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Seizing the assets of Russian oligarchs

The seizure of Russian oligarchs' assets may change the way billionaires globally will stash their money — and think about the rule of law

The threat of confiscation of Russian oligarchs' assets has been floated since at least December of 2021, around the time Russia issued its ultimatum to the United States and began the military manoeuvres around Ukraine's borders. The assets were then 'frozen' (or even confiscated) by the US and a number of mostly European countries after the Russian invasion began on 24 February. What lessons can be drawn so far?

The first lesson we can learn from the confiscations is that before 24 February Russia was not an oligarchy, as many people believed, but an autocracy. Rather than being ruled by a few rich people, it was ruled by one person.

To draw this (rather obvious) conclusion, we need to go back to the initial rationale given for the threat of asset seizure. The US government ventured the idea *before* the war and with the expectation that the oligarchs, faced with the prospect of losing most of their money, would exert pressure on the Russian president, Vladimir Putin, not to invade.

We can assume that 99 per cent, perhaps all, of the targeted oligarchs (and those who feared they might be) realised the stakes and were against the war. But if so their influence was, as we now know, zero.

So, ironically and perhaps paradoxically, they were punished not because they were powerful but because they were *not*. If their sway over such an important matter, on which their entire assets and lifestyle depended, was nil, then the system was clearly not a plutocracy, but a dictatorship.

Political *fiat*

There is a distinction to be made between the early and more recent Russian billionaires. The former, beneficiaries of the privatisations when

the Soviet Union collapsed, controlled the political system. The late Boris Berezovsky, who gained control of the main public television channel, brought Putin to the attention of his predecessor, Boris Yeltsin, because he thought Putin could be easily manipulated.

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The more recent oligarchs have by contrast been treated as custodians of assets which the state might, by political *fiat*, take from them at any time. As it happened, it was not the Russian state which seized these but the American one (along with some others). It did so precisely because it thought, probably not accurately in all cases, that these billionaires were 'state oligarchs'.

This is the lesson as to the nature of the Russian political system. As to the implications of the seizure of assets, these are of two kinds: global and Russia-specific.

Much less sure

The global implication is that plutocrats who in the past often moved their money from their own countries to the 'safe havens' of the US, the United Kingdom, and Europe will be much less sure that such decisions make sense. This applies in the most obvious way to the Chinese billionaires who might experience the same fate as their Russian counterparts. But it may also apply to many others.

The frequent use of economic and financial coercion means that if there are political tensions between the West and (say) Nigeria or South Africa or Venezuela, the same recipe will be applied to the billionaires from these countries, whether simply as a punishment or out of an expectation that they should influence the policy of their governments. Under such conditions, they would be very unwise to keep their money in places where it may be as insecure as at home.

We can thus expect the growth of other financial centres, perhaps in Gulf states and India. Financial fragmentation would be driven not only by the fears of billionaires but by those of potential US adversaries, such as China, that their governments' and central banks' assets might too prove to be just pieces of paper.

Complete power

What are the likely implications for Russia? Here we have to take a longer-term view, and to look past the Putin regime. The conclusion that billionaires and people close to power will draw is one that was drawn a few times in Russian/Soviet history — only to be forgotten.

But let's leave aside the ancient conflicts between the boyars of the feudal nobility and the tsar. Consider just the similarities with Josef Stalin's regime. Stalin was able, through skilful manoeuvring, to move from being a 'grey blur' (as his assassinated adversary Leon Trotsky put it) to acquisition of complete power — including, in his final years, over the Communist Party's Politburo.

During the early privatisations in the 1990s, it was typically asserted that no matter who got the privatised assets, they would have an incentive to fight for the rule of law, simply to protect their gains.

Putin has not yet started executing people around him, but he has shown that politically they do not matter at all. The conclusion to be drawn, I believe, by future Russian oligarchs (including the top figures in state-owned companies, formerly known as 'the red directors') is that made by the Politburo members after Stalin's death: it is better to have a collective leadership, where individual ambition will be checked, than to let one person assume full power.

The oligarchs to come will realise they can stick together or they will hang together. Under Yeltsin, when they did dictate policy, they preferred to fight each other. They brought the country close to anarchy and even civil war, and in so doing facilitated the rise of Putin, who introduced some order.

Economic logic

For the other implication it is also useful to go back in time. During the early privatisations in the 1990s, it was typically asserted that no matter who got the privatised assets, they would have an incentive to fight for the rule of law, simply to protect their gains. Politically, the Communists would thus not be able to return to power.

Comparison was made with the plutocratic 'robber barons' of late-19th and early-20th-century America. They often became rich by dubious means but they had an interest in fighting for the safety of property once they got rich. The expectation was that the Russian billionaires would do the same.

These expectations were however upended by the billionaires finding a (seemingly) much better way to make their money safe — move it to the West and invest in real estate, companies, football clubs or just buy yachts. This seemed an excellent decision — all the way through to about eight weeks ago.

The new, post-Putin billionaires will probably not forget that lesson. So we may expect them to favour the creation of a true oligarchy (rather than allow for another autocracy), and to insist on the domestic rule of law — just because they will no longer have any place else to which they can move their wealth.

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Branko Milanović
New York City

Branko Milanović is a visiting professor at the City University of New York. Prior to that, he was, among other things, senior economist of the research department at the World Bank. For his book *Global Inequality. A New Approach for the Age of Globalization* he won the Hans-Matthöfer-Prize awarded by the Friedrich-Ebert-Stiftung. Most recently he published *Capitalism, Alone: The Future of the System That Rules the World*.