

REPORT

Vladimir Putin's Big Government and the "Politburo 2.0"

Minchenko Consulting Communication Group presents the report "Vladimir Putin's Big Government and the Politburo 2.0", which is based on the results of an expert survey of more than 60 participants (representatives of the country's political and business elites). Due to the specific nature of the survey, subject participation was strictly anonymous. The purpose of the survey was to build a consistent model of the informal decision-making system formed following the electoral cycle of 2011-2012, and of making staff decisions concerning the appointment of the new line-up in the Russian Government and the Presidential Executive Office. The report is intended for regional elites, Russian business and foreign investors.

The formation of a new executive structure (including the government, the Presidential Executive Office, rotation in the governors' offices) demonstrated us a **new staffing style of Vladimir Putin. The traditional scheme of the "checks and balances" elite system was sophisticated:**

- **A "control unit" that is in fact a back-up structure to the government was created within the Presidential Executive Office;** it is represented by assistants to the President and specific administrations controlled by them. It should be noted that thanks to their staff these administrations can compete with ministries and governmental departments on the speed of bureaucratic procedures. There also exist recruitment centers alternative to the Presidential Executive Office [hereinafter – the PEO]. For example, Vladislav Surkov's team that moved into the government; for now it is forced away from managing the domestic policy but, when necessary, it is ready to resume performing this function;
- The President set up a number of new commissions (specifically, commissions for energy and for monitoring the execution of the President's pre-election promises), which comprise of both ministers and representatives of the PEO. In this way, the President demonstrates his control both over the government and the executive office. In fact, **Putin's long-standing dream has come true. He implemented in Russia the American model whereby the President controls the entire vertical of the executive power** (a sort of "big government");
- Having preserved the existing pressure groups, Putin is **experimenting with launching new players on the field** who would act either as executors-technocrats "tied up" personally to him (for example, Minister of Internal Affairs Vladimir Kolokoltsev and Minister of Economic Development Andrey Belousov) or as bearers of alternative political platforms ("People's Front" dichotomy – United Russia, quasi-oppositional projects of Alexey Kudrin and Mikhail Prokhorov, "taskforce" state-backed projects of D. Rogozin, I. Kholmanskikh and V. Yakemenko);
- **Within the spheres of influence of major elite clans, individual players are granted autonomy with the President's support** (for example, Sergey Kirienko in the sphere of influence of the Rossiya Bank Group and Uralvagonzavod's CEO Oleg Sienko within Sergey Chemezov's group);
- **The fragmentation of elite groups** is still on-going and **new players continue to spin off** (for example, there was a noticeable increase in the autonomy of Sergey

Shoigu, who was historically tied up to the “family group”, and distancing of some security officers from I. Sechin);

- **Putin is dismantling “the Medvedev coalition” of 2006-2007**, showing his favour to its members from among high-status officials by giving them new orders (particularly, to I. Shuvalov and V. Surkov).

Today, in addition to solving governance objectives as such, the **ruling eliteⁱ also attempt to secure its stability in the long term**. To do so, it needs:

1. To convert power into property (through a new stage of privatization, use of budgetary resources and preferences by government agencies in order to develop profitable businesses, create new “rents”);
2. To make provisions for the transfer of property acquired in the 1990-2000s by inheritance;
3. To legitimize acquired property both in Russia and abroad.

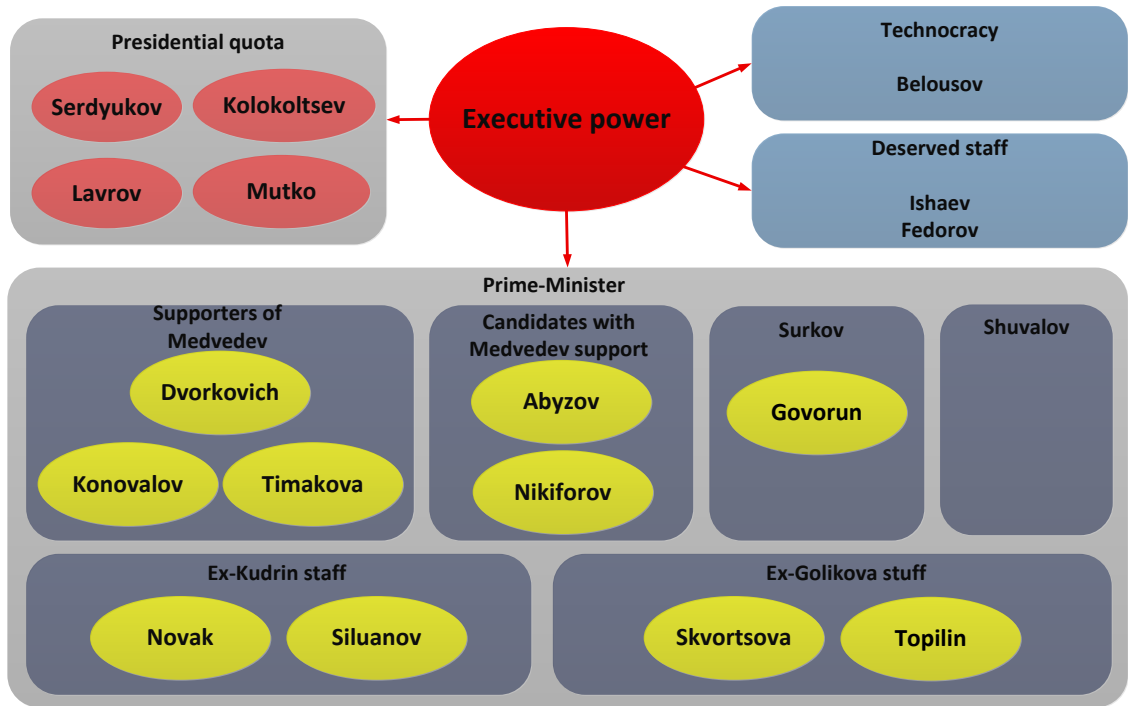
Another objective of the ruling elite is to **strengthen the coalition framework, eliminate unwanted members and attract a limited number of new ones**. The system needs to periodically create stimuli for the redistribution of wealth and benefits in favour of the successful coalition members who have distinguished themselves. It appears that the property redistribution mechanism will be based on the three major projects:

1. New wave of privatization;
2. Big Moscow (plan of enlargement of capital district territory);
3. Development of Siberia and the Far East (in various organizational forms).

Already in the first months of Vladimir Putin’s new presidency, the implementation methods of these projects and even their very destiny have become the object of violent fights between the groups surrounding the head of the state.

There are a number of structural contradictions inside Putin’s “Big Government”, among them:

- Excessive scope of authority of deputy prime ministers such as A. Dvorkovich, I. Shuvalov and V. Surkov, which later on can be re-distributed to the benefit of other or newly appointed deputy prime ministers;
- Rivalry for control over the financial block between A. Serdyukov, I. Shuvalov and the former Kudrin’s team;
- Staff rivalry for control over the energy sector between Secretary of the President’s Special Commission I. Sechin and Special Deputy Prime Minister A. Dvorkovich (and the coalition of nomenclature and business groups that has joined in with him);
- Power struggle between the Ministry of Telecommunications and Mass Communication and the new department in the PEO headed by ex-Minister I. Schegolev, fueled by the fact that the ministry had to surrender several major powers to the recently created specialized agency.



Putin's "Politburo 2.0" is an informal body used for the adjustment of the above-mentioned and other staff contradictions.

The "Politburo 2.0"

Russia's ruling elite can be described through the model of the Soviet collective power body – the Political Bureau of the Central Committee of the Communist Party of the Soviet Union (CPSU CC). Such a system of collective elite power is quasi-constitutional in terms of modern nation-states, but effective, when we come into the language of the "natural state"ⁱⁱ. The process of ruling aims primarily to sustain the existing inter-clan balance.

Russian power is by no means a rigid vertical structure controlled by one man. The line of command (Putin's "Vertical of power") is no more than just a propaganda cliché. **Russian power is a conglomerate of clans and groups that compete with one another over resources. Vladimir Putin's role in this system remains unchanged – he is an arbiter and a moderator,** but a powerful arbiter who has the last word (at least for the time being) in conflict situations. The key resources of the President, besides his office, are personal confidential relations with major elite players within and outside the country, the persisting trust rating with the population. **Within the domain of Putin's direct control are long-term gas contracts, management of the gas industry and, basically, Gazprom, as well as the control over backbone Russian banks (VEB, VTB, Sberbank).**

In the 2000s, a number of factors (such as: re-distribution of resources from oligarchic, mainly small, clans (with the exception of the Yukos Empire) to security officers, collapse of media empires controlled by oligarchs, liquidation of the most part of regional regimes that functioned following the logic of the feudal outlaws) led to the formation of a political decision-making style, which more and more resembles of the Soviet Politburo model. The focus on

creating state corporations – “national champions”, which was practised both in politics and economy, contributed to the shift towards this model.

A specific feature of the “Politburo 2.0” is that, firstly, it never holds general meetings. Secondly, the formal status of its members does not always reflect the real influence on the decision-making process. And thirdly, several elite circles, which can be conventionally referred to as “security”, “political”, “technical” and “business”, have been formed around the “Politburo 2.0”. On the one hand, these circles support the “Politburo 2.0” in the process of domination, but, on the other hand, they compete with one another for the influence on the “Politburo 2.0”, particularly, by nominating their candidates to it. Together with the administrative clans that have survived since the 1990s they form an analog of the CPSU CC of the 21st century.



According to our scale, full-fledged members of the “Politburo 2.0” are leaders of major elite groups holding positions both in business and in government institutions (on the federal level as well as on the regional ones) and acting as permanent players on the political and economic arena. An indirect factor evidencing affiliation with a limited group

of persons able to influence key decisions is active participation in the series of appointments of governors, which took place in the first five months of 2012. Among these players are:

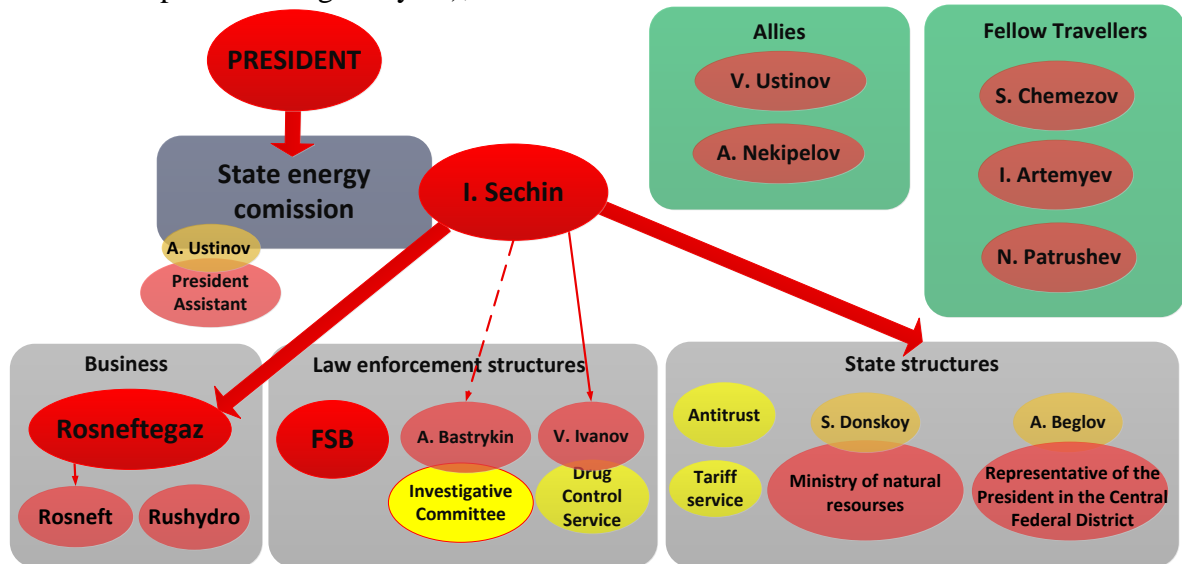
1. Ex-President **Dmitry Medvedev**, who lost most of the “second tenure support coalition” but in return was able to create his own group with an independent economic basis and such an important instrument as the United Russia party. Naturally, he had to give up his own political ambitions for a while and lose several of his appointees in law enforcement structures (with the walkoff of A. Reimer he lost control over the Federal Penitentiary Service; V. Kozhokar, Deputy Minister of Internal Affairs and Head of the Investigation Department of the Ministry of Internal Affairs, the Prime Minister’s former classmate, also resigned). **However, due to his strong staff position, D. Medvedev will inevitably be the center of attraction for competing business groups.** Now the prime minister has a number of team-mates who have staked on him. Among them is Prosecutor General Yu. Chaika, Deputy Prime Ministers V. Surkov and I. Shuvalov. **On a number of issues D. Medvedev’s group aligns itself with the “family” group and associate liberals**, and, in addition, in certain situations, enjoys the support of the Kovalchuk group;



2. **Sergey Ivanov**, who has remained V. Putin’s confidant and whose function is to sustain the intra-elite balance within the Presidential Executive Office;

3. **Rosneft CEO Igor Sechin**, who has extensive, though unformalized, influence. His ambition to become a major player in the fuel and energy sector runs across a powerful opposition not only on the part of private companies but also of other “Politburo members” – Gennady Timchenko and Yuri Kovalchuk. However, the major issue for Sechin is to maintain informal influence over law enforcement agencies, which will inevitably become less powerful after his resignation from the public office. It means that those players who were historically

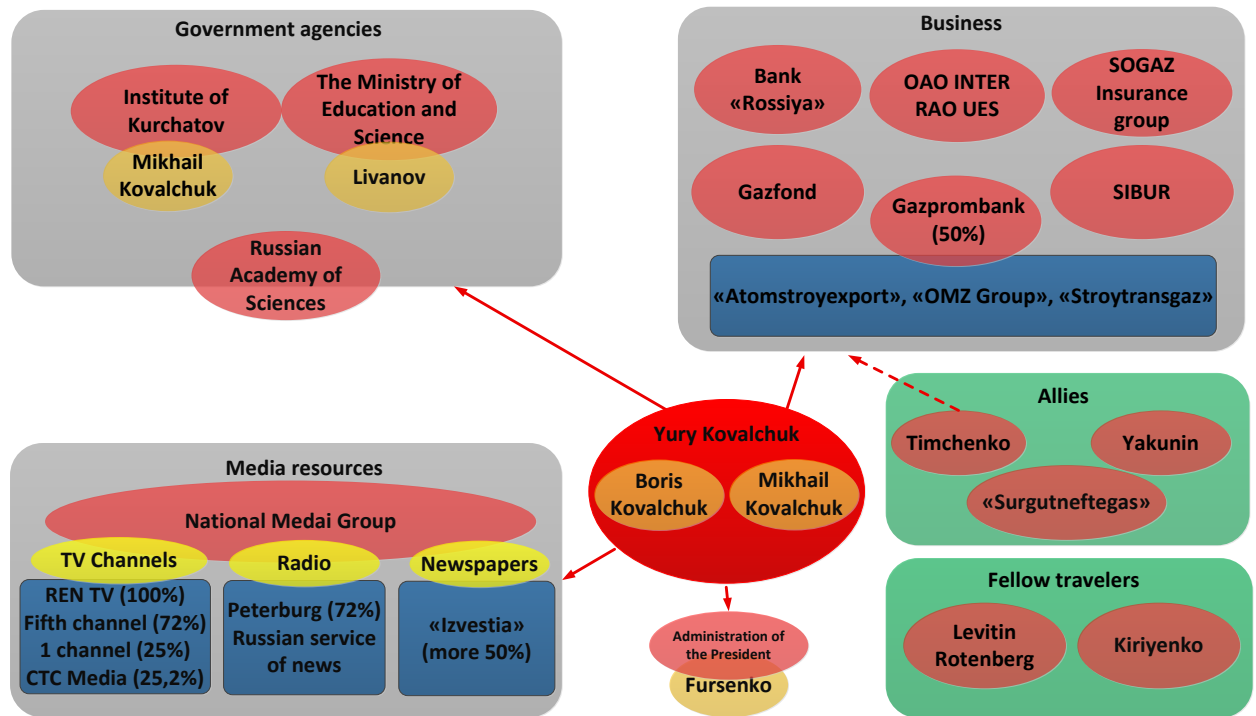
perceived as his close team-mates, such as, for example, A. Bortnikov, A. Bastrykin and V. Ivanov, in real life will more and more distance themselves from the ex-deputy prime minister. However, this drift clearly fits well the logic of V. Putin oriented towards splitting and fragmentation of the existing nomenclature groups. At the same time, I. Sechin now enjoys a new resource – the reputation of a tough and effective manager not only within the country but also in relations with the West (2 deals closed in the fuel and energy sector with American and French companies during this year);



4. **Sergey Chemezov's group** is today the dominant player in the military and industrial sector, but its influence is limited due to failed political projects of the group in the regions and absence of any highlight projects in the defense industry; the situation is exacerbated due to numerous scandals around military supplies. Nevertheless, S. Chemezov's group has recently launched a new political project, successful, in the first place, in terms of attracting sympathy of the head of the state ("Uralvagonzavod's workers vote for Putin"), rather than in terms of manipulating the public opinion;

5. **The tandem of Gennady Timchenko and Yuri Kovalchuk** is a pole of influence in the fuel and energy sector, alternative to I. Sechin. Today the Rossiya Bank Group incorporates not only the founders of the Ozero cooperative society, though the contours of the long-standing partnership can still be seen behind the new financial and economic structures. As can be seen from the presented scheme, the group's resources are extensively diversified. However, after the re-shuffle, the group lost, rather than gained - the number of its powerful affiliates decreased. Nevertheless, one should not think that G. Timchenko's non-participation in the struggle for the recent appointees in the governor office points to a considerable decline in his influence. It is due to the concentration of business in several regions where G. Timchenko already solved all problems with loyal governors. Whereas Medvedev's innovation projects hit hard on financing and prestige of The Russian Academy of Science. The group's power is still based on the banking and insurance business, through which major production assets are controlled (Atomstroyexport, OMZ Group, and others). The structure of assets also makes it clear that V. Putin trusts the Kovalchuks to balance Gazprom's interests in a number of backbone projects. The oil trader and gas producer G. Timchenko seeks to diminish Gazprom's **monopoly as much as is allowed by Vladimir Putin's policy. At the same time, the group's relations** with Rosatom's CEO S. Kirienko who used to be an ally now turn into competitive. Yu. Kovalchuk's

influence is growing thanks to the media resource, which will become more important in the near future;



6. **Sergey Sobyenin** today is not only the Mayor of Moscow but also the leader of the nomenclature group that comprises several governors in the Urals. He managed to establish non-conflict relations with most oligarchic structures that have interests in Moscow. Besides, despite his managerial style, which is in fact rigid, S. Sobyenin manages to arouse sympathy among the liberal beau-monde (there are fast spreading rumours about his hidden opposition to the violence of authorities towards peaceful protest demonstrations). At this moment, the conflicts around the Big Moscow project are the critical point potentially threatening Sobyenin’s positions;

7. **Vyacheslav Volodin** is a neophyte in the Politburo who, however, is rapidly accumulating power having monopolized the political management function. Thanks to the full control over the electoral project All-Russia People's Front and shared control over United Russia party, operating management of the regional policy and strong influence in the Parliament, Volodin has gained considerable leverage. The vulnerable point of the group is absence of any serious economic basis and the label of an “outsider” in the team from Saint-Petersburg.

Candidates to the “Politburo 2.0”. Unlike the “full-fledged” members of the informal collective body of power, who are the leaders of the conglomerate comprising nomenclature, economic and political elements, candidates to the Politburo are divided by blocks. As we can see, the powerful players such as Sergey Naryshkin and Igor Shuvalov have been granted the status of candidates to the members of Politburo because V. Putin needs them not as leaders of nomenclature groups, whose interests need to be coordinated, but as autonomous players, whose function is to keep under control the influence of such groups and balance their interests. We have not separated the Gazprom Group because, on the one hand, this corporation is under the direct control of V. Putin, but, on the other hand, it is divided into several competing groups of

influence, whose behaviour is “seen after” by Alexey Miller and, to a lesser extent, by Viktor Zubkov.

Other powerful candidates to the “Politburo 2.0” include:

- Alexey Kudrin, who has retained a strong ideological influence on the financial block of the Government and has kept personal contact with V. Putin;
- Arkady Rotenberg, one of the President’s business associates;
- Nikolai Patrushev, whose group, centered in the Security Council, is a reserve security block;
- Vladislav Surkov, the head of a reserve ideological block;
- Alexander Voloshin, who is in charge of the political management of the “family group” and has a strong influence on middle-level officials;
- Roman Abramovich, who used to be a member of the “Politburo 2.0” but now is a candidate because lately he has been shifting the center of its activity from Russia to the West.

The technical block (the Central Committee Secretariat of the 21st century) includes players who are tied up personally to V. Putin and who perform the functions of specialized experts. In the economic sector these are I. Shuvalov and E. Nabiullina, in international relations this is, certainly, S. Lavrov, in the media these are A. Gromov and D. Peskov, as far as the issues related to the regional development are concerned these are A. Khloponin, V. Surkov and D. Kozak.

The political block of candidates includes players who influence the process of ideological planning of actions of authorities, propose their versions and scenarios of development. That is why it comprises not only the ideologists of the liberal policy (A. Kudrin, A. Chubais, A. Voloshin), but also Patriarch Kirill who claims being involved in the formation of the state ideology. We have considered it possible to include the representatives of the systemic opposition as the candidates to the Politburo because none of them really races for power. They are all integrated in the system and all bargain with it with a different degree of success. So far M. Prokhorov has gained the highest dividends through the appointment of his confidants (O. Golodets to the office of the deputy prime minister and S. Yeroschenko to the office of the Governor of the Irkutsk region). It should be noted, though, that in both cases, when lobbying these appointments, M. Prokhorov acted in league with other elite groups, in the case with O. Golodets – with S. Sobyenin, in that of the Irkutsk region – with S. Chemezov.

V. Zhirinovskiy has only gained the Smolensk region so far, but we cannot exclude that during the governor elections in 2012-2013 the federal authorities will play at giveaway with the systemic opposition in the regions that are of no special interest in economic terms. Besides, possible victories of oppositionists will give a way to the criticism of managerial talents of the opposition members, as it already happened to the Kirov region governor N. Belykh criticized by V. Putin.

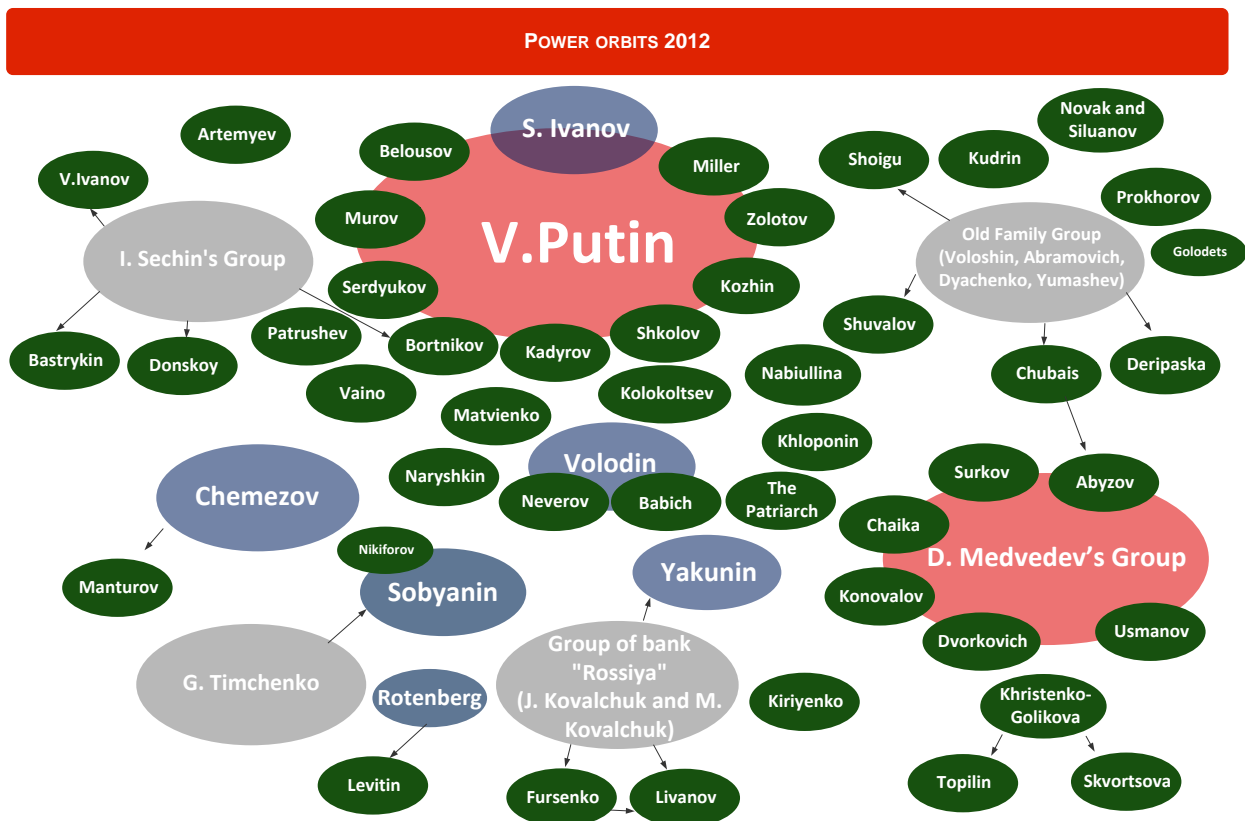
The business block of the candidates to the “Politburo 2.0” includes primarily those businessmen who are able to influence the policy of the federal center either owing to personal contacts with V. Putin, such as R. Abramovich, A. Rotenberg, A. Miller, V. Yakunin and G. Gref, or owing to the scale of business, such as V. Potanin and O. Deripaska, or because they accomplish certain tasks that are crucial for the authorities. For example, being included in the

international economic elite is an important factor for the maintenance of influence of M. Fridman, V. Alekperov and V. Vekselberg.

The security block of the candidates to the “Politburo 2.0” includes only those law enforcement officials who are active players in the country’s political and economic life. As a rule, they act as allies of certain nomenclature groups, that practice is sometimes manifested by family alliances or employment of relatives of representatives of the security elite in major business structures.

A crucial factor in the reformatting of mutual relations within law enforcement structures is the appointment of V. Kolokoltsev as Minister of Internal Affairs. First, for the first time while V. Putin has been at the helm of the state, the Ministry of Internal Affairs is headed by a man originated from this system. Secondly, ex-ministers (B. Gryzlov and R. Nurgaliev) were directly associated with N. Patrushev’s group whereas V. Kolokoltsev is “tied up” personally to V. Putin and is not associated, at least for the time being, with any of the nomenclature clans playing their own game. The third fact but not the least, assumes that V. Kolokoltsev has all chances to become a popular minister owing to his background and the image achievements as head of the Moscow police.

The personal contact with the President is an enormous competitive advantage for all members of the “Politburo 2.0”, so the experts who participated in the survey rate highly the influence and the lobbying potential of players such as Head of the Presidential Security Service V. Zolotov and Director of the Federal Protective Service E. Murov, who are among the candidates to the “Politburo 2.0” as representatives of the security block. Assistant to the President Ye. Shkolov is in the same block – though his position is staffing-related, he has a strong law enforcement background and is historically connected with S. Chemezov’s group.

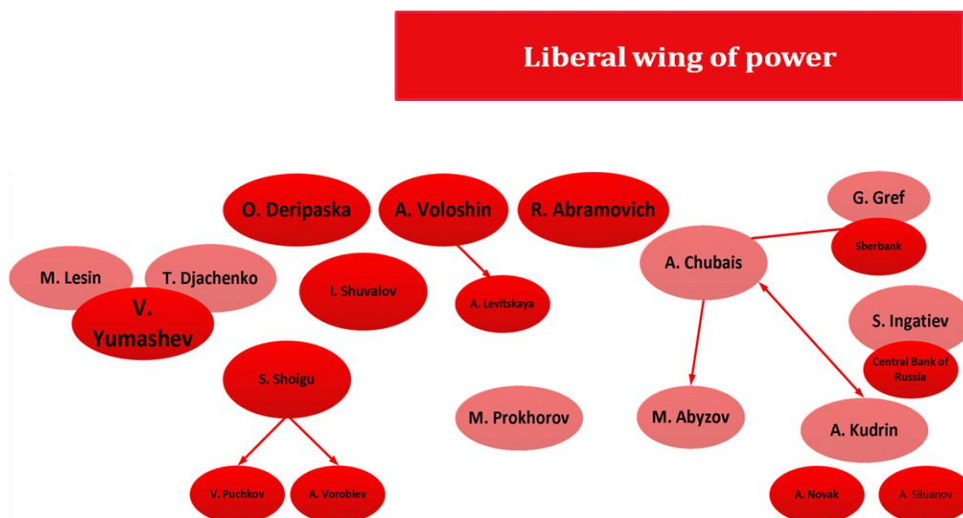


Among regional leaders – candidates to the Politburo – there are heads of regions, who have not only a powerful lobbying potential owing to personal contact with Vladimir Putin or significance of their regions for the country, but who are also headliners of ideological projects. For G. Poltavchenko it is an “Orthodox and KGB symphony”, S. Shoigu represents the “autocratic populism”, R. Minnikhanov appears as a “pan-Turkist” and a moderate Islamist. R. Kadyrov has been put on the list of candidates to the Politburo because he clearly claims the leadership in the North Caucasus.

It should be emphasized that the **return of V. Putin to the Kremlin has not added to the stability. The new configuration the “Politburo 2.0” demonstrates an unstable equilibrium**, because the groups that form it aim to implement mutually opposing scenarios of the development of the situation. Moreover, due to the informal status, the maintenance of the certain players’ membership in the “Politburo 2.0” will depend on the situation.

If the events develop along a conservative path, it will be most beneficial to the group of executors-technocrats – specifically, it will increase I. Sechin’s power in the “Politburo 2.0”. That is why the scenario pursued by I. Sechin is inertia and stability. For D. Medvedev’s group stability is a good scenario but controlled instability would be a more appropriate way forward for his team, because in this case it will have more possibilities to control executors-technocrats in the Government and diminish influence of some other members of the “Politburo 2.0”. Such levers as appeals to the public opinion and use of media resources are becoming more important.

None of the elite groups openly practices a crisis scenario and “reset” of the collective body of power, but among the beneficiaries of this pathway there are groups which have enough charismatics to win a wide popular support and mass media resources to promote new players. The main beneficiaries of the crisis scenario could be the liberal wing of power in alliance with “old family” group, which is even now ready to delegate A. Kudrin or A. Voloshin to the “Politburo 2.0”, and S. Sobyenin’s group, which has firmly strengthened its staff positions in the last six months and keeps in a reserve politicians such as E. Kuivashev with a potential to succeed in the public politics.



It is not by chance that I. Sechin's group and the "old family" group are at a maximum distance in our structural model of co-existence of Russian elite groups. The differences in their views are one of the basic drivers in the struggle over the future political course. This confrontation may involve other groups, too. For example, an informal "anti-Sechin front" has emerged recently due to a high degree of confrontation in the fuel and energy sector. According to the experts, V. Alekperov, G. Timchenko and, to a lesser extent, Yu. Kovalchuk have joined in with this front. Special Deputy Prime Minister A. Dvorkovich is the face but not at all the leader of the front.

There are also some other engines of the future development, directly associated with the make-up composition of the new Russian Government.

The situation around the expansion of the Moscow district creates an acute tension because in this case winning by one elite group is directly proportional to losing by another elite group, and the governors of the two key regions are not "in one team". S. Shoigu's claim for the compensation of unconsidered expenses of the federal budget will not be, most likely, the last attempt to change the situation for his own benefit. It is obvious that the adoption of the Big Moscow Project was too hasty for a decision of this level. It is also obvious that the question is still open. For example, the Russian Government got an offer from the businessman Vasily Anisimov in which he suggests relocating federal authorities to his lands in the Domodedovo area, and Dmitry Medvedev agreed to consider this offer. Discussions over a possible merger of the two constituent entities of the Federation, which seemed to have already quietened down, are flaring up again.

Fights over the privatization program, in which each of the groups hopes to gain control over a considerable part of state-owned property, have already turned into positional ones and each of the groups is building echelon defense of its positions. It means that each decision in this sector will be made at titanic efforts.

Similarly, those who think that the issue of creating the Corporation of Siberia and the Far East is over and done with are wrong, either. "Old family" group, which has initiated the matter, just cannot see so far a 100% guarantee of implementing this project in its interests and prefers for a while to "disassemble scaffolds" under its own idea. In response, N. Patrushev's group, which lobbied Boris Gryzlov to the position of the CEO of the Corporation, seeks to constrict, to a maximum extent, the authority of the new minister for Far Eastern affairs so as, when the opportunity should rise, to raise again the question of creating the Corporation.

The competition in the law enforcement block will remain, too. The objective contradictions between the Investigative Committee and the Prosecutor's Office have not been resolved yet. It is still probable that a Joint Investigative Committee will be set up and the key issue is the name of its future director.

Conclusion. It appears certain that **the management system outlined above is primarily targeted at the inertial scenario of development.** All key power centers hope that there will be no major international disturbances and that Russia will be able to maintain social stability. With V. Putin who has re-entered the office of the President, governance is diversified through the sophistication of the unwritten system of “checks and balances” inside the elite.

At the same time, in case of signs of a crisis, there are two prepared reserve platforms: the liberal-right and the left, which is national-patriotic. In case of problems the right-liberal platform is supposed to be grasped by M. Prokhorov and A. Kudrin, whereas with the left platform hopes are put on All-Russia People’s Front and Deputy Prime Minister D. Rogozin. In both cases the leaders will be ready to offer their versions of a “Government of National Rescue”. Besides, political experimenting of controllable groups is encouraged as well. The movement “In Defense of the Working Man” and the “Party of Power” of the ex-head of the Federal Agency for Youth Affairs are unlikely to be the last stroke on the political palette.

It is possible that a reactionary scenario offering a “radical orthodoxization” of power, violent suppression of the opposition and a policy of confrontation with the West will win, but, considering objectives of the Russian elite, outlined at the beginning of this report, the odds of this scenario are low or the period of its implementation will be very short.

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ⁱ Here the term is used in the sense attached to the notion of the ruling elite by the classic of elitology Vilfredo Pareto. Let us note that in general, when used in this work, the term “elite” rests on the concept of Gaetano Mosca, i.e. we do not attach any special qualities or characteristics to elite representatives, other than political dominancy

ⁱⁱ In 2009 in the “Violence and Social Orders” Douglass C. North, co-authored with John Joseph Wallis and Barry R. Weingast suggested a simple but highly viable idea: to separate methodologically the logic of the institutional construction in “natural states” and in open access societies. From the point of neo-institutionalism view, the “natural state” mitigates the problem of the universal expansion of violence by creating a powerful ruling coalition whose members enjoy special privileges. Elites agree to respect privileges of one another, including rights of property ownership and access to certain activities. Elites create a solid motivation to cooperate instead of fighting with one another by granting access to such privileges only to members of the ruling coalition. Ultimately, concludes D. North, the political system of a natural state manipulates the economic system to produce rents that then sustain political order.