by Putin.

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The monograph was posted on the Internet in Russian at www.nemtsov.ru. An English translation by Dave Essel, which appears under the title Putin: The Bottom Line: An Independent Expert Report, has been posted at www.russophobe.blogspot.com/search/label/essel.

3.

As for Putin's assertion that peace had been restored in Chechnya, according to the US State Department's Human Rights Report for 2007, there is still widespread instability in Chechnya and the North Caucasus region. Separatist and Islamist insurgency, often manifested in acts of terrorism, continues to spread. In trying to quell the insurgency, both federal and local security forces engage extensively in human rights abuses, including torture and summary executions.