

# OLIGARCHIZATION OF THE RUSSIAN ECONOMY. CAUSES, COURSE AND CONSEQUENCES

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**Abstract:** The reforms of the 90s in Russia aimed at transferring the economy to a market economy were carried out hastily, without considering national, geographical, and historical specifics. Nihilism in the economic, political, and legal spheres of society allowed the transfer of lucrative raw material industries into the hands of the oligarchs. Unprofitable industries fell into decline, which caused structural distortions in the economy. Thousands of cities and towns have disappeared, causing suffering for the people. In the 2000s, there was the centralization of power and rejection of reforms, the oligarchy merged with the state into financial and industrial groups. The consequence was the emergence of a parasitic form of criminal oligarchic capitalism, motivated to export capital from Russia. At the same time, in Kazakhstan, Ukraine, Poland, Czechoslovakia and the Baltic states, reforms and privatization followed a different path. Oligarchization stopped the economic development of Russia and intensified the negative consequences. About this in the paper.

**Keywords:** market reforms, collapse of the USSR, vouchers and coupons, privatization, oligarchs, property redistribution, corruption, offshore companies, consequences of reforms, legal nihilism, national specificities, economy based on raw resources, distortion in the economy, model of capitalism, communist nomenclature, refusal of reforms, nationalization, economic slowdown, permanent crisis, financial and industrial groups.

## **Introduction**

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. Adam Smith, 1755. [1]

Unlike developed and developing countries, there are no elites in Russia with legitimate big capital. Russian nouveaux riches have become owners of factories, factories, real estate, and entire sectors of the economy thanks to the tricks of reforms, privatization and the redistribution of property. But the very process of the emergence of the oligarchy originated in the years of the communist regime. In order to understand how the new elites were born in the USSR and how the wealth of the second economy of the world passed into their ownership or control, you need to understand the atmosphere of that time and the economic situation.

The Soviet Union, until its collapse in 1991, had the second economy in the world. GNP: approximately \$2,660 billion, per capita \$9,130; real growth rate - 2.4% to - 5.0% [2]. Unfortunately, it was a planned

economy, built under the leadership of the Communist Party on the basis of the theories of Marx-Lenin. In contrast to Adam Smith's theory of the invisible hand of the market, the communist economy was built entirely on artificial regulation and excluded the possibility of competition. All property, real estate, production, agriculture, trade and even services belonged to the state. Private property was prohibited.

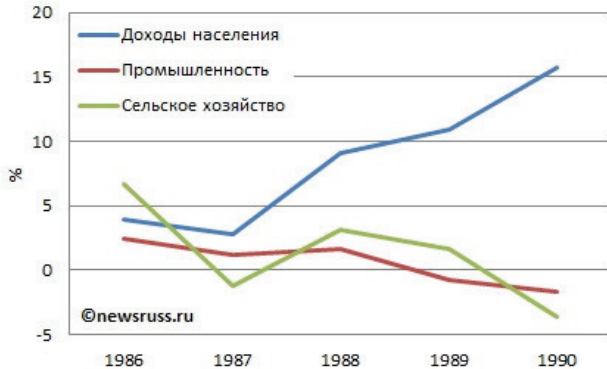
How did the planned economy work? Statistics departments collected data throughout the country on the number of sold or spent materials, fuel, grain, cars, and so on over the past year. On the basis of statistics, production plans for the next year were made. This led to the so-called "period of stagnation" in the economy. For example, for 45 years one model of a Moskvich car has been produced, factories have been producing the same shirts and shoe models for decades without taking into account fashion. There was no motivation for innovative developments, for the introduction of random inventions, there was no competition. There were no concepts of small business accounting. There was only planned accounting.

Oil dependence on the export of raw materials to the West. Several

pipelines were built in the 1960s and 1970s to export gas and oil to the countries of the European Union. Sales of raw materials and non-ferrous metals to the West increased. Foreign currency flowed into the treasury of the USSR. With the funds from the sale of oil and gas, it was possible to purchase food, household appliances, machine tools and equipment in the West. However, in the early 1980s, oil prices fell to historic lows, and shop shelves were empty in the USSR. This led to the beginning of the collapse of the country.

The arms race developed the market economy of the United States and Europe, provided jobs and led to the development of technology. The arms race in the planned economy of the USSR led to a depletion of the budget, a lack of resources to provide the population with household appliances, food, and housing. Warehouses accumulated stocks of military equipment and weapons, while there was nowhere to buy an iron, a washing machine, and furniture. To buy a car, people stood in line for 7-12 years.

**Growth rates of economic indicators of the USSR.**



**Picture 1.** Growth rates of economic indicators of the USSR. Household income (blue), industry (red), agriculture (green) in 1986-1990, in % of the previous year.  
Source: [http://newsruss.ru/doc/index.php/Экономика\\_СССР\\_в\\_1989\\_году](http://newsruss.ru/doc/index.php/Экономика_СССР_в_1989_году)

There was nowhere to spend the accumulated money. Picture 1. The population had more money in their hands and on personal deposits than goods that could be

bought. From the report of the State Bank of the USSR for 1988: "Retail turnover, as in previous periods, lagged behind the growth rate of the population's money in-

come. All this led to the need for a large issue of money into circulation without an appropriate commodity backing. The flow of light industry goods in 1987 declined due to a decrease in imports. The shortage of these products sharply worsened. The quality of a number of consumer goods remains low." [3]. The US CIA economic report explicitly states that: "The Gorbachev regime has made at least four serious errors in economic policy in these six years: the unpopular and short-lived antialcohol campaign; the initial cutback in imports of consumer goods; the failure to act decisively at the beginning for the privatization of agriculture; and the buildup of a massive overhang of unspent rubles in the hands of households and enterprises." [2] Private business and investment were banned, and the state could not produce enough goods and services for people to spend their money.

Human resources were not ready for reforms. From childhood to old age, the communist party took care of the citizen of the USSR. Everyone knew that he would have a state-owned apartment, a job, an average salary, vacations, treatment in a sanatorium, and education for children. This has led to a lack of modern knowledge and formulaic autobiographies of people.

Thanks to the systematic repression of enterprising people for 75 years, generations of passive people have grown up in Russia. More than 200 peoples and nations in the colonies of the empire, during the years of communism, have completely or partially lost their customs, history, culture and religion, many have forgotten their language. This mass of people was called "homo sovieticus" [4]. The people brought up by the communists tolerated any problems and did not interfere in the actions of the authorities, they were not able to take the initiative. This played an important role in the criminal privatization of state property by a group of future oligarchs.

Isolation from the outside world, censorship and propaganda. Travel abroad was allowed only to rare athletes, scientists, artists and diplomats, who were checked by the special service for loyalty to communism. The population did not know about the existence of a foreign passport and free elections. Foreign languages were poorly taught in the schools of the USSR. Censorship filtered information. Citizens knew about the outside world only from movies, considered the capitalists to be criminals exploiting unfortunate workers.

## **Section snippets**

At the beginning of the 20th century, Robert Michels described the "iron law of the oligarchy", in which he proved that it was impossible to achieve equality in society. "It is organization which gives birth to the dominion of the elected over the electors, of the mandataries over the mandators, of the delegates over the delegators. Who says organization, says oligarchy. "These phenomena would seem to prove beyond dispute that society cannot exist without a "dominant" or "political" class, and that the ruling class, while its elements are subject to a frequent partial renewal, nevertheless constitutes the only factor of sufficiently durable efficacy in the history of human development. According to this view, the government, or, if the phrase be preferred, the state, cannot be anything other than the organization of a minority." [5] The iron law of the oligarchy refutes any theories of equality and fraternity.

## **The birth of Russia's future oligarchic groups.**

In Leningrad, in October 1979, a group of young economists form an informal "economic meeting" to discuss future reforms of the Soviet economy. Already in 1980, the "Council of Young Scientists of the

Leningrad Engineering and Economics Institute" appeared. It is known that the KGB had to stop such activities. Instead, young academic economists received support from the KGB, which oversaw the development of the country's development strategies. At the seminars, these people spoke not about the planned economy, but about market relations. It is these advanced young people who will become reformers and oligarchs. Later, a special commission of the Politburo was created to develop plans for the economic "restructuring" of the country. Future reformers were included in this commission.

Very accurately, the birth of the oligarchy in Russia was formulated by O.V. Kryshtanovskaya in the scientific work "Business Elite and Oligarchs: Results of the Decade" [6] In particular, she writes that "The centers of scientific and technical creativity of youth (IQHTM) laid the foundation for the business class, which the party allowed to "conclude agreements" with the payment of cash. The leadership of the Communist Party tried to reduce the imbalance between the constant shortage of goods and the impossibility of business, which affected the entire population of the country. By allowing Komsomol members to do business, the party was sure that everything would

remain under its control. However, this logic turned out to be wrong. Young entrepreneurs from the nomenklatura cynically uttered the usual speeches about scientific and technological progress, but in fact they used every opportunity to make money. [6] Further, Kryshtanovskaya continues: When the model of nomenklatura capitalism was tested, covert privatization began. High-ranking officials privatized that part of the state property that was in the sphere of their management. This latent stage of privatization began in 1989. the privatization took place without any announcement, under the complete control of government officials, and was intended to privatize the management of industry, the banking system and the distribution system. Concerns were created in place of ministries, commercial banks in place of state banks, and large trading houses in place of departments. [6]

R.Kh. Simonyan writes about the preparations for the transition to capitalism in the USSR. "By the beginning of the reforms of 1993, the country's isolation from the outside world had already been overcome, censorship had been eliminated, the ideology of equalization had been rejected, personal initiative had been liberated, the Soviet administrative-command

system had been eliminated with the inevitable emergence of natural market regulators in society, over 8 million people were involved in individual or cooperative commercial activities, and on March 6, 1990, a new property law was passed and the institution of private property was restored in the country. At the same time, private banks appeared, numerous private enterprises arose, including those with the participation of foreign capital. Since April of the same year, Soviet people were free to travel abroad, and free foreign exchange was allowed. The country was already entering the market, and in this sense, Russians began to live better, which was noted then by numerous sociological surveys." [7].

## **1. Future oligarchs as honest reformers.**

In 1992, in order to complete the reforms, price legalization and privatization had to be carried out. It is here that the line is located, after which all state property of Russia ended up in the hands of oligarchic groups. Honest reformers were needed to carry out privatization among the "homo sovieticus" and prevent abuses. It is not surprising that the young advanced communist youth who came to power acted in their role. They were assisted by

foreign experts and advisers who already had successful experience in the countries of the Eastern bloc. But the privatization process in Russia was like a magician's trick. The mechanism of its implementation created the appearance of social justice in the division of state

property. Price liberalization was announced without any plans or control from the state or society. When inflation ate the last money of the population, and savings were frozen, the population was given vouchers and offered to participate in auctions.

<b>Voucher value of Russian companies compared to market value (in US\$ million)</b>		
<b>Company</b>	<b>Voucher Auction Price (1993-1994)</b>	<b>Price on the Russian stock market (August 1997)</b>
<b>Gazprom</b>	<b>250</b>	<b>40 483</b>
<b>RAO "UES"</b>	<b>957</b>	<b>17 977</b>
<b>Lukoil</b>	<b>704</b>	<b>15839</b>
<b>Rostelecom</b>	<b>464</b>	<b>4172</b>
<b>Yuganskneftegaz</b>	<b>80</b>	<b>1656</b>
<b>Surgutneftegaz</b>	<b>79</b>	<b>6607</b>

**Picture 2. Source: [10] Translated from Russian**

A pensioner, a student, a dentist and a bricklayer received a voucher (check), that is, a beautiful A4 paper, on which it is written that he owns 10,000 rubles of state property. The voucher was valid for one year, until December 31, 1993. What to do next with this paper? It was a mystery to Homo-Sovieticus. In a country that did not know the traditions of stock exchanges, lawyers, investment consultants, independent appraisers, with no experience in dealing with securities, all problems were shifted to ordinary people. Stupid citizens

were ridiculed in the media of the time for exchanging their voucher for a pair of shoes or a sack of potatoes. According to statistics, about 25 million Russians invested their vouchers in check investment funds, and about 40 million invested them in the shares of various enterprises, a third of the voucher holders simply sold them for next to nothing. These vouchers ended up in the hands of the Russian business elite, who used them in auctions (Picture 2). By the end of 1994, the voucher privatization process was completed.

## **2. The final formation of the oligarchic clans in Russia.**

Monetary period of privatization and private banks. In the scientific article "The Russian Oligarchy, Formation and Political Triumph", Татьяна Олейник notes that "the movement towards the oligarchy was associated with the transformation of state-owned objects into joint-stock companies. Moreover, the banking sector laid the foundation for the primary financial and industrial structures. In the conditions when intermediary operations became the basic forms of banking activity, those who had access to servicing the accounts of state structures were in a particularly advantageous position. As a result, the old Soviet elite embarked on the path of increasing the processes of concentration of capital to the monetary stage of privatization." [8] The state machine that merged with business was a corruption component of privatization in Russia, the leveling of laws and moral principles. Яков Паппэ in his book "Oligarchs. Economic Chronicle 1992 - 2000", noted that "... any economic entity, if it reaches a scale comparable to the national economy, becomes a subject of politics." [9]

The method by which loans-for-share auctions were organized was

described by Vasiliev V.A. in the scientific article "From the destruction of socialism to oligarchic capitalism": "Since the state treasury was empty, the bankers offered the government loans of 600-700 million dollars secured by shares in large state-owned enterprises. Such a deal looked quite attractive, and the government agreed. The bankers received controlling stakes with billions in income, but they did not return the loans, but paid with budget money." [10] Actually, this deal was not a privatization. The state did not sell the shares of large and profitable enterprises but gave them on collateral in order to obtain loans from commercial banks for the budget. There was nothing to pay the salaries of civil servants, doctors, military, police, and teachers. It was assumed that due to the lack of sources of replenishment of the budget, the Russian government would not be able to repay the loan and the shares would become the property of FIGs. The seven new oligarchs supported Yeltsin in the elections, and in return received important government positions for themselves and their members. Power turned out to be dependent on the oligarchs.

The oil and gas industries were sold off at low prices, which then rose tenfold. (Picture 3).

**The six most expensive loans-for-shares auctions in Russia (in US\$ million)**

Company	Shares put up for auction, % of voting	Share price at auction (November-December 1995)	Market value based on share price at auction	Market value as of August 1, 1997
«Lukoil»	5	35	700	15 839
«Yukos»	45	159	353	6 214
«Surgutneftegaz»	40	88	220	5 689
«Sidanco»	51	130	255	5 113
«SibNefte»	51	100	196	4 968
«Norilsk Nickel»	51	170	333	1 890

Picture 3. Source: [10] Translated from Russian

Крыштановская writes that "if until 1995 the business elite of Russia was almost identical to the community of bank owners, then from that moment integrated business groups began to take shape. After the loans-for-loans auctions in 1995-1996, a stage has come in the formation of the Russian business elite, which allows us to speak of the presence of an oligarchy, that is, the power of the rich. The state and capital cooperate so closely that it is sometimes difficult to distinguish between an official in charge of business and an entrepreneur entering the Kremlin corridors. Officials are in the service of big businessmen, receiving regular remuneration from their hands, and businessmen depend on officials, since their financial well-being is based on privileges. These two groups have not only common interests, but also a common origin - they are connected by a nomen-

klatura past. In the late 1990s, the state depended on capital for elections, was not free to conduct not only economic policy, but also personnel transfers. A merger of power and capital took place in the country, an oligarchy was formed." [6]

Яков Паппэ coined the term "integrated business groups" (IBG) [9], that is, a set of individuals and legal entities, with their corrupt connections in the government, opportunities, power, and finances that arose during privatization in Russia. Such groups, as a rule, belonged to one or a group of oligarchs and sought to subjugate a certain industry or large subjects of production. Яков Паппэ, in particular, notes the positive role that the IBG oligarchic groups played against the background of the general collapse of production. He writes: "Russian IBGs have not shown themselves to be serious investors. Neither the new Norilsk

Nickel nor the new BA3 [Volga Automoblian Plant] were built. But on the other hand, they played a key and positive role in the adaptation to the market economy of the already existing large-scale Soviet industry. The transforma-

tion of enterprises that have remained independent has, for the most part, proved to be more disruptive, and they are now in a more difficult position than those included in the groups." [9]

### Stages of formation of the business elite in Russia

Period	Stage name	Description of business elite	Characteristics of the economic process
1986 -1989	Creation of the "Komsomol economy" (Organization of Young Communists)	Selection from the nomenclature of the experimental group of businesspeople	Monopolization of super-profitable high-speed sectors of the economy
1989 -1992	Latent (nomenklatura) privatization. "State's privatization by state"	The formation of a "class of delegators"	Privatization of financial and management structures, concentration of financial capital
1992 -1994	Open privatization of industry	Formation of business elites	The struggle of Moscow banks for the redistribution of industry
1994 - 1998	Loans-for-shares auctions.	Creation and formation of the oligarchy. Capture by Moscow banks of the largest industrial enterprises.	Creation of financial and industrial groups and vertically integrated companies
1998 - present time	Crisis of 1998 and post-crisis development	Formation of regional oligarchies	Figuration of leading holdings, specialization of business

Picture 4. Source: [6] Translated from Russian

We can distinguish several stages in the formation of business elites Picture 4. After the 1998 crisis, it became clear that the period of formation and transformation had passed. In Russia, state-oligarchic capitalism has developed, which is based on large financial and industrial groups (FIGs). In each such group, there is a banking sector that controls the rest of the sectors. Each financial-industrial group owns shares in large raw materials or processing industries, the controlling or blocking stake in which is owned by the state. This meant a

merging of state and oligarchic interests. Since such an oligarchic business is completely protected by the state from market storms, this allowed the stabilization of the economy to begin. Shock reforms, despite numerous shortcomings, began to bear fruit. The country began to grow its economy, in 1999 GDP grew by 6.4%, industrial production - by 11%. In the second half of the 1990s, crime began to decline, the growth of mortality stopped in 1996-1998, the decline in the birth rate stopped (in 1998). According to economists, the echo

of the reforms continued to influence the development of the economy almost until 2008, after the change of power.

### **3. Mistakes of the reforms of 1993-1994, which made it possible to carry out the oligarchization of the Russian economy.**

Well-known theorist of the world economy, Joseph Stiglitz World Bank Senior Vice President and Chief Economist, 1997-2000 in an interview **The Russian Road** in 2003 [11] noted a number of mistakes made by the reformers of the Russian economy in 1992-1994, which led to the transition of the economy into the hands of the oligarchs:

INTERVIEWER: What went wrong in Russia's case?

**JOSPEH STIGLITZ:** "Well, there [were] an enormous number of mistakes, one after the other. They began with the shock therapy of liberalization, of eliminating price controls for most of the commodities. The result of that was that there was massive inflation. So, the high levels of inflation were, in fact, a consequence of the shock-therapy strategy in the beginning. That wiped out the savings of an enormous number of people. You didn't

at that point have any basis of people having wealth to have a legitimate privatization process. They then had a privatization process that was corrupt and in which the country's assets were turned over to a few, to the oligarchs. The strategy was privatization at any cost. Do it quickly, is what the IMF kept telling them. The IMF kept a score card - how many privatizations had you done? But it's easy to privatize, give away the state assets to your friends. And in fact, it's not only easy; it's rewarding, because then they give a little bit of money back to you. So that was the strategy that was advocated and pushed. They then had policies like capital-market liberalization before they were ready. So, what did that mean? You had an illegitimate privatization. The people who had been able to use their political influence to get these billions and billions of dollars of natural resources for a pittance were then told, "Well, you have a choice: Keep your money inside Russia or take it to the United States." The United States was having a boom; Russia, because of the policies, was in a depression. Well, if you were smart enough to persuade Yeltsin to give these billions of dollars, you were smart enough to figure out it's better to take your money to the United States or, even better, to

Cyprus, to secret bank accounts, to Switzerland, knowing full well that there'll be a change in government. When there's a change of government, there'll be a questioning of whether those privatizations were legitimate. If you had your money in Russia, people might say, "We want to do that over again; you effectively stole the country's assets." So, the experiences in Russia show that in some sense economists are right: Incentives matter. But under the IMF strategy, you put in place incentives that led to asset stripping rather than wealth creation and to the implosion of the economy rather than to economic growth."

INTERVIEWER: So, what would have been a better road?

**JOSEPH STIGLITZ:** "Well, the better road were the roads that Poland, Slovenia, China have taken. First of all, they focused on creating new enterprises rather than just restructuring the old. They focused on creating jobs and employment. So, as you restructured the old, you had new avenues to use society's resources. Moving resources from low productivity to unemployment doesn't increase societies' wealth, doesn't increase anybody's income. Moving resources from low productivity to high productivity does. But if you

have a tight monetary policy that has interest rates at 25, 50, 100, 150 percent, you can't start new businesses. And if you can't start new businesses, how are you going to have the new enterprises that are going to create new jobs? As you are reorienting the economy, you take out the resources from the inefficient sectors to move into the more efficient sectors. In the United States we talk about what raising interest rates by 1 percent or 2 percent does to job creation. In Russia at one point their interest rates were over 50, 100, and up to 150 percent. How could you have job creation? That was called a stabilization policy, but it wasn't stabilizing the society; it was actually leading to these policies that in some sense led to the implosion of the society, the economy and a destabilization of society."

INTERVIEWER: How did this affect the poor in Russia and the average person?

**STIGLITZ:** A number of things happened that contributed to the increase in poverty. Poverty increased from around 2 percent to 40 percent or more, depending on how you calculate it. [It was] one of the most rapid increases in poverty that the world would have seen in that short span of time, apart from a natural disaster. With the tight

monetary policies that were pursued and the other policies, firms didn't have the money to even pay their employees. What was tragic about it is while they didn't have enough money to pay their pensioners, to pay their workers, they were giving away the valuable state assets to a few rich people. So, in a way, resources were leaving Russia in massive amounts; billions and billions were leaving, with these open capital markets. Russia privatized before they had a good tax system in place. It's very easy to tax oil, and you can monitor the amount of oil that's being shipped abroad. It's actually relatively easy. But they privatized it before they put in the means of taxing this most basic resource of the Russian economy.

And so by not getting the sequencing right, by not pacing right, they led to the impoverishment of massive amounts of their people. Then, with the government not having enough revenue, other aspects of life started to deteriorate. They didn't have enough money for hospitals or schools. Russia used to have one of the [best] school systems in the world. Now they didn't have enough money for that. So, this began to affect every dimension of people's lives." [11]

According to the well-known Russian sociologist Овсей Шкаратана

[12], to carry out reforms in Russia, it was necessary to consider national and historical traditions. In particular, he writes: "In world practice during the second half of the twentieth century. the most famous are two ... models of economic development - American and Japanese - each of which is clearly based on alternative value systems. In one case, the achievement-by the individual, in the other case, the achievement-collective." [12] "To all modern observers, it is quite obvious that the Chinese, like the Japanese, are performing their economic miracle based on the traditions of their ancient civilization, which is built on fundamentally different foundations than the civilization of the United States and Europe." [12] Thus, Shkaratan believed that Russia had to develop some kind of its own, special path of reforms, since Russia is not the West, but not completely mentally belongs to the East.

Also, according to Shkaratan's theory, Russia imposed etacratism on neighboring countries by force. The core of etacratism is the republics of the former USSR (except for the Baltics and Ukraine); Semiperiphery - Bulgaria, Romania, Serbia, and Ukraine. Periphery is Poland, Hungary, Czech Republic, Slovenia, Lithuania, Latvia, Estonia. The more Western values, social norms,

and economic institutions a people can preserve with their culture, the further they are from the core and the easier it is to reform. Shkaratan believes that it is mentally difficult for Russians to understand the institutions of private property, the market, the rule of law, and civil society. Therefore, "after the collapse of the USSR, unlike most Eastern European countries, Russia did not undergo a radical turn towards a competitive private-ownership economy. [12] In fact, Shkaratan confirmed that Homo-Sovieticus has great difficulty presenting himself as an owner or a capitalist. Rather, he can easily imagine himself as an executor or a subject of the leader.

The scientist also connected the countries in which serfdom was legally enshrined in the 19th century with the absence of private property relations and the dominance of "power-property" relations at the present time. Until the end of the 19th century, the rural population of Russia was the property of the nobles, that is, they were slaves and could be the object of purchase, sale, exchange, and free exploitation. Супоницкая (Suponitskaya) in the scientific article "American slave and Russian serf: typology and specifics of forced labor" writes that "in 1857. 22.5% of the nobles, who had 100 or more souls, owned

80.5% of all serfs." [13] Of course, slavery could not but leave an imprint on mental behavior.

Too fast privatization. Comparison with experience in neighboring countries. "In the post-socialist countries of Europe, the release of prices took place gradually (for example, in Poland this happened practically throughout the entire 1980s), mitigating the monetary losses of the population, primarily of its low-income strata, by appropriate compensatory mechanisms." [7] "In Poland, privatization continued for more than 12 years," writes Симоныа (Simonyan) in his work "Two Decades of Reforms through the Eyes of a Sociologist". "Even in tiny Estonia it lasted over five years, while in Russia it took two and a half years. Now everyone knows that it was a criminal privatization." [7] However, too long privatization can have a negative impact on the development of the country. For example, in Ukraine, privatization has dragged on for 30 years and has not yet been completed. As a result, many promising enterprises found themselves without investments and professional management.

Geographical distance from the developed countries of the West. This opinion was reached by the adviser of reforms in Russia, Jef-

frey D. Sachs, who writes in 1999 [14]: "It is a big mistake, in my view, to blame Russia's problems on the "speed" of its economic reforms, especially since there were so few actual reforms! I was an economic adviser to Poland (1989-1991), Estonia (1992), Slovenia (1991-1992), and Russia (1992-1993). I watched all of these countries (and many others) up close. I gave similar general advice in these countries. Estonia, Poland, and Slovenia have prospered; Russia has not. The reasons for these differences lie not in any excessive "speed" of Russia's reforms, but in geography, structural conditions, and of course politics.

Geography is critical, though often neglected by commentators. The countries closest to the markets of Western Europe (Poland, Hungary, the Czech Republic, Slovakia, Croatia, Slovenia, and the Baltic States) have had a much easier transition to capitalism than the more distant economies of the former Soviet Union. When a Western European enterprise, say Volkswagen, decides to purchase parts from a firm in Eastern Europe, it almost surely goes first to a neighboring country - for example Poland - rather than to Ukraine or Russia. Therefore, the countries closest to Western Europe have received the largest flows of foreign investments from West-

ern Europe and have also been able to expand their exports to the European Community. Foreign investment and exports have been the two main engines of economic recovery in countries like Poland, Slovenia, and Estonia. [14]

Wrong order of privatization and legal nihilism. First, it was necessary to complete the judicial and legal reform, to improve the investment literacy of the population. Many scholars have said that the reform and privatization in Russia turned into a criminal redistribution of property due to the lack independent judiciary and well-functioning legislation. People were deliberately taught to disregard the laws and the right of the strong was absolute. For example, in 1992-1993, after price liberalization, the government announced that citizens' savings in Sberbank until 1993 were frozen. These contributions have not been unfrozen so far. [15]

#### **4. Criminal bureaucratic oligarchization in Russia in 2000-2022.**

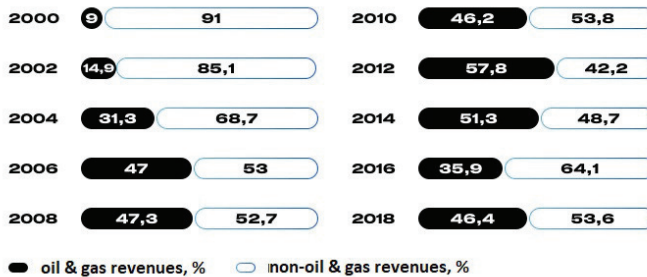
During 1999, thanks to the situation in Iran, a barrel of oil rose from \$11 to \$25. The rise in the cost of oil continued in subsequent years, and on July 4, 2008, Brent oil prices reached a historic high of

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\$143.95 per barrel. This circumstance caused both positive and negative consequences. The Russian budget has become dependent on oil and gas prices (Picture 5). As a result of rising oil and gas prices, according to Forbes magazine [16], in 1999 the budget deficit was reduced from 6.3% to 1.4% of GDP. At the end of 2008, the budget for the first time in seven years was executed with a surplus of 2.7% of GDP." "All the same expensive energy resources have also increased social spending, which has brought many Russians out of poverty," said

Геворкян [16] In 1999, 41.6 million people (28.4%) lived below the poverty line, according to the results of 2008, this figure, according to Russian statistic, decreased to 18.9 million people. Against this backdrop, the fall in real incomes in Putin's second decade looks especially dramatic. Since 2014, they have been declining, showing a slight increase (0.1%) only in 2018." [16] High oil prices offered a chance to modernize the economy. However, the new regime did not see the point in modernizing the economy and creating new industries.

### The ratio of oil & gas and non-oil & gas budget revenues of Russia.



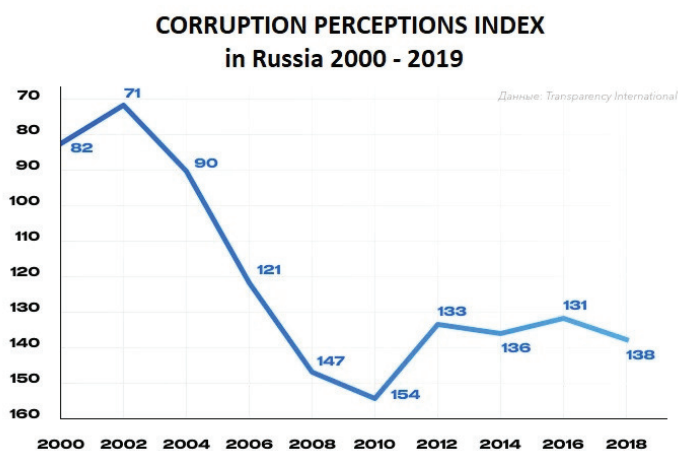
Picture 5. Source: [16] Forbes. 2019. According to the Ministry of Finance of Russia. Translated from Russian.

The logic was simple: Why create new technologies and productions at home if you can give Western or Chinese companies access to deposits and resources. And you can pay for them with the same raw materials. In fact, starting in 2001,

it was possible to do nothing, the money itself began to fill the treasury like a constant lotto win. Thus began a period of missed opportunities. The decade from 2000 to 2010, when the development of production was expected, Simonyan gives

the following assessment: "Instead of modernization, deindustrialization took place. If in 1990 the share of goods with high added value in the structure of Russian exports was 38.8%, then in 2010 it was only 4.7%". [7] If in the 90s, we observe the transfer of finance and enterprises into the hands of the oligarchs, and in 1998 the result of

reforms is manifested, then from 2000 to 2022, we observe an increase in the production and export of oil, gas, non-ferrous and ferrous metals, deforestation by Chinese companies of Siberian forests and export of national wealth abroad. Corruption and the export of capital abroad have reached unprecedented proportions. (Picture 6)



Picture 6. Source: [16] Forbes. 2019. According to Transparency International  
<https://www.transparency.org/en/cpi/2019>

From 2000 to 2021, total offshorization of the economy is added to the total oligarchization. All foreign trade in oil, gas and other resources passes through intermediary firms, where the prices of exports, as a rule, are underestimated, and imports are overestimated. Offshore and shell companies are registered in the name of persons close to the top leadership of the country and their entourage. In fact, Russia sells

hydrocarbons to the European Union, and in the same place, on the bank accounts of a chain of intermediary companies, leaves the lion's share of the proceeds from these sales. In this way, Russia finances the EU economy twice, supplying the necessary raw materials and leaving funds from the proceeds in banks. There is a precedent for the uncontrolled disposal of all the resources of the country. The seven oligarchs-

bankers of the 90s are being replaced by the oligarchs-officials of the 2000s.

Putin's reforms from the very beginning were aimed at building state capitalism. According to the Federal Antimonopoly Service, in 1998 the state's share was 25%, by 2008 it reached 40-45%, in 2013 it

increased to 50%, and by the end of 2017 it could exceed 60-70%. [16]

Considering that the top table (Picture 4) was compiled based on 2001, I add another section of the table, based on 2000 to 2022. Here you can see that the oligarchization in Russia is completely fixated on power in the Kremlin:

2000 - present time.	The final formation of criminal oligarchic capitalism in Russia.	Elimination of regional oligarchies. Subordination of all oligarchic criminal groups to the Kremlin.	The merger of the oligarchy with the irremovable leadership of the country. Uncontrolled disposal of the country's resources.
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Without an independent judiciary and open multi-party-political institutions, capitalism in Russia becomes criminally oligarchic. The power structures are endowed with unlimited power, and the officials of the state apparatus are completely uncontrolled in their actions. There is a suppression of competition in the economy and politics. In the 2000s, the state came into business, but left science, education, health care, as it reduced funding for these structures. Government officials, using their official position, corrupt law enforcement agencies and the courts,

"squeeze" business from medium and small entrepreneurs. For example, in any city at the state hospital you will find private services owned by a relative of the head doctor, and private companies owned by relatives of the local education official will supply food to schools or kindergartens. This scheme is widespread throughout all regions and is typical of both large gas concerns and small hairdressing or vegetable shops. Where corruption has no place for competition, which means there is no economic growth. In the 2000s, financial groups merge or are acquired, split, or co-

operate. The economic lobby of the oligarchs got stronger and began to influence the legislative activity in the Russian parliament. For example, the oligarchs did not allow the adoption of a law on wealth tax, differentiated personal income tax for the rich, and so on.

The regime of power in Russia in 2000-2022 eliminated the rights of the Federations, leveled the democratic reforms of the 90s, canceled the elections of governors and mayors of cities, and subordinated the leadership and finances of the regions only to Moscow. All media in Russia came under state control. Repressions against journalists and strict censorship have grown, "stop lists" have appeared that prohibit interviewing people from the list. Gained momentum propaganda about the economic genius of the new leadership of the country. The population is isolated from real information, and the Internet that has come to the country is filtered and blocked. Alexander Tonkonogov [17] describes oligarchic capitalism in Russia in this way: "According to the data given in October 2012 in the Global Wealth Report, the richest 1% of Russians account for 71% of all personal assets - 2 times more than in the United States. ... 96 Russian billionaires own 30% of all personal assets of Russian citizens. This

figure is 15 times higher than the global one. Secondly, in terms of labor productivity, we lag behind the United States by 5-6 times, but even more so in terms of wages: 10-12 times, which, of course, does not stimulate the growth of labor productivity. Thirdly, the number of the Russian population with incomes below the subsistence level in 2013 amounted to 15.9 million people (11.1% of the total population of the country). At the end of 2012, there were 15.6 million people (10.9%). According to the results of the 4th quarter of 2013, the subsistence minimum amounted to 7.326 thousand rubles per capita. Fourthly, the Chairman of the Defense Committee of the State Duma of the Federal Assembly of Russia V.P. Komoyedov states that domestic industrial production has now reached the level: for the production of shoes - 1900, for the production of wagons and fabrics in 1910, for the production of tractors - 1931, for the production of cars - 1937. [17]

Russian media and tourism programs create a picture of a prosperous country. Tourists are shown Red Square and the historical center in St. Petersburg. However, if you step aside from the tourist routes, you can see that 30 kilometers from Moscow in the cities there is no asphalt on the roads, no

street lighting, and the houses resemble ghettos, with apartments without toilets and gas. Europeans are accustomed to seeing many rich Russian tourists in Europe and it seems that in Russia everyone is rich. However, Europeans see only rich Russian tourists, who are 2% of the population of Russia, and this is about two million people. The poor part of the Russian population is not visible in Europe, because they do not have money for a trip, a visa and a foreign passport, and they are simply afraid of Europe because of the propaganda on television. Half of the families in the Russian Federation have enough money only for food and clothing. Here is what Pavel Mylnikov writes for DW Information agency on May 28, 2019. "In the fourth quarter of 2018, 48.2 percent of Russian households did not have incomes that allowed them to purchase durable goods, according to Russian statistic. The income of 15 percent of families covered only the purchase of food. In December 2018, a study by RIA Rating revealed that every fifth working Russian receives less than 15 thousand rubles a month." [18]

In the country that is the leader in gas exports, two-thirds of the settlements are not supplied with gas, and 30% do not have running water, while the budget allocates

\$1.5 billion a year to finance the media [19]. According to WaterAid, 23% of Russians do not have the opportunity to use private toilets and often look for a place in open spaces. In terms of urban population without access to safe toilets, Russia ranks fifth, behind India, China, Nigeria and Indonesia. The situation in Russia turned out to be worse than in Bangladesh, the Republic of the Congo and Brazil. [20] At the same time, in Russia most of the schools have unheated toilets on the street, which do not have separate cubicles. This issue was often raised in the Russian government but has not yet been resolved.

One of the main consequences of the oligarchization of the economy and the merger of the oligarchs with the regime was the transfer of huge sums abroad using special schemes. "On average, the size of the Russian shadow economy is estimated at 30-40% of GDP, while in the US and Switzerland it is about 9%, in China - 13.5%, in India - 24%. In terms of the shadow economy, Russia is somewhere close to Gabon and El Salvador." [21]

Abel Aganbegyan and Mikhail Ershov in the article "There is money, there is no growth" in 2020 described the result of 30 years of oligarchic capitalism in Russia,

aimed at exporting capital. "In 2019, GDP in Russia was only 10% higher than in 1990. At the same time, investment in fixed assets amounted to about 70%. The volume of industry in 2019 slightly fell short of the size it had in Soviet Russia. The share of the consumption fund of the population in GDP has increased significantly, so real per capita income in 2019 exceeded the 1990 level by 25%. This excess occurred mainly due to the formation of a small stratum of rich people. The 10% of the richest families have a per capita income of about 100,000 rubles. per month, while 10% of the poorest families - only 6,000 rubles., 15 times less. In 1990, this social inequality was only four times, in the 80s. - three times. So, the real incomes of 2/3 of the population are either at the level or below those of Soviet Russia." [22]

There is no other large country in the world with such low rates of socio-economic development in the last 30 years. Over the years, the GDP of the EU countries has grown 2 times, the USA - 2.5 times, China - 3.5 times. At the same time, already today, due to the devaluation of the ruble three times compared to 2008, Russia's GDP, according to the World Bank (WB), has fallen to 10th place among large countries, and even to 12th place according to

the IMF and UN. And in terms of the level of economic development (GDP per capita as measured by purchasing power parity), Russia ranks 50th (estimated by the World Bank and the IMF)." [22]

The new, criminal bureaucratic oligarchy, in addition to intermediary firms in the oil and gas trade, uses hundreds of ways to withdraw funds from the Russian budget and state companies abroad. The mechanism used by the criminal oligarchy turned out to be simple and convenient. The volume of theft can be judged by only one small example. OCCRP [23] published part of the investigation. An ordinary musician, a cellist Sergei Roldugin close to the highest official in the Kremlin, managed offshore companies with capitals of hundreds of millions of dollars. The scheme operated from 2006 to 2013, during which time about \$4.6 billion was sent to it. "She was used for a variety of purposes: withdraw funds from Russia, hide assets, avoid taxes, etc." It is said in the investigation. Many transactions were serviced by the Russian investment bank Troika Dialog, which belonged to the most influential oligarch in Russia. For example, to carry out the withdrawal of money, contracts for the purchase of shares were concluded, then contracts were deliberately violated and

penalties of tens of millions of dollars were paid.

## **Conclusions**

The planned economy in the USSR failed. During the reforms from 1988 to 1992, private property and business were allowed, isolation from the outside world was overcome, the administrative command system, censorship, the ideology of equalizing people were eliminated, and private financial institutions were created. Also, prices were liberalized, and three stages of privatization were carried out. Russia has become the most free, democratic country, with a promising market relation. However, there were accidental or deliberate mistakes on the part of the reformers. The privatization was carried out too quickly, without considering the specifics of the country, in violation of laws and ethics. Groups of immigrants from the communist nomenclatura, through private banks and imperfect laws, received the most profitable sectors of the economy into their own. Less profitable sectors of the economy quickly collapsed. Financial-industrial groups (FIGs) were formed, which merged with the central and regional authorities, an oligarchy was formed. After the reforms, the economy began to grow.

The new regime that came to power in 2000 carried out a partial nationalization of the primary industries. At the same time, a tenfold increase in oil prices allowed the new regime to gain a foothold. Democratic reforms were abolished, the redistribution of property began, a vertical of power and centralization of finances from the Federations to the Kremlin were established. Soaring oil prices effortlessly filled the budget and gave a false appearance of success. The costs of promoting the false successes of the new government are growing. Bureaucrats and officials merged with the oligarchy. Strict censorship is introduced in the media. Due to underfunding, other industries other than raw materials are not developing. The budget is on average 60% dependent on the price of oil. Corruption eats away at the local economy. Law enforcement agencies, courts and local authorities control any profitable business. Social policy is poorly financed, the stratification of society, unemployment and poverty are growing, roads are not being built, infrastructure is being developed in the provinces. As a result of the oligarchization of the resource-based economy, economic pressure on the northern, Siberian and Far Eastern colonies of Russia in-

creased. The main resources are exported from the colonies, including timber, oil and gas, ores, filling the federal budget, but only meager funds are received in return. The local population of the colonies, consisting of national Finno-Ugric, Turkic, and Mongoloid minorities, suffers from unemployment, poverty and extinction. Since 2008, economic growth has stopped. Criminal groups consisting of oligarchs and officials parasitize on the budget, the banking system and foreign trade in raw materials. Foreign intermediary companies, open to relatives of the highest

authorities, are plundering the country uncontrollably.

**Forecast:** In the current situation, in which criminally parasitic oligarchic bureaucratic groups rule, the Russian economy has no growth prospects. The population is in a difficult economic situation, which can lead to a social catastrophe. The restoration of economic growth is possible only after the change of corrupt government, the restoration of the Constitution and laws. It is necessary to decentralize the economy and finances, remove officials from business and launch competition.

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## **OLIGARHIZACIJA RUSKE EKONOMIJE. UZROCI, TOK I POSLJEDICE**

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**Rezime:** Reforme 90-ih godina u Rusiji koje su imale za cilj prelaz privrede na trzisnu ekonomiju sprovedene su na brzinu, ne uzimajući u obzir nacionalne, geografske i istorijske specifičnosti. Nihilizam u ekonomskoj, političkoj i pravnoj sferi društva omogućio je prelazak unosnih industrija sirovina u ruke oligarha. Nerentabilne industrije su pale, što je izazvalo strukturne distorzije u privredi. Hiljade gradova i mjesta je nestalo, uzrokujući patnju ljudima. 2000-ih godina došlo je do centralizacije vlasti i odbacivanja reformi, oligarhija se spojila s državom u finansijske i industrijske grupe. Posljedica je bila pojava parazitskog oblika kriminalnog oligarhijskog kapitalizma, motiviranog da izvozi kapital iz Rusije. Istovremeno, u Kazahstanu, Ukrajini, Poljskoj, Čehoslovačkoj i baltičkim državama reforme i privatizacija išle su drugačijim putem. Oligarhizacija je zaustavila ekonomski razvoj Rusije i pojačala negativne posljedice.

**Ključne reči:** tržišne reforme, raspad SSSR-a, vaučeri i kuponi, privatizacija, oligarsi, preraspodela imovine, korupcija, ofšor kompanije, posledice reformi, pravni nihilizam, nacionalne specifičnosti, ekonomija zasnovana na sirovim resursima, distorzija u privredi, model kapitalizma, komunistički nomenklatura, odbijanje reformi, nacionalizacija, usporavanje privrede, trajna kriza, finansijske i industrijske grupe, ruski kriminalni kapitalizam